Ingenious Packaging Solutions

Mpac Group plc (formerly Molins PLC)
Annual Report and Accounts 2017

Who we are

Mpac Group plc is an international company, listed on the London Stock Exchange (symbol: MPAC), with a long and proud history of delivering innovation and excellence on a global basis.

The business is focused on creating high speed production lines that package the products that millions of people worldwide depend on.

Our strategic priorities

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 investment.

Operational Efficiency
Operational excellence and flexibility of supply chain to increase responsiveness to investment cycles.

Read more P12

Highlights

Sales[1]
£53.4m
(2016: £41.5m)

Operating profit[1]
£4.6m
(2016: £2.9m loss)

Underlying profit before tax[2]
£1.1m
(2016: £1.5m loss)

Profit before tax[1]
£4.3m
(2016: £3.1m loss)

Underlying earnings per share[2]
4.2p
(2016: 6.0p loss per share)

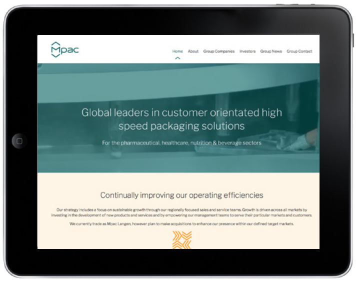
Net cash
£29.4m
(2016: £0.8m)

- Excellent progress on the strategic initiatives
- Increase in order intake from continuing operations of 21% and order book 35% higher than at the start of 2017
- Sales from continuing activities of £53.4m (2016: £41.5m)
- Underlying profit before tax of £1.1m (2016: £1.5m loss)
- Statutory profit before tax from continuing activities of £4.3m (2016: £3.1m loss)
- Statutory profit after tax of £1.6m (2016: £0.6m loss)
- Underlying earnings per share of 4.2p (2016: loss of 6.0p)
- Basic earnings per share from continuing activities of 12.2p (2016: loss of 12.3p)
- Net cash of £29.4m (2016: £0.8m)
- Sale of the Instrumentation and Tobacco Machinery (I&TM) business
- The Directors have decided not to recommend payment of a final dividend

Notes
1 From continuing operations
2 From continuing operations and adjusted to exclude non-underlying items as disclosed in note 5 to the Financial statements and reconciled in the Financial review on page 19

Contents

Find out more online
mpac-group.com



Our business at a glance

One Mpac
Following the sale of the Instrumentation & Tobacco Machinery division, the Group is now focused on the growth of its core Packaging Machinery business.

The Group leverages its engineering expertise with cutting-edge manufacturing technologies and proven machinery designs and supports its customers with world class services, delivered locally.

Packaging Machinery
Mpac Langen design, precision engineer and manufacture high speed packaging solutions, first-of-a-kind machinery and high specification automation, secondary packaging equipment and end-of-line robotics and at-line instrumentation and testing solutions. As well as providing complete turnkey solutions including the design and integration of packaging systems.

Our markets

Healthcare
Supporting healthcare industries as diverse as contact lenses, facial tissues and dentifrice. Mpac supplies innovative first-of-a-kind machinery as well as standard packing and testing equipment.

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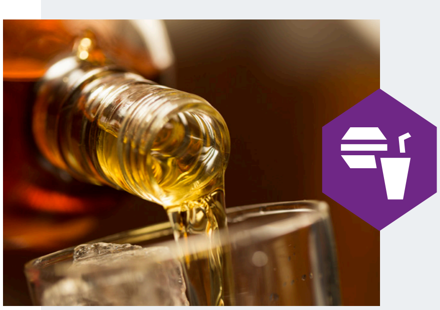
Pharmaceutical
To meet our customers' diverse and specialised demands, Mpac offers a first-of-a-kind service for novel dosing and packaging. Process assurance via standard and custom test equipment is available.

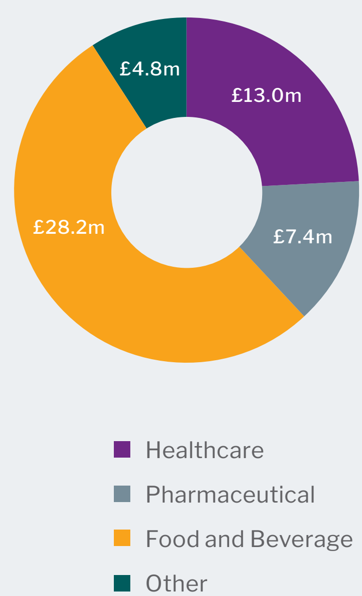
Read more P14



Food & Beverage
Providing innovative solutions for secondary and end-of-line packaging. Cartoning and case packing of bags, stick packs, pouches, flow wrapped products, bottles and more to our customers' requirements.

Read more P14

Sales by Market (£m)



Where we operate

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

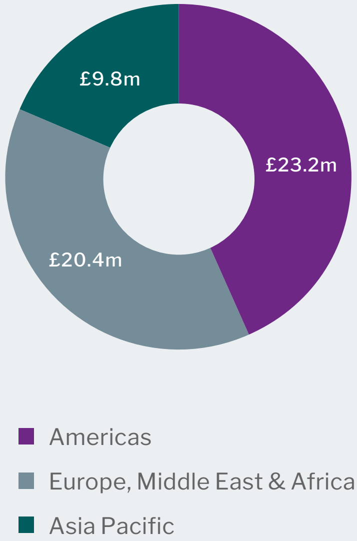
We support our international customer base through shared resources and infrastructure.

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

Europe, Middle East & Africa
The Group supports both its multinational and regional customers from its sites in the UK and the Netherlands; together with extensive sales, engineering and field support services deployed across the region.

Asia Pacific
The Group supports the region from its principal base in Singapore as well as through its field service engineers and agents across Asia Pacific.

Sales by Region (£m)



Chairman's introduction

Phil Moorhouse, Chairman

2017 has been a year of transformational change within the Company. In line with the Group's strategic review undertaken in 2016 by the Board, the sale of the Group's Instrumentation & Tobacco Machinery (I&TM) businesses was completed in August 2017.

Good progress was made against our strategic objectives for the continuing business. The packaging machinery business is focused on the high growth Pharmaceutical, Healthcare and Food and Beverage markets, which are supported by fundamental growth drivers in these target markets.

As part of the disposal, the name Molins was sold providing the opportunity to rebrand, and change the name of the Group to Mpac Group plc.

On pages 24 to 26 I discuss corporate governance and the Board's activities during the year.

Summary of results

The performance of the continuing operations within the Group was positive with order intake growing by 21% to £61.1m. Group continuing revenues at £53.4m increased by 29% while underlying profit before tax was in line with market expectations at £1.1m, an increase of £2.6m over the £1.5m loss recorded in 2016.

Group net cash ended the year at £29.4m following receipt of the proceeds on disposal of the I&TM division, and the sale of the Group's Canadian building.

Board Changes

I would like to welcome Jim Haughey to the Board as Group Finance Director. Jim joined us in October 2017 and brings with him extensive experience in the engineering sector through the senior finance roles he has held at Bodycote Plc, FKI plc and Bridon Group.

I would also like to take this opportunity to thank David Cowen, who left the Board in September 2017, for the 18 years of service he provided to the Company as Group Finance Director.

Dividend

Having considered the trading results for 2017, 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. No interim dividend was paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 trading performance and when the Board believes it is prudent to do so.

Outlook

I consider that the prospects for the Company are positive, as the sales and profit growth initiatives put in place by the leadership team continue to develop, and I look forward to reporting on the progress that will be made during 2018.

GOING FOR GLOBAL GROWTH

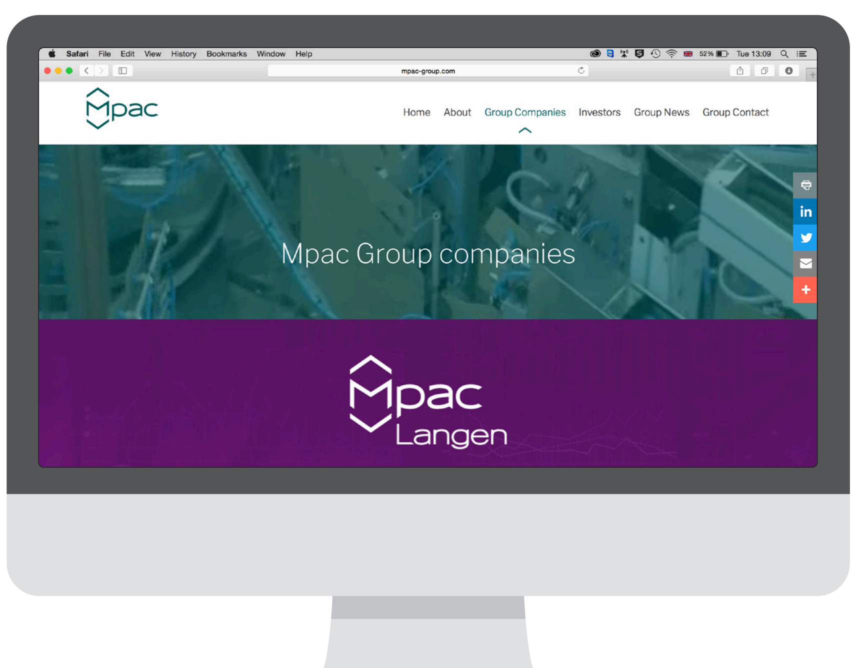
As a result of our strategic review, we identified three key initiatives – going for growth, make service a business and operational efficiency to achieve sustainable, profitable growth.

2017 was a transformational year

- Introduced a **new management team**.
- Created a **new sales approach** and **commercial excellence programme** to increase our win ratio.
- Disposed of tobacco businesses to focus on our **three key markets**.
- Opened a **new showcase facility in Canada** to develop closer relationships with our customers.
- Opened a **new office in Singapore** to support customers in Asia.
- Formed a new team to **make service a business**.

2018 is a new chapter in our story that started in 1874

- **Changed our name to Mpac**, reflecting our **rich heritage** and our focus on the future as **a global leader in packaging solutions**.
- The **Langen name** has been **retained** because it is well regarded in our markets.
- Re-positioned ourselves as a **strategic partner** adding long-term value to our customers.
- Launched a **new brand identity** and **new website**.



"The new brand identity provides a flexible framework for future acquisitions"

Building our brand and developing our people

- Combine our **expertise and organisational excellence** to improve efficiencies.
- **Strengthen** our key **account management**.
- Work more closely with our customers to **understand their needs**.
- **Launch new and better products** in our **three key markets** throughout the year.
- Implement **commercial excellence programme** with training to extend our geographic reach.

2019 Achieve sustainable, profitable growth

- Drive **sustainable growth and margin enhancement** - targeting 10% annual organic revenue growth, 10% return on sales over medium term.
- Build full solution capabilities in our target markets, be **more flexible** and **responsive** and **easier to work with**.
- Reduce our lead times and **improve our competitiveness** by integrating our sales, service, project management, engineering and supply chain.

Operating review

Tony Steels, Chief Executive

I am delighted to present my report following my first full year as Chief Executive of Mpac Group plc. As I commented last year, I believe the business has great opportunities based on the following fundamental strengths:

› Robust long term growth drivers in our target markets
› Heritage of innovative, high speed packaging machinery solutions
› Global reach with embedded local presence providing exceptional service to our customers
› A talented and engaged workforce

Having now spent over a year visiting our facilities, engaging with our employees and our customers around the world, I believe that these fundamental strengths place Mpac in a strong position for continued growth.

The Group's continuing packaging machinery business is focused on the high growth Pharmaceutical, Healthcare and Food and Beverage markets, which are expected to enjoy long term growth rates of between 4 to 5%.

Mpac serves customer needs for Ingenious, Innovative Packaging Machinery encompassing, Make, Pack, Test and Service. We design, precision engineer and manufacture high speed packaging solutions, first-of-a-kind machinery and high specification automation, secondary packaging equipment and end-of-line robotics and at-line instrumentation and testing solutions. In addition, we provide complete turnkey solutions including the design and integration of packaging systems.

Trading

Trading improved markedly in 2017. Order intake for the Group grew by 21% to £61.1m as the Group's growth strategies started to gain traction within the organisation.

Group continuing revenues of £53.4m increased by 29% as the impact of the improved order intake increased the work load on our operational facilities. Overall sales to the Pharmaceutical market grew 7%, with an increase seen in the service business. Sales to the Food and Beverage markets grew by 31%, while Healthcare grew by 25%.

Underlying profit before tax was in line with market expectations at £1.1m, an increase of £2.6m over the £1.5m underlying loss before tax recorded in 2016.

Group net cash ended the year at £29.4m following receipt of the proceeds from the disposal of the Instrumentation & Tobacco Machinery (I&TM) division, net of additional pension contributions, of £23.5m, and the proceeds on sale of the Group's Canadian property of £6.8m. The strong cash position will enable the Group to continue to invest in the business, both in capital items and in the development of new products.

Moving forward the Group entered 2018 with an order book of £34.4m, an increase of 35% over the December 2016 position of £25.5m.

Strategic developments

2017 has been a year of tangible progress on the strategy laid out at the start of the year.

As a result of the strategic initiatives, the business performance improved compared with the previous year with excellent progress on order intake delivering increased sales and a turnaround to profitability.

Sale of Instrumentation & Tobacco Machinery (I&TM) division
The strategic review, which concluded in 2016, recognised that the Group's accessible markets have two contrasting dynamics:

- the Pharmaceutical, Healthcare, Food and Beverage end-markets for the Group's Packaging Machinery division are expanding at up to 5 per cent. per annum and have attractive underlying long-term growth drivers such as urbanisation, convenience and health awareness; and
- the nicotine delivery market, although cash generative and relatively stable, is undergoing a shift as sales of traditional products are under pressure due to health awareness, government taxation schemes and the introduction to the market of a large number of new nicotine delivery products.

On 1 August 2017, the Group completed the sale of the I&TM division to G.D S.p.a (a subsidiary of Coesia S.p.a) for a gross consideration of £30.0m. Net proceeds, after costs, taxation, and additional pension contributions, were £23.5m. The sale of this division was consistent with the strategy adopted by the Board, with the tobacco business being identified as being relatively low growth, and will enhance the platform from which to accelerate the growth of the continuing Group.

Change of name to Mpac Group plc
The Group took the opportunity to refocus the continuing operations under a new global brand Mpac Group plc, and shareholder approval for the change of name was granted at a shareholder meeting held in January 2018. The rebrand to Mpac further reinforces the transition of the business to a fully focused Packaging Machinery solution provider and opens up a new chapter in the Company's history.

Sale of property in Canada
In line with the plans to improve the operational efficiency of the Group, in December 2017, the Company's Canadian subsidiary company, Langen Packaging Inc (Langen), completed the sale of its freehold property at 6154 Kestrel Road, Mississauga, Ontario for a gross consideration of C$11.7m. The business has moved into a purpose-built facility in the same region.

The newly built facility provides a superb environment from which to operate, including a customer showroom to showcase its capabilities, assembly and acceptance facilities that enables Mpac to serve its customers even more effectively, with a workplace for employees to be proud of. This facility provides a platform for further growth in the Americas region.

The proceeds from the sale of both the I&TM division and the Canadian property is expected to be used for the development of the Group in line with the strategic objectives of organic growth and acquisitions which are complementary to our strategy.

New premises in Singapore
The Group invested in a new expanded facility in Singapore, which allows the Group to concentrate further on supporting our global customer network. The new leased facilities provide a modern office environment which is a positive experience for both customers and employees, and provides a platform for future development of sales in the Asia Pacific region.

Restructuring
During the year the Group took the opportunity to strengthen the executive leadership team within the business, with the addition of a Services Director, Human Resources Director, and Group Finance Director. Following divestment of the I&TM division, the new leadership team will be more focused on delivering the strategic plan and capitalising on the positive market dynamics.

Our new customer focused regional growth strategy will be further enhanced by changes to the management team. In 2017 our people agenda concentrated on transforming our organisational structure. Mpac is a relatively small company and every person counts. Getting the organisation operating efficiently is essential to grow the business. We made changes in 2017 to enable us to do that, with a new leadership team in Mississauga (Canada) and important site leadership changes in Wijchen (Netherlands) and the development of the sales teams throughout the Group.

Restructuring costs were also incurred in the closure and move of the Mississauga facility.

Acquisition strategy
The Board continues to evaluate potential acquisition opportunities, the focus of which is to find businesses that will enhance our presence in packaging solutions in the Pharmaceutical, Healthcare, Food and Beverage markets and add value to the Group.

Moving forward
Looking ahead, progress made towards achieving the three strategic priorities, Going for Growth, Make Service a Business and Operational Efficiency, is highlighted in the Strategy Update.

Business review

The Group aims to achieve double digit revenue growth over the strategic plan period, delivering an improving Return on Sales aimed at 10%. To support this intent, we manage the business in two parts, Original Equipment (OE) and Service and across three regions, Americas, EMEA and Asia.

Individual contracts received by the OE business, and to a lesser extent the service business, can be large, accordingly one significant order can have a disproportionate impact on the growth rates seen in individual markets from year to year.

Original Equipment (OE)

Order intake in the OE business was 29% ahead of 2016. In the Americas and EMEA significant increases in order intake were seen across each of our main Healthcare, Pharmaceutical and Food and Beverage markets. Asia also saw strong order intake with orders received primarily from the Food and Beverage markets.

Overall, the OE division saw a 40% year on year increase in turnover, with sales to the Food and Beverage market growing by 47% and sales to the Healthcare market saw a growth rate of 38%.

Americas sales in the period were £16.4m (2016: £13.6m). During the year sales to the Food and Beverage market more than doubled, while sales to the Healthcare market saw a growth rate of 23%.

EMEA sales in the period were £15.8m (2016: £11.2m) an increase of 41%. In the Pharmaceutical markets the investment plans of a major customer were directed towards Europe which resulted in sales to the region increasing significantly. In 2016 a similar sale to the same major customer was recorded in the Americas. Sales to the Healthcare market increased by 60%. Offsetting this, a change in mix saw sales to the Food and Beverage market reduced by 17%.

Asia Pacific sales, predominantly driven by the Food and Beverage market, more than doubled in the period to £8.2m.

Gross profit margins in the OE business increased to 22.8% (2016: 18.8%).

Overall order prospects remain strong, and activity levels across the OE business remain high, such that the business is well positioned moving into 2018.

Service

Order intake in the Service division was 3% ahead of 2016, and turnover increased by 3% year on year to £13.0m. A new Services Director joined the business in July 2017 and has progressed with building the Service team. By the end of the year the Group further increased focus on the expansion of the Service business, with the recruitment of a number of additional service engineers and support staff, which will give added momentum to the sales projected for 2018. We saw progress as the order intake increased towards the end of the year.

Americas sales in the period were £6.8m (2016: £6.3m). Service sales to the Food and Beverage market increased by 20%, offsetting a slight reduction in sales to the Healthcare market. Overall order intake in the region was ahead of 2016, with order prospects remaining strong as we enter 2018.

EMEA sales in the period were £4.6m (2016: £4.6m). Order intake in the period was broadly in line with sales. The region saw a change in mix in sales with an increase in sales to the Pharmaceutical market offset by a softening in Healthcare activity. Asia sales in the period were £1.6m (2016: £1.8m).

A change in mix from spare parts to additional equipment sales reduced service gross margins in the year.

Outlook

The business made excellent progress on its strategic initiatives following the sale of the I&TM division, a substantial part of the Group. Execution of the strategy for the continuing business has accelerated and is now focused on the growth markets in which it currently operates, in the Pharmaceutical, Healthcare and Food and Beverage sectors. The Group has both the financial and managerial resources available to develop the business, with the prime focus being on organic growth. This will be delivered through the leveraging of its global position, development of its products and an improved services offering to its customers. Suitable complementary acquisition targets will also be considered when identified.

The Company entered 2018 with a stronger order book than a year before, and with a greater focus. Progress continues in the development of the continuing operations, and with order intake and sales both strongly ahead of last year the Group's future prospects remain positive.

Tony Steels
Chief Executive
6 March 2018

Strategy Update

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 product to ensure they maximise their return on investment.

Operational Efficiency
Operational excellence and flexibility of supply chain to increase responsiveness to investment cycles.

Going for Growth
Our plans were set out last year to develop the business through organic growth in our target markets of Pharmaceutical, Healthcare, Food and Beverage. To enable this, we created a global sales approach under our single entity model, offering innovative Packaging Machinery solutions from our extensive portfolio of engineered modules.

The sale of the I&TM division during the year was transformational in supporting our growth strategy. This move will accelerate progress in achieving our strategic aims with the entire focus of the continuing business being the growth markets of Pharmaceutical, Healthcare, Food and Beverage.

The commercial excellence programme implemented last year for our global sales and sales support teams was focused on providing professional training on strategic selling to bring the whole team to a consistent, higher level of performance and on to a common set of processes and procedures. This new methodology has been positively adopted and embedded in our CRM system which provides strong pipeline management tools.

The move to a new showcase facility in Mississauga, near Toronto, Canada, was successfully completed and provides a customer focused environment. The innovation centre, customer acceptance zones and multiple break out rooms will ensure that we develop even closer customer relationships.

Similarly, post-sale of the I&TM division a new office was established in Singapore in order to ensure our customers continue to have locally embedded support and to provide us scope to develop our growth plans.

During 2018 we will launch the new name and branding of Mpac through all communication channels and showcase the new identity branding at major regional exhibitions.

We will continue our commercial excellence programme with further training modules aimed at increasing our win ratio and extending our geographic reach.

Key account management growth with existing customers is a clear target, ensuring we better understand their evolving needs and extend our customer proposition with a broader solution approach.

The growth will be supported by an exciting schedule of new product launches during 2018.

Make Service a Business

Our customers have an extensive globally installed base which they expect to run continuously at high levels of Overall Equipment Effectiveness. The trends towards Industry 4.0 and its enabling technological platforms support our strategy to work with our customers to ensure that they maximise their return on investment throughout the life-cycle of the equipment. We can offer comprehensive service programmes to maximise uptime and minimise cost of production through our global service business.

A new Service business leadership team was formed during the year bringing in the necessary skills and mindset to bring focus to this opportunity and offer deliverable implementation plans. Onboarding the new team and structure has begun and is key to the future success.

The new facilities in Mississauga and Singapore together with our European bases provide our customers with local direct support and a network of expert knowledge to draw upon.

An exercise was completed to verify the installed base and to assess potential customer productivity improvement opportunities leading to progress on developing service agreements with key customers.

The focus for the coming year will be to ensure that the newly formed Service business team work closely with every customer to understand their needs and to tailor service programme agreements aimed at productivity improvements.

Excellence in Service will also be an initiative focused on quick response and high spare part availability for our global customers.

Service business growth will be supported by new product launches during the year enabling customers to optimise their production processes and improve product quality through greater equipment connectivity, data extraction and interpretation.

Operational Efficiency

Our stated aim is to be customer focused, responsive and flexible through organisational excellence, underpinned by a global supply chain and supported by a single entity operating model. The disposal of the I&TM division reduced the complexity of the Group and changed the focus on the strategic priorities from right sizing to productivity improvements through the integration of a common systems platform.

A key focus during the year has been to build and develop the organisational structure and skills to deliver the building block of the Operational Efficiency initiative and as a result the capabilities to implement the strategic elements of our plan. This has resulted in changes to the site leadership in Mississauga and Wijchen.

The new operational leadership team's strategic focus during 2018 will be to integrate the project management, engineering and supply chains for the three operational sites. This will provide our customers with a flexible and responsive global entity able to work simultaneously on packaging solutions, increasing productivity, pooling knowledge, and leveraging a common supply chain, resulting in reduced lead times and improved competitiveness.

Business model and strategy

Our markets

Healthcare

Pharmaceutical

Food & Beverage

Market opportunity
Packaging machinery solutions is a very broad sector and our accessible markets, Pharmaceutical, Healthcare, Food and Beverage are growing at around 5% per annum, driven by macroeconomic factors such as urbanisation, convenience and health awareness.

Mpac 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 that would add incremental revenues to Mpac.

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. Mpac has an embedded global footprint and is therefore well positioned to exploit the opportunities that market growth brings.

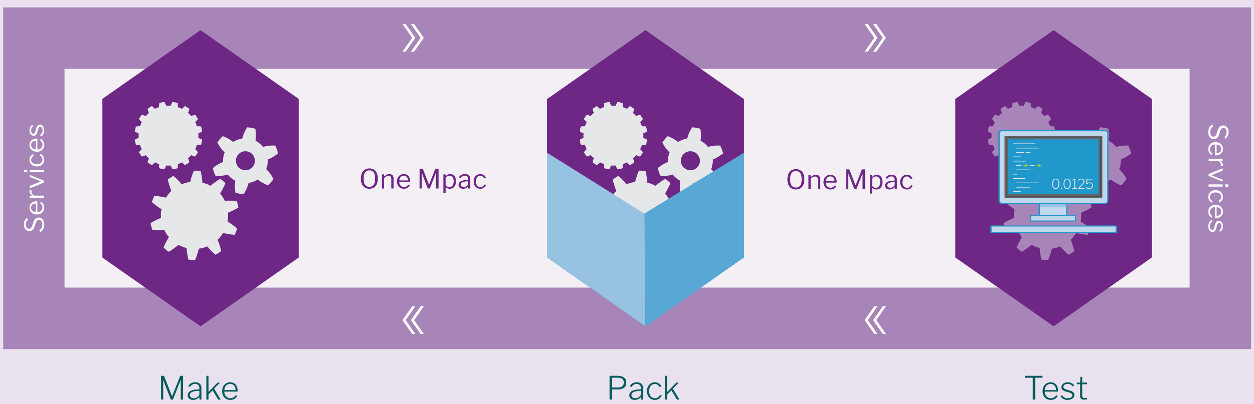
The extensive product range of process and packaging machinery solutions supports the whole Make, Pack, Test, Service cycle. This encompasses primary packaging, secondary packaging, instrumentation and servicing of equipment. Our Langen and Mpac brands have solutions focused on the Pharmaceutical, Healthcare, Food and Beverage sectors. 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 Mpac is in pole position to partner on new projects.

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

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



Business model

The Group offers its 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 sites 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 Mpac.

Our strategy

Going for Growth	Make Service a Business	Operational Efficiency

2017 progress

Going for Growth
- Commercial excellence programme
- Drive regional sales structure
- Launch Mpac identity
- Pipeline management - CRM

Make Service a Business
- Create Services business
- Secure installed base
- New location and build the team
- Deliver first service agreements

Operational Efficiency
- Embed new "One" organisation
- Move to showcase new facility
- Build Site Leadership Teams
- Supply chain optimisation

Future plans

Going for Growth
- Full solution selling
- Product development roadmap
- Key account development
- Brand and product management

Make Service a Business
- Life-cycle ROI proposition
- Promote contractual agreements
- Develop product portfolio
- Incorporate Industry 4.0

Operational Efficiency
- Employee engagement and recognition
- Shared Engineering and Project Management platforms
- Global supply chain
- KPIs to support strategy

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 Mpac sites, 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, Mpac 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.

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.

Financial review

Jim Haughey, Group Finance Director

Revenue and operating results

The trading performance of the Group is discussed in the Operating review. Group revenue in the year from continuing operations was £53.4m (2016: £41.5m). Sales in the Original Equipment (OE) division were £40.4m (2016: £28.8m) and gross profit was £9.2m (2016: £5.4m). Sales in the Service division were £13.0m (2016: £12.7m) and gross profit was £5.3m (2016: £5.6m). Selling, Distribution and Admin costs were £13.2m (2016: £12.2m).

Underlying operating profit was £1.3m (2016: £1.2m loss). Underlying profit after tax was £0.8m (2016: £1.1m loss). Statutory profit for the period was £1.6m (2016: £0.6m loss).

The results of the Instrumentation & Tobacco Machinery (I&TM) division were treated as a discontinued activity during the year.

Non-underlying items

The net non-underlying operating profit for the year was £3.3m (2016: £1.7m loss). This comprised £0.8m (2016: £0.9m) of administration costs relating to the Group's defined benefit pension schemes (see Pension schemes section) and reorganisation and restructuring costs of £0.7m (2016: £0.8m). In 2017 a profit of £4.8m was realised on the sale of property in Canada. Financing income/expense on pension scheme balances (see Interest and taxation section) is also considered to be a non-underlying item, as is the profit from discontinued operations.

Reconciliation of profit/(loss) before tax to underlying profit/(loss) before tax	2017 £m	2016 £m
Profit/(loss) before tax	4.3	(3.1)
Defined benefit pension scheme administration costs	0.8	0.9
Reorganisation costs	0.7	0.8
Profit on sale of surplus property	(4.8)	–
Net financing expense/(income) on pension scheme balances	0.1	(0.1)
Underlying profit/(loss) before tax	1.1	(1.5)

Non-underlying items merit separate presentation in the Consolidated 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. Pension administration costs, restructuring costs, and profit on disposal of surplus property are considered non-underlying items as they are not representative of the core trading activities of the Group and are not included in the underlying profit before tax measure reviewed by key stakeholders.

Restructuring

The Group undertook a number of restructuring actions during the year with significant changes made to the senior management teams across the Group including the appointment of new site management in Mississauga, Wijchen, and Singapore and the strengthening of the sales teams throughout the Group. Restructuring costs were also incurred in the closure and move of the Mississauga facility.

Interest and taxation

Net financing expense was £0.3m (2016: £0.2m), which includes a net financing expense of £0.1m (2016: £0.1m financing income) on pension scheme balances. The tax charge on underlying profit before tax was £0.3m (2016: £0.4m credit), an underlying effective rate of 27% (2016: 24%). The total tax charge on the Group's profit before tax was £1.9m (2016: £0.7m credit).

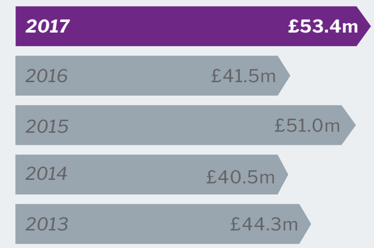
Sale of Instrumentation & Tobacco Machinery (I&TM) division

The sale of the I&TM division completed on 1 August 2017. The net consideration received by the Company, after fees and taxes, was £25.9m. A further £1.5m is retained within an escrow account, £0.75m of which will be released after 12 months and the balance after 24 months, subject to any deductions arising from valid warranty or indemnity claims made by G.D S.p.a (a subsidiary of Coesia S.p.a) under the Sale Agreement. The Company agreed with the Trustees of the Molins UK Pension Fund (Fund) to make a one-off contribution to the Fund of 10% of the net cash proceeds of £2.4m, which reduced the net consideration to £23.5m.

Key performance indicators

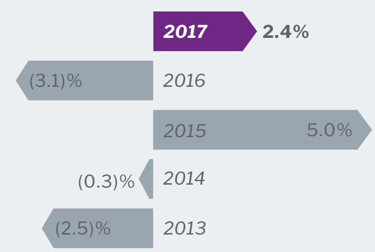
Sales[1]

£53.4m



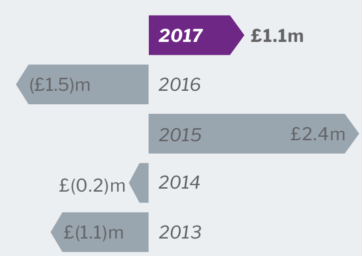
Underlying operating return on sales[1]

2.4%



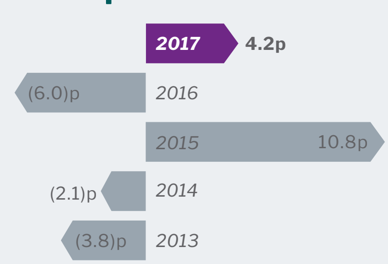
Underlying profit before tax[1]

£1.1m



Underlying EPS[1]

4.2p



1 From continuing operations

The loss from discontinued operations was £0.8m (2016: £1.8m profit). In 2017 costs incurred on disposal of the I&TM business totalled £1.1m and a loss of £0.8m on the disposal of net assets was recognised. A credit of £1.1m was recognised on the recycling of the translation reserve.

Sale of property in Canada

The Group sold its manufacturing facility at 6154 Kestrel Road, Mississauga, Ontario in December 2017 for a gross consideration of C$11.7m (£6.8m). The profit on the sale of the facility was £4.8m. The Group spent C$1.7m (£1.0m) to adapt the new building to its needs. The new facility was leased for 10 years at an annual cost of C$0.6m.

Dividends

Having considered the trading results for 2017, 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. No interim dividend was paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 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 £29.4m (2016: £0.8m). Net cash outflow from continuing operations before reorganisation was £5.4m (2016: £2.4m inflow), after an increase in working capital of £2.7m (2016: £4.4m decrease) and defined benefit pension payments of £4.9m (2016: £2.0m). Reorganisation payments of £0.8m (2016: £0.2m) were made in the year. Net taxation payments of £0.3m (2016: £0.2m) and cash inflows in respect of discontinued operations of £4.4m (2016: £4.2m). Capital expenditure on property, plant and equipment was £1.6m (2016: £0.5m) and capitalised product development expenditure was £0.1m (2016: £0.9m). In 2016 dividends of £0.5m were paid.

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.

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, in relation to the 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. A formal valuation of the UK defined benefit pension scheme (Fund) was carried out as at 30 June 2015. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 August 2029, but, is subject to reassessment every 3 years as follows:

- the Company will continue to pay a sum of £1.8m per annum to the Fund (increasing at 2.1 per cent. per annum) in deficit recovery payments;
- if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is above certain levels; and
- payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Fund in any one year.

The IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2017 and was based on the information used for the funding valuation work as at 30 June 2015, updated to reflect both conditions at the 2017 year end and the specific requirements of IAS 19. The smaller USA defined benefit schemes were valued as at 31 December 2017, using actuarial data as of 1 January 2017, 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 £17.6m (2016: £4.6m). The value of the scheme's assets at 31 December 2017 was £414.6m (2016: £401.9m) and the value of the scheme's liabilities was £397.0m (2016: £397.3m). The scheme's assets have benefited from strong returns in the year which has increased the scheme's surplus. The scheme's obligations fell slightly during the year.

The accounting valuations of the USA pension schemes showed an aggregated net deficit of £6.2m (2016: £6.8m) with total assets of £16.7m (2016: £17.1m).

The UK scheme was subject to a formal triennial actuarial valuation as at 30 June 2015, which completed on 1 August 2017. The funding valuation of the Group's UK defined benefit scheme showed a funding level of 83% of liabilities, which represented a deficit of £70.0m (30 June 2012: £53.0m) with an estimated recovery period of 14 years from 30 June 2015. The assumptions underlying the assessment of the liabilities reflected the goal of the Trustees and Company to de-risk the Fund. 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 67%. 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 14 years from 30 June 2015. In addition, 10% of the proceeds of the sale of the I&TM division was paid into the Fund in 2017. Furthermore the Company will make additional payments if the annual underlying operating profit is between £5.5m and £10.0m or dividend payments exceed payments to the Fund. The deficit recovery plan will be reassessed as part of the 30 June 2018 actuarial valuation, which is expected to be completed in the second half of 2019.

The aggregate cost of administering the defined benefit schemes charged to operating profit was £0.8m (2016: £0.9m). A net financing expense in respect of the schemes was £0.1m (2016: £0.1m financing income).

During the year the Company made payments to the UK defined benefit scheme of £1.8m (2016: £1.8m) in respect of the deficit recovery plan. The Company paid a one-off amount to the Fund of £2.4m, representing 10% of the net proceeds (after costs and taxation) of the sale of the Instrumentation & Tobacco Machinery division. Payments of £0.7m (2016: £0.2m) were made to the USA schemes in the year.

Equity

Group equity at 31 December 2017 was £42.8m (2016: £35.4m). The movement arises mainly from the net actuarial gains in respect of the Group's defined benefit pension schemes of £5.9m, a profit for the period of £1.6m, currency translation gains on foreign currency net investments of £0.6m and translation reserve recycling of £1.1m arising as a consequence of the sale of the I&TM division, all figures are stated net of tax where applicable.

Jim Haughey
Group Finance Director
6 March 2018

Principal risks and uncertainties

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 Pharmaceutical, Healthcare, Food and Beverage industries. 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.
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. In certain years sales to a customer may be more than 5% of Group revenue, although the sales would typically be both original equipment and service, and to a number of different geographic regions. The Group regularly reviews its trading relationships with suppliers with the aim of ensuring that alternative sources of supply are available.
Large one-off projects The Group undertakes 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 sites 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 site. 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, 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.
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.

Risk	Mitigation
Availability of funding Following the sale of the Instrumentation & Tobacco Machinery division, and the subsequent repayment of the Group's outstanding loan facilities, the Group relinquished its borrowing facilities from its principal UK bank.	The Group is currently in discussions with various UK banks to seek the renewal of banking facilities. As at 31 December 2017, the Group holds net cash balances of £29.4m. It is considered that the Group has sufficient cash resources to carry on in operational existence for the foreseeable future. It is considered that new banking facilities will be agreed within the coming months.
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 £419.9m at 31 December 2017 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 £431.3m at 31 December 2017, 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 2015. The UK scheme is subject to a full actuarial funding valuation as at 30 June 2018 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.

Chairman's report

Phil Moorhouse, Chairman

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.

As an AIM listed company, we recognise that applying sound governance principles is essential to the successful running of the Group. The Company is not required to comply with the UK Corporate Governance Code ("the Code"); however we continue to adopt the principal provisions of the Code as appropriate for the size and nature of the Company.

The Board's activities

The Board met seven times during 2017 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 Jim Haughey join the Board as Group Finance Director.

"As Chairman, I welcome the opportunity to outline the activities and responsibilities of the Board."

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.mpac-group.com. The current memberships of the Committees are shown on page 27. All members of the Board and its Committees attended all meetings held in 2017.

Reports on the activities of the Audit Committee and the Remuneration Committee are on pages 28 and 30 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 2017 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.

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 2017 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 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. This includes monthly management reporting and monitoring of performance and forecasts. Monthly reviews are embedded in the internal control process and cover each principal site. Monthly reviews require the leadership team 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 site 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 site for action and reported back to Group management. Progress reports are issued to the Board for review and monitoring.

In a year that has seen significant change in the Group, I would like to thank all employees for their efforts in making positive change that will contribute towards the future success of the business and their hard work and contribution to the 2017 performance.

Phil Moorhouse
Chairman
6 March 2018

Board of directors

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1. Phil Moorhouse FCCA
Chairman

Skills and experience: Phil Moorhouse joined the 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. He was formerly Finance Director and Managing Director UK of Northgate plc.

2. Dr Tony Steels
Chief Executive

Skills and experience: 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.

3. Andrew Kitchingman FCA
Non-Executive Director

Skills and experience: Andrew Kitchingman joined the 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.

4. John Davies
Non-Executive Director

Skills and experience: John Davies joined the 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.

5. Jim Haughey ACA
Group Finance Director

Skills and experience: Jim Haughey joined the Board as Group Finance Director on 2 October 2017 from Bodycote Plc where he was Group Financial Controller. He previously held senior financial positions with FKI PLC and Bridon group.

Audit committee report

Andrew Kitchingman, Chairman of the Audit Committee

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

As Chairman of the Audit Committee I am pleased to present the 2017 Audit Committee Report.

The Committee's members are the non-executive directors, whose biographies are set out on page 27, 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 2018 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 19 April 2018.

Audit Tender

The Committee noted that KPMG LLP had been appointed as auditors of the Group for many years, and that the Senior Statutory Auditor, Peter Selvey, was under KPMG's internal policy of rotating audit partners every five years, due to change as Senior Statutory Auditor. With this in mind the Committee intends during 2018 to hold a competitive tender for external audit services.

Activities of the Audit Committee during the year

A summary of the Committee's principal activities in 2017 is set out below.

Andrew Kitchingman
Chairman of the Audit Committee
6 March 2018

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 2016, 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.
November	Review and approval of the external audit plan for 2017 financial reporting. Consideration and agreement of the Audit Committee checklist. 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 2017 financial reporting.

Remuneration committee report

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 31 to 32, details the amounts earned by the directors in respect of the period to 31 December 2017 and is subject to an advisory shareholder vote. The Remuneration policy, on pages 33 to 37, sets out the policy which was approved by shareholders at the Annual General Meeting held on 20 April 2017.

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 2017.

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 professional advisors 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).

"On behalf of the Board I am pleased to present the Remuneration Committee's report for the year ended 31 December 2017."

Remuneration report

Directors' total remuneration

The remuneration of the executive directors for the years 2017 and 2016 is made up as follows:

Executive directors' remuneration as a single figure

2017	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 (resigned 1 September 2017)	228	23	94	–	–	60	405
T Steels	232	21	–	64	90	23	430
J R Haughey (appointed 2 October 2017)	44	3	–	11	–	7	65

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

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

b Mr Cowen resigned as a director of the Company on 1 September 2017 and as an employee on 30 September 2017. The termination payment represents pay in lieu of notice and compensation for loss of employment, and reflects the principle of mitigation;
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 33.

d The performance criteria for the Deferred share plan is described in the Remuneration policy on page 33. The amounts represent the values of the awards made in the form of conditional grants which are exercisable no earlier than three years from the date of grant. The share price at the date of grant in 2017 was 79.0p.

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 and Mr Haughey is the amounts contributed by the Company into the Company's Personal Pension Plan on their accounts.

The remuneration of the non-executive directors for the years 2017 and 2016 is made up as follows:

Non-executive directors' remuneration as a single figure

	2017			2016		
	Fees £000	All taxable benefits £000	Total £000	Fees £000	All taxable benefits £000	Total £000
P J Moorhouse	75	–	75	75	–	75
J L Davies	50	–	50	50	–	50
A Kitchingman (appointed 11 May 2016)	45	–	45	29	–	29

Directors' interests in shares
The beneficial interests of directors holding office at 31 December 2017 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

	Held at 1 January 2017	Acquired in the year	Held at 31 December 2017
P J Moorhouse	20,000	–	20,000
A Kitchingman	–	6,451	6,451

D J Cowen resigned during the year, as at 1 January 2017 Mr Cowen held 123,519 shares in the company.

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 2017 and 6 March 2018.

Incentive scheme – Deferred share plan
Details of conditional grants of Mpac Group plc 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)
T Steels	8 June 2017	38.5%	113,924	90,000

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 2016.

In 2017 Mr Cowen exercised grants that were awarded in 2014. The value of this exercise to Mr Cowen was £49,980.

In 2016 Mr Cowen exercised 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 of 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 Cowen received remuneration for the period from the date he ceased to be a director, on 1 September 2017 until the date his employment ceased on 30 September 2017.

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 2016 Annual General Meeting on 20 April 2017, which is effective for a period of up to three years. It is not subject to audit. The policy was subject to a binding vote at the Annual General Meeting on 20 April 2017, and 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 Mpac Group plc ordinary shares under the Company's Deferred share plan). The targets against which performance is judged are primarily the Group's key financial performance indicators in respect of the Short-term incentive scheme, set annually by the Remuneration Committee, and 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 will conduct a further review in 2018.

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

Directors may choose to join the Mpac Group Personal Pension Plan, which is a defined contribution scheme. Additionally, life assurance and income protection policies are put in place for the executive directors.

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 Dr Steels on 6 June 2016 and with Mr Haughey on 2 October 2017. 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, 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 Dr Steels' contract within six months of the change of control, or if Dr Steels 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. The purpose of the change of control clause, which is reviewed regularly, is that the contracts should provide reasonable and appropriate security to the director 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 key performance metrics 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 the Group) 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 Mpac Group 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
6 March 2018

Directors' report

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 46 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 23. 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 69, 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 71 to 76. 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 2017, 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. No interim dividend was paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 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 2017 amounted to £0.1m (2016: £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 for the continuing Group incurred in 2017, net of third-party income, amounted to £0.6m (2016: £1.2m), of which £0.5m (2016: £0.3m) was charged to the Consolidated income statement and £0.1m (2016: £0.9m) 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 27.

Directors' interests in the Company's shares as at 31 December 2017 are shown on page 32 in the Remuneration report. There are no shareholding requirements for directors.

Substantial shareholdings

At 6 March 2018, 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	4,600,011	22.8
River and Mercantile Asset Management LLP	1,644,026	8.2
Mr G V L Oury	1,095,000	5.4

Share capital

Authority for the purchase of up to 3,000,000 own ordinary shares for cancellation was granted at the 2017 Annual General Meeting and this authority expires on 19 April 2018. 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 13, 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 6 March 2018 it held 347,016 shares. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 1.7% of the issued share capital.

Information about the Company's share capital is given in note 25 to the accounts on page 77.

Annual General Meeting

The Annual General Meeting will take place on 19 April 2018. Notice of the meeting can be found on pages 90 to 97.

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 Mpac Group plc only and does not include employees of the Company's overseas subsidiaries.

	Men (%)	Women (%)
Directors	100	–
Senior managers	75	25
Total employees	81	19

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.mpac-group.com, sets out the values which Mpac Group 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

Mpac Group 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	530	
Combustion of fuel	227	
Total	757	2.4

a Calculated using average number of employees in the year.

The Strategic report on pages 2 to 23 and Directors' report on page 38 to 39 are hereby approved by the Board of Directors.

By Order of the Board

Prism Cosec Limited
6 March 2018

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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. 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 as adopted by the EU (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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

By order of the Board

Tony Steels
Chief Executive
6 March 2018

Jim Haughey
Group Finance Director

Independent auditor's report to the members of Mpac Group plc (formerly Molins PLC)

1. Our opinion is unmodified

We have audited the financial statements of Mpac Group plc ("the Company") for the year ended 31 December 2017 which comprise the consolidated income statement, the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity, the Group and Company statements of financial position, the Group and Company statements of cash flow and the related notes, including the accounting policies on pages 52 to 56.

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality: Group financial statements as a whole	£150,000 (2016: £150,000)	
Coverage	92% (2016: 99%) of Group profit before tax	

Risks of material misstatement vs 2016

Recurring risks	Revenue recognition – contract accounting (Group and parent)	⟪ ⟫
	Revenue recognition – inclusion of a sale in the relevant period (Group and parent)	⟪ ⟫
	Valuation of pension scheme liabilities (Group and parent)	⟪ ⟫

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
Revenue recognition – contract accounting (Group - £43.8m; 2016: £25.7m; Parent company - £7.5m; 2016: £4.5m) *Refer to pages 54 and 56 (accounting policy) and pages 57 and 68 (financial disclosures).*	**Subjective estimate** The majority of revenue of the Group is derived through the sale of machinery and spare parts, recognised either through long term contract accounting or for non-contract accounting revenue on the transfer of risks and rewards. Contract accounting is considered a key audit matter as it requires a high degree of estimation and judgement including an assessment of the forecast costs to complete a contract which drives the recognition of revenue and profit on contracts.	Our procedures included: › **Our sector expertise:** Assessing whether the revenue recognition methodology applied was consistent with accounting standards. › **Test of details:** For a sample of contracts ongoing over the year end we inspected the detailed contractual terms and costs of progress in comparison to the Group's forecasts to completion. › We also considered any contradictory evidence for future forecast costs including the risks and estimates within them by obtaining evidence through discussions with key management personnel, correspondence with customers and delivery performance to date to support selected inputs. › **Historical assumptions:** Compared the contract forecasts to historic and in year performance to assess the historical accuracy of the forecasts for a sample of completed contracts in the year. This included a specific assessment of whether any onerous contract provisions were required.
Revenue recognition – Spare Sales For both group and parent *Refer to page 56 (accounting policy) and pages 57 (financial disclosures).*	**Inappropriate inclusion of a sale in 2017 rather than 2018** Whilst there is little judgement required in identifying the appropriate accounting policy for spare parts, the volume of orders close to year end gives rise to a risk that revenue may be inappropriately recognised policy.	Our procedures included: › **Test of details:** Selecting a sample of revenue transactions recognised close to the year end and agreeing them to proof of delivery or bill and hold agreements in order to assess whether the revenue has been recognised in the correct period.

	The risk	Our response
Valuation of Pension Scheme Obligation (Group **-** £419.9m; 2016: £421.2m; Parent company - £397.0m; 2016: £397.3m) *Refer to page 55 (accounting policy) and pages 71-76 (financial disclosures).*	**Subjective valuation** The Group has used external, independent actuaries to value the obligations for the UK and US pension schemes by projecting the results of the latest triennial valuations to 31 December 2017. Due to the size of the pension scheme obligations compared to the size of the Group, any minor changes in the key assumptions, being the discount, inflation and mortality rates, may lead to a significant impact on the valuation of the schemes liabilities and Group's financial position.	Our procedures included: › **Assessing experts credentials:** Evaluation of the external, independent actuaries to determine whether they are competent and independent through discussions with the actuary and reading their valuation report; › **Benchmarking assumptions and Use of actuarial specialists:** Comparing the key assumptions used in the valuations of the pension schemes with the support of our own actuarial specialist. This included benchmarking the key assumptions used against other comparable companies and externally derived market data, and critically assessed assumptions if they appeared out of line with these benchmarks. › **Assessing transparency:** We also considered whether the disclosures appropriately reflect the sensitivity of the obligation to changes in these assumptions and are in compliance with the requirement of relevant accounting standards.

3. Our application of materiality and an overview of the scope of our audit

Reflecting the transition in the Group's operations during the year, materiality for the Group financial statements as a whole was maintained at £150,000 (2016: £150,000). This was determined with regard to Group profit before tax from continuing operations and the profit on sale of surplus property of £4.8m and reorganisation costs of £0.7m (as disclosed in note 5). Other benchmarks including revenue and net assets were also considered when setting materiality. Materiality for the prior year was set determined with reference to a benchmark of group profit before tax, normalised to exclude part of the non-underlying items and averaged over a period of 5 years due to fluctuations in the business cycle, amounting to a profit of £3.2m, of which it represented approximately 5%.

Mpac Group plc is part of a group headed by Mpac Group plc. Materiality of £130,000 (2016: £130,000), for this as a component has been applied to the audit of the company. This is lower than the materiality we would otherwise have determined and represents 0.5% of the company's revenue (2016: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £7,500 (2016: £7,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 15 (2016: 15) reporting components, we subjected 8 (2016: 7) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further one (2016: four non-significant components) in order to provide further coverage over the group's results.

The components within the scope of our work accounted for the percentages illustrated opposite.

For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The component materialities ranged from £75,000 to £100,000 (2016: £75,000 to £100,000), having regard to the mix of size and risk profile of the Group across the components. All work, including the audit of the parent company, was performed by the Group team. The Group team also performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited operations in the UK, Mississauga, Canada and Wijchen, Netherlands to perform full scope audits for Group purposes for all the reporting components subject to audit (unchanged from 2016).

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 40, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

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

6 March 2018

Consolidated income statement
for the year ended 31 December 2017

	Note	2017 Underlying £m	2017 Non-underlying £m	2017 Total £m	2016 Underlying £m	2016 Non-underlying £m	2016 Total £m
Revenue	1	53.4	–	53.4	41.5	–	41.5
Cost of sales		(38.9)	–	(38.9)	(30.5)	–	(30.5)
Gross profit		14.5	–	14.5	11.0	–	11.0
Other income	2	–	4.8	4.8	–	–	–
Distribution expenses		(5.4)	–	(5.4)	(5.3)	–	(5.3)
Administrative expenses		(7.3)	(1.5)	(8.8)	(6.6)	(1.7)	(8.3)
Other operating expenses	3	(0.5)	–	(0.5)	(0.3)	–	(0.3)
Operating profit/(loss)	1,4	1.3	3.3	4.6	(1.2)	(1.7)	(2.9)
Financial income	8	–	0.2	0.2	–	0.4	0.4
Financial expenses	8	(0.2)	(0.3)	(0.5)	(0.3)	(0.3)	(0.6)
Net financing (expense)/income		(0.2)	(0.1)	(0.3)	(0.3)	0.1	(0.2)
Profit/(loss) before tax		1.1	3.2	4.3	(1.5)	(1.6)	(3.1)
Taxation	9	(0.3)	(1.6)	(1.9)	0.4	0.3	0.7
Profit/(loss) for the period from continuing operations		0.8	1.6	2.4	(1.1)	(1.3)	(2.4)
(Loss)/profit for the period from discontinued operations	30	–	(0.8)	(0.8)	–	1.8	1.8
Profit/(loss) for the period		0.8	0.8	1.6	(1.1)	0.5	(0.6)
Earnings/(loss) per ordinary share							
Basic	11			8.4p			(3.3)p
Diluted	11			8.4p			(3.3)p
Earnings/(loss) per ordinary share from continuing activities							
Basic	11			12.2p			(12.3)p
Diluted	11			12.1p			(12.3)p

Statements of comprehensive income

for the year ended 31 December 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Profit/(loss) for the period		1.6	(0.6)	(1.6)	(0.4)
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses)	24	9.1	(6.3)	9.2	(7.5)
Tax on items that will not be reclassified to profit or loss	9	(3.2)	2.0	(3.2)	2.5
		5.9	(4.3)	6.0	(5.0)
Items that may be reclassified subsequently to profit or loss					
Currency translation movements arising on foreign currency net investments		0.6	3.7	–	–
Translation reserve recycled on disposal		(1.1)	–	–	–
Effective portion of changes in fair value of cash flow hedges		0.4	0.7	0.1	0.6
Tax on items that may be reclassified to profit or loss		–	(0.2)	–	(0.1)
		(0.1)	4.2	0.1	0.5
Other comprehensive income/(expense) for the period		5.8	(0.1)	6.1	(4.5)
Total comprehensive income/(expense) for the period		7.4	(0.7)	4.5	(4.9)

Statements of changes in equity

for the year ended 31 December 2017

	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 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)
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
Balance at 1 January 2017	5.0	26.0	2.2	3.9	(0.2)	(1.5)	35.4
Profit for the period	–	–	–	–	–	1.6	1.6
Translation reserve recycled on disposal	–	–	(1.1)	–	–	–	(1.1)
Other comprehensive income for the period	–	–	0.6	–	0.4	5.9	6.9
Total comprehensive income/(expense) for the period	–	–	(0.5)	–	0.4	7.5	7.4
Total transactions with owners, recorded directly in equity	–	–	–	–	–	–	–
Balance at 31 December 2017	5.0	26.0	1.7	3.9	0.2	6.0	42.8

	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 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)
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
Balance at 1 January 2017	5.0	26.0	–	3.9	(0.1)	24.4	59.2
Loss for the period	–	–	–	–	–	(1.6)	(1.6)
Other comprehensive income for the period	–	–	–	–	0.1	6.0	6.1
Total comprehensive income for the period	–	–	–	–	0.1	4.4	4.5
Total transactions with owners, recorded directly in equity	–	–	–	–	–	–	–
Balance at 31 December 2017	5.0	26.0	–	3.9	–	28.8	63.7

Statements of financial position
as at 31 December 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Non-current assets					
Intangible assets	12	0.9	15.2	0.2	11.8
Property, plant and equipment	13	4.0	8.5	1.8	2.9
Investment property	14	0.8	0.8	0.8	0.8
Investments	15	–	–	47.4	50.6
Other receivables	19	0.8	–	0.8	–
Employee benefits	24	17.6	4.6	17.6	4.6
Deferred tax assets	16	1.7	4.6	–	–
		25.8	33.7	68.6	70.7
Current assets					
Inventories	17	2.4	13.0	0.2	6.2
Trade and other receivables	19	19.9	24.5	5.5	12.3
Current tax assets	10	0.1	0.2	0.1	–
Cash and cash equivalents	21	30.3	9.0	20.7	2.7
		52.7	46.7	26.5	21.2
Current liabilities					
Bank overdraft	21	–	(0.3)	–	–
Trade and other payables	22	(20.9)	(25.9)	(24.1)	(22.3)
Current tax liabilities	10	(0.4)	(0.4)	–	–
Provisions	23	(1.0)	(1.7)	(0.1)	(0.5)
		(22.3)	(28.3)	(24.2)	(22.8)
Net current assets/(liabilities)		30.4	18.4	2.3	(1.6)
Total assets less current liabilities		56.2	52.1	70.9	69.1
Non-current liabilities					
Interest-bearing loans and borrowings	20	(0.9)	(7.9)	(0.9)	(7.9)
Employee benefits	24	(6.2)	(6.8)	–	–
Deferred tax liabilities	16	(6.3)	(2.0)	(6.3)	(2.0)
		(13.4)	(16.7)	(7.2)	(9.9)
Net assets	1	42.8	35.4	63.7	59.2
Equity					
Issued capital	25	5.0	5.0	5.0	5.0
Share premium		26.0	26.0	26.0	26.0
Reserves		5.8	5.9	3.9	3.8
Retained earnings		6.0	(1.5)	28.8	24.4
Total equity		42.8	35.4	63.7	59.2

These financial statements were approved by the directors on 6 March 2018 and signed on their behalf by:

Tony Steels *Jim Haughey*
Director *Director*

Registered number: 124855

Statements of cash flow

for the year ended 31 December 2017

		Group		Company	
	Note	2017 £m	2016 £m	2017 £m	2016 £m
Operating activities					
Operating profit/(loss) from continuing operations		4.6	(2.9)	(2.1)	(1.8)
Non-underlying items included in operating profit		1.5	1.7	0.8	0.8
Amortisation	12	0.3	0.3	–	0.1
Depreciation	13	0.6	0.7	0.3	0.2
Profit on sale of property, plant & equipment		(4.8)	–	–	–
Other non-cash items		–	0.2	–	–
Pension payments		(4.9)	(2.0)	(4.2)	(1.8)
Working capital movements:					
– decrease in inventories		0.7	0.7	0.2	0.6
– increase in trade and other receivables		(6.4)	(3.5)	(1.8)	(1.2)
– increase in trade and other payables		3.1	7.2	9.9	3.4
– decrease in provisions		(0.1)	–	(0.2)	–
Cash flows from continuing operations before reorganisation		(5.4)	2.4	2.9	0.3
Cash flows from discontinued operations	30	4.4	4.2	(2.9)	3.3
Reorganisation costs paid		(0.8)	(0.2)	(0.2)	(0.1)
Cash flows from operations		(1.8)	6.4	(0.2)	3.5
Taxation paid		(0.3)	(0.2)	–	(0.1)
Cash flows from operating activities		(2.1)	6.2	(0.2)	3.4
Proceeds from sale of property, plant and equipment		6.8	0.3	–	–
Capitalised development expenditure	12	(0.1)	(0.9)	–	(0.1)
Acquisition of property, plant and equipment	13	(1.6)	(0.5)	(0.1)	(0.1)
Net proceeds on disposal of discontinued operations		25.9	–	25.9	–
Net cash flow from discontinued operations	30	(0.3)	(0.9)	(0.3)	(0.9)
Cash flows from investing activities		30.7	(2.0)	25.5	(1.1)
Financing activities					
Interest paid		(0.2)	(0.3)	(0.2)	(0.3)
Purchase of own shares		(0.1)	–	(0.1)	–
Net decrease against revolving facilities		(7.0)	(5.2)	(7.0)	(5.2)
Dividends paid	25	–	(0.5)	–	(0.5)
Cash flows from financing activities		(7.3)	(6.0)	(7.3)	(6.0)
Net increase/(decrease) in cash and cash equivalents	21	21.3	(1.8)	18.0	(3.7)
Cash and cash equivalents at 1 January		8.7	9.8	2.7	6.4
Effect of exchange rate fluctuations on cash held		0.3	0.7	–	–
Cash and cash equivalents at 31 December		30.3	8.7	20.7	2.7

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

Mpac Group 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 2016 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.

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. The Company has assessed whether revenue on those same contracts can be recognised on a similar basis over time using the labour cost completion input method and concluded that there is not expected to be a material change in the timing of revenue recognition.

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 has assessed whether the transfer of control under IFRS 15 will result in the timing of revenue recognition being materially different. The Company has concluded that there is not expected to be a material change in the timing of revenue recognition for the 2017 accounts.

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*.

It is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements.

IFRS 9 (Financial Instruments) - the standard replaces IAS 39 Financial Instruments - Recognition and Measurement and will be effective for annual periods beginning on or after 1 January 2018.

From the point of the Group, IFRS 9 has introduced three key changes when compared to IAS 39:

› the classification and measurement of financial assets and financial liabilities;
› impairment of financial assets, an introduction of Expected Credit Loss (ECL) model; and
› hedge accounting, which provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Group has evaluated the impact of IFRS 9 and based on preliminary assessment of the impact, it was concluded that it does not expect a material impact on the recognition and measurement of income and costs in the Consolidated income statement or of assets and liabilities in the Consolidated statement of financial position. The Group has assessed the classification and measurement of certain financial assets on the balance sheet and concluded that whilst there will be changes in classification, there is no expected material impact on results. Further, the nature of the Group's cash flow hedge arrangements and the significance of its bad debt risk means that the impact of IFRS 9 will be immaterial in respect of these items. IFRS 9 requires certain additional disclosures, in particular which the Group will make in the future.

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 9 to 13, Financial review on pages 18 to 21 and in the Principal risks and uncertainties on pages 22 and 23.

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 18 to 21 and in note 20 to the accounts on page 69, 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 71 to 76. 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.

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.

Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Notes to the accounts

1. Operating segments

Following the disposal of the Instrumentation & Tobacco Machinery division, and the Group's strategic intention to develop the Service, segmental reporting has been amended to reflect the split of sales by both Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia Pacific. The Group's operating segments reflect the basis of the Group's management and internal reporting structure. A commentary on the performance of the operating segments during the year is provided in the Operating review on pages 9 to 13. All segment information is prepared in accordance with the Group accounting policies shown on pages 52 to 56.

Information regarding the results of each operating segment is included below. Performance is measured based on underlying segment gross profit as included in the internal management reports provided to the Group's chief operating decision maker. Unallocated items comprise distribution and administrative expenditure. The unallocated items are excluded from segment profit or loss as they are not region specific.

The measurement of segment assets and liabilities excludes central items that are not allocated to the regions 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

	12 months to 31 Dec 2017			12 months to 31 Dec 2016		
	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m
Revenue[1]						
Americas	16.4	6.8	23.2	13.6	6.3	19.9
EMEA	15.8	4.6	20.4	11.2	4.6	15.8
Asia Pacific	8.2	1.6	9.8	4.0	1.8	5.8
Total	40.4	13.0	53.4	28.8	12.7	41.5
Gross profit[1]	9.2	5.3	14.5	5.4	5.6	11.0
Selling, distribution & administration[1]			(13.2)			(12.2)
Underlying operating profit/(loss)[1]			1.3			(1.2)
Unallocated non-underlying items included in operating profit/(loss)			3.3			(1.7)
Operating profit/(loss)			4.6			(2.9)
Net financing expense			(0.3)			(0.2)
Profit/(loss) before tax from continuing operations			4.3			(3.1)

	12 months to 31 Dec 2017			12 months to 31 Dec 2016		
	Segment assets	Segment liabilities	Segment net assets	Segment assets	Segment liabilities	Segment net assets
Americas	13.5	(8.6)	4.9	11.1	(6.2)	4.9
EMEA	11.1	(10.9)	0.2	12.9	(11.6)	1.3
Asia	0.3	(0.1)	0.2	0.7	(0.5)	0.2
Total[1]	24.9	(19.6)	5.3	24.7	(18.3)	6.4
Unallocated net assets/(liabilities			37.2			(0.1)
Net assets – discontinued operations			0.3			29.1
Total net assets			42.8			35.4

1 From continuing operations

1. Operating segments continued

Geographical information

Revenue

Continuing operations	By location of customer 2017 £m	2017 %	2016 £m	2016 %
UK	7.3	14	4.4	11
Europe (excl. UK)	12.7	24	9.8	24
Africa & Middle East	0.4	1	1.6	4
USA	18.5	35	15.2	37
Americas (excl. USA)	4.7	9	4.7	11
Asia Pacific	9.8	17	5.8	13
	53.4	100	41.5	100

Non-current assets (excluding taxation balances)

	By location of assets 2017 £m	2016 £m
UK	21.2	20.3
USA	–	2.5
Canada	1.9	2.9
Rest of the world	1.0	3.4
	24.1	29.1

Major customers

In 2017 the Group generated 29% (2016: 24%) of revenue from two customers. The most significant customer accounted for 13% (2016: 15%) of Group revenue. The sales constituted both equipment and service and were spread across a number of different geographic regions.

2. Other income

	2017 £m	2016 £m
Profit on sale of property (included in non-underlying items)	4.8	–

In 2017 the Group sold its manufacturing facility at 6154 Kestrel Road, Mississauga, Ontario in December for a gross consideration of £6.8m. The profit on the sale of the facility was £4.8m.

3. Other operating expenses

	2017 £m	2016 £m
Research and development costs (expensed as incurred)	0.5	0.3

4. Operating profit

Continuing operations	2017 £m	2016 £m
Operating profit is arrived at after charging:		
Amortisation of capitalised development costs	0.3	0.3
Depreciation of owned assets	0.6	0.7
Cost of inventories recognised as an expense	25.6	26.9
Operating leases		
– land and buildings	0.4	0.5
– other	0.2	0.2
Audit fees paid to KPMG (Company £0.1m; 2016: £0.1m)[1]	0.2	0.2
Other fees paid to KPMG		
– tax compliance (Company £0.1m; 2016: £0.1m)	0.1	0.1
– tax advisory (Company £0.2m; 2016: £nil)	0.2	–

1 From continuing operations and discontinued operations

5. Non-underlying items

	2017 £m	2016 £m
Non-underlying items		
Defined benefit pension schemes administration costs	(0.8)	(0.9)
Reorganisation costs	(0.7)	(0.8)
Profit on sale of surplus property	4.8	–
Net financing (expense)/income on pension scheme balances	(0.1)	0.1
Total non-underlying income/(expenditure) before tax	3.2	(1.6)

The profit before tax in 2017 was before the loss from discontinued operations. Cash payments of £0.1m were made in 2017 (2016: £0.2m) in respect of reorganisations in earlier periods. A reconciliation of profit/(loss) before tax to underlying profit/(loss) before tax is set out in the Finance review on page 19.

In 2016 reorganisation costs of £0.1m were incurred on discontinued operations.

6. Employee information

	Period end		Average	
Continuing operations	2017	2016	2017	2016
The number of persons employed by the Group was:				
Americas	81	82	85	97
EMEA	200	196	192	204
Asia Pacific	18	14	16	15
Head Office (including non-executive directors and pension scheme administrators)	15	15	17	15
Total continuing operations	314	307	310	331
Discontinued operations	–	350	208	359
Total	314	657	518	690

6. Employee information continued

	Note	2017 Continuing £m	2017 Discontinued £m	2017 Total £m	2016 Continuing £m	2016 Discontinued £m	2016 Total £m
Employment costs for the Group were:							
Wages and salaries		14.8	4.4	19.2	14.6	9.4	24.0
Social security costs		2.2	1.2	3.4	2.3	1.4	3.7
Employee benefits							
– defined contribution schemes		1.0	0.2	1.2	1.0	0.4	1.4
– equity-settled share-based transactions	24	–	–	–	–	–	–
		18.0	5.8	23.8	17.9	11.2	29.1

7. Emoluments of directors and interests in shares

Information on the emoluments of the directors (page 31), 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 31 and 32.

8. Net financing expense

	2017 Continuing £m	2017 Discontinued £m	2017 Total £m	2016 Continuing £m	2016 Discontinued £m	2016 Total £m
Financial income:						
Amounts receivable on cash and cash equivalents	–	0.1	0.1	–	0.1	0.1
Interest received on pension scheme balances	0.2	–	0.2	0.4	–	0.4
	0.2	0.1	0.3	0.4	0.1	0.5
Financial expenses:						
Amounts payable on bank loans and overdrafts	(0.1)	–	(0.1)	(0.2)	–	(0.2)
Preference dividends paid	(0.1)	–	(0.1)	(0.1)	–	(0.1)
Interest cost on pension scheme balances	(0.3)	–	(0.3)	(0.3)	–	(0.3)
	(0.5)	–	(0.5)	(0.6)	–	(0.6)
Net financing (expense)/income	(0.3)	0.1	(0.2)	(0.2)	0.1	(0.1)

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

9. Taxation

Continuing operations	2017 £m	2016 £m
Tax expense/(credit):		
Current tax	0.3	(0.7)
Deferred tax	1.6	–
Total continuing operations	1.9	(0.7)
Discontinued operations	0.2	0.5
Total	2.1	(0.2)

Included within the total taxation is a tax charge of £1.7m (2016: £0.3m credit) attributable to the non-underlying items set out in note 5.

Reconciliation of effective tax rate

Continuing operations	2017 £m	2016 £m
Profit/(loss) before tax	4.3	(3.1)
Income tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	0.8	(0.6)
Tax effect of expenses not deductible for tax purposes	(0.1)	(0.4)
Deferred tax movements on pension payments	1.6	0.6
Change in unrecognised deferred tax assets	(0.5)	(0.1)
Foreign tax charged at higher rates than UK corporation tax rate	0.1	(0.2)
Total expense/(credit)	1.9	(0.7)

The main rate of UK corporation tax is 19 % from 1 April 2017 and will be reduced to 17% from 1 April 2020, as enacted in the Finance Act 2015. The rate of deferred tax liability arising from the surplus in respect of the UK defined benefit pension scheme is 35%.

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 the UK and the USA.

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

	2017 £m	2016 £m
Arising from actuarial gains/losses	3.2	(2.0)

10. Current tax assets and liabilities

Current tax assets of £0.1m (2016: £0.2m) and current tax liabilities of £0.4m (2016: £0.4m) for the Group, and current tax assets of £0.1m (2016: £nil) for the Company, represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share

Basic earnings/(loss) per share

The calculation of basic earnings/loss per ordinary share is based upon the profit for the year of £1.6m (2016: £0.6m loss) and the weighted average number of ordinary shares in issue during the year. The calculation of basic earnings/loss per ordinary share from continuing activities is based upon the profit for the period from continuing activities of £2.5m (2016: £2.4m loss). The weighted average number of shares excludes shares held by the employee trust in respect of the Company's deferred share plan arrangements.

Diluted earnings/loss per share

The calculation of diluted earnings/loss per ordinary share is based upon the profit for the year of £1.6m (2016: £0.6m loss) and the diluted weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings/loss per ordinary share from continuing activities is based upon the profit for the period from continuing activities of £2.5m (2016: £2.4m loss). 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.

	2017	2016
Weighted average number of ordinary shares (non-diluted) at 31 December	19,828,601	19,754,631
Effect of own shares	78,390	–
Weighted average number of ordinary shares (diluted) at 31 December	19,906,991	19,754,631

In the 12 months to 31 December 2016 the effect of the dilution would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation.

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 4.2p (2016: 6.0p loss) in respect of underlying earnings per share and 4.1p (2016: 6.0p loss) 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 (2016: £1.1m loss) which is calculated as follows:

	2017 £m	2016 £m
Profit/(loss) for the period	1.6	(0.6)
Loss/(profit) for the period from discontinued operations	0.8	(1.8)
Non-underlying items (net of tax)	(1.6)	1.3
Underlying profit/(loss) for the period	0.8	(1.1)

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 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
Balance at 1 January 2017	8.8	21.8	0.2	30.8	6.3	18.3	0.2	24.8
Additions	–	0.4	–	0.4	–	0.3	–	0.3
Disposals	(8.7)	(18.5)	(0.2)	(27.4)	(6.3)	(18.1)	(0.2)	(24.6)
Retranslation	(0.1)	–	–	(0.1)	–	–	–	–
Balance at 31 December 2017	–	3.7	–	3.7	–	0.5	–	0.5
Amortisation and impairment losses:								
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)
Impairment	–	–	–	–	–	–	–	–
Retranslation	–	0.4	–	0.4	–	–	–	–
Balance at 31 December 2016	1.0	14.6	–	15.6	1.0	12.0	–	13.0
Balance at 1 January 2017	1.0	14.6	–	15.6	1.0	12.0	–	13.0
Amortisation for the period	–	0.9	–	0.9	–	0.6	–	0.6
Disposals	(0.9)	(12.7)	–	(13.6)	(1.0)	(12.3)	–	(13.3)
Retranslation	(0.1)	–	–	(0.1)	–	–	–	–
Balance at 31 December 2017	–	2.8	–	2.8	–	0.3	–	0.3
Carrying amounts:								
At 1 January 2016	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
At 31 December 2017	–	0.9	–	0.9	–	0.2	–	0.2

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

Goodwill

Following the disposal of the Instrumentation & Tobacco Machinery division in 2017 the carrying amount of goodwill at 31 December 2017 was nil. At 31 December 2016 the carrying amount related to the acquisitions of businesses by the Group and Company and was attributable to the following cash generating unit (CGU).

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Cerulean	–	7.8	–	5.3

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 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
Balance at 1 January 2017	7.6	11.1	8.5	27.2	3.5	1.0	3.2	7.7
Additions	0.1	1.0	0.5	1.6	0.1	–	–	0.1
Disposals	(4.6)	(9.5)	(4.5)	(18.6)	(1.0)	(0.7)	(2.2)	(3.9)
Retranslation	–	0.2	–	0.2	–	–	–	–
Balance at 31 December 2017	3.1	2.8	4.5	10.4	2.6	0.3	1.0	3.9
Depreciation:								
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
Balance at 1 January 2017	2.6	8.7	7.4	18.7	1.4	0.7	2.7	4.8
Depreciation charge for the period	0.2	0.4	0.4	1.0	0.1	0.1	0.1	0.3
Disposals	(1.6)	(7.8)	(4.1)	(13.5)	(0.6)	(0.5)	(1.9)	(3.0)
Retranslation	–	0.2	–	0.2	–	–	–	–
Balance at 31 December 2017	1.2	1.5	3.7	6.4	0.9	0.3	0.9	2.1
Carrying amounts:								
At 1 January 2016	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 2017	1.9	1.3	0.8	4.0	1.7	–	0.1	1.8

At 31 December 2017 assets disclosed as land and buildings with a carrying value of £1.9m were used as security for bank facilities (2016: £4.6m).

In 2017 included within the Group's depreciation charge for the period was £0.4m in respect of discontinued operations.

14. Investment property

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Balance at 1 January 2016 and 31 December 2016	0.8	0.8	0.8	0.8
Balance at 31 December 2017	0.8	0.8	0.8	0.8

Investment property is shown at cost. The fair value of the investment property at 31 December 2017 is £0.9m (2016: £0.9m) and has been arrived at on the basis of a valuation carried out by independent valuers, Wilks Head & Eve LLP. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

15. Investments

	Cost of shares in subsidiaries	
	2017 £m	2016 £m
Balance at 1 January	50.6	50.6
Disposal of investment	(3.2)	–
Balance at 31 December	47.4	50.6

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

Disposal of investments
On 1 August 2017 the Company disposed of its investment in the Instrumentation & Tobacco Machinery division.

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 rate applied to the cash flow forecasts for each CGU is based on a market participant's pre-tax weighted average cost of capital of 11.0% (2016: 8.4% to 18.8%).

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 weighted average cost of capital 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 2017 £m	Assets 2016 £m	Liabilities 2017 £m	Liabilities 2016 £m	Net 2017 £m	Net 2016 £m
Intangible assets	–	1.7	–	(1.3)	–	0.4
Property, plant and equipment	–	0.1	–	–	–	0.1
Employee benefits	–	2.7	(6.3)	(1.6)	(6.3)	1.1
Inventories	–	0.1	–	–	–	0.1
Foreign currency derivatives	–	0.1	–	–	–	0.1
Provisions	–	0.4	–	–	–	0.4
Translation movements on foreign currency investments	–	–	–	(0.2)	–	(0.2)
Tax losses	1.7	0.6	–	–	1.7	0.6
Deferred tax (liabilities)/assets	1.7	5.7	(6.3)	(3.1)	(4.6)	2.6
Offset of tax	–	(1.1)	–	1.1	–	–
Net deferred tax (liabilities)/assets	1.7	4.6	(6.3)	(2.0)	(4.6)	2.6

Company	Assets 2017 £m	Assets 2016 £m	Liabilities 2017 £m	Liabilities 2016 £m	Net 2017 £m	Net 2016 £m
Intangible assets	–	–	–	(1.3)	–	(1.3)
Property, plant and equipment	–	0.1	–	–	–	0.1
Employee benefits	–	–	(6.3)	(1.6)	(6.3)	(1.6)
Provisions	–	0.2	–	–	–	0.2
Tax losses	–	0.6	–	–	–	0.6
Deferred tax (liabilities)/assets	–	0.9	(6.3)	(2.9)	(6.3)	(2.0)
Offset of tax	–	(0.9)	–	0.9	–	–
Net deferred tax liabilities	–	–	(6.3)	(2.0)	(6.3)	(2.0)

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.

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 it is probable that taxable profits will be available against which the deferred tax asset can be utilised. At the year end the Group had £9.3m of unrecognised deferred tax assets (2016: £10.9m) 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:

Expiry	Group 2017 £m	Group 2016 £m
10 to 20 years	4.9	5.7
No expiry date	4.4	5.2
	9.3	10.9

Movement in temporary differences during the year

Group	Balance at 1 January 2017 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Retranslation £m	Balance at 31 December 2017 £m
Intangible assets	0.4	(0.4)	–	–	–	–
Property, plant and equipment	0.1	(0.1)	–	–	–	–
Employee benefits	1.1	(4.4)	(3.2)	–	0.2	(6.3)
Inventories	0.1	(0.1)	–	–	–	–
Foreign currency derivatives	0.1	(0.1)	–	–	–	–
Provisions	0.4	(0.4)	–	–	–	–
Translation movements on foreign currency investments	(0.2)	0.2	–	–	–	–
Tax losses	0.6	1.1	–	–	–	1.7
	2.6	(4.2)	(3.2)	–	0.2	(4.6)

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

Company	Balance at 1 January 2017 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Balance at 31 December 2017 £m
Intangible assets	(1.3)	1.3	–	–	–
Property, plant and equipment	0.1	(0.1)	–	–	–
Employee benefits	(1.6)	(1.5)	(3.2)	–	(6.3)
Foreign currency derivatives	–	–	–	–	–
Provisions	0.2	(0.2)	–	–	–
Own shares (employee trust)	–	–	–	–	–
Tax losses	0.6	(0.6)	–	–	–
	(2.0)	(1.1)	(3.2)	–	(6.3)

16. Deferred tax assets and liabilities continued

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)

17. Inventories

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Raw materials and consumables	**–**	1.8	**–**	0.9
Work in progress	**1.0**	4.4	**–**	0.9
Finished goods	**1.4**	6.8	**0.2**	4.4
	2.4	13.0	**0.2**	6.2

An amount of £nil (2016: £0.1m) has been charged in the year in respect of inventory write-downs.

18. Construction contracts

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Contracts in progress at statement of financial position date:				
Gross amount due from customers for contract work (included in Trade and other receivables)	**5.0**	2.1	**0.2**	0.1
Gross amount due to customers for contract work (included in Trade and other payables)	**(4.6)**	(3.7)	**(2.3)**	(2.9)

Revenue from continuing operations recognised during the year in respect of construction contracts amounted to £43.8m (2016: £25.7m) for the Group and £7.5m (2016: £4.5m) 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 £33.0m (2016: £10.5m) for the Group and £11.4m (2016: £3.4m) for the Company. Advances received from customers for contract work amounted to £10.9m (2016: £7.9m) and £6.3m (2016: £3.1m) for the Company.

Included within gross amount due to customers for contract work are trade receivables where deposits were invoiced but not received of £4.1m (2016: £1.7m) for the Group and £2.7m (2016: £1.1m) for the Company.

19. Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current assets:				
Other receivables	0.8	–	0.8	–
	0.8	–	0.8	–
Current assets:				
Trade receivables	11.7	17.8	3.1	7.8
Amounts owed by Group undertakings	–	–	0.1	2.0
Construction contracts	5.0	2.1	0.2	0.1
Other receivables	1.3	0.9	0.8	0.3
Prepayments and accrued income	1.4	3.7	1.0	1.8
Foreign currency derivatives	0.5	–	0.3	0.3
	19.9	24.5	5.5	12.3

20. Interest-bearing loans and borrowings

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current liabilities:				
Repayable between one and two years	–	7.0	–	7.0
More than five years	0.9	0.9	0.9	0.9
	0.9	7.9	0.9	7.9

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 (2016: £0.1m).

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents	21.3	(1.8)	18.0	(3.7)
Cash movement in borrowings	7.0	5.2	7.0	5.2
Change in net funds/(debt) resulting from cash flows	28.3	3.4	25.0	1.5
Translation movements	0.3	0.6	–	(0.1)
Movement in net funds/(debt) in the period	28.6	4.0	25.0	1.4
Opening net funds/(debt)	0.8	(3.2)	(5.2)	(6.6)
Closing net funds/(debt)	29.4	0.8	19.8	(5.2)
Analysis of net funds/(debt):				
Cash and cash equivalents – current assets	30.3	9.0	20.7	2.7
Bank overdrafts – current liabilities	–	(0.3)	–	–
Interest-bearing loans and borrowings – non-current liabilities	(0.9)	(7.9)	(0.9)	(7.9)
Closing net funds/(debt)	29.4	0.8	19.8	(5.2)

22. Trade and other payables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current liabilities:				
Deposits received on account	1.3	3.9	0.1	0.3
Trade payables	5.1	7.0	1.1	4.4
Amounts owed to Group undertakings	–	–	16.5	10.2
Construction contracts	4.6	3.7	2.3	2.9
Other taxes and social security	0.7	0.6	0.2	0.3
Other payables	2.6	2.6	1.0	1.1
Accruals and deferred income	6.6	7.8	2.6	2.8
Foreign currency derivatives	–	0.3	0.3	0.3
	20.9	25.9	24.1	22.3

Deposits received on account of £1.3m (2016: £3.9m) for the Group and £0.1m (2016: £0.3m) for the Company exclude £2.0m (2016: £2.8m) for the Group and £0.1m (2016: £0.5m) 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	2017 Continued £m	2017 Discontinued £m	2017 Total £m	2016 Continued £m	2016 Discontinued £m	2016 Total £m
Balance at 1 January	1.4	0.3	1.7	0.6	0.6	1.2
Provisions created in the year	1.0	0.3	1.3	1.1	0.4	1.5
Utilised during the year	(1.1)	(0.6)	(1.7)	(0.2)	(0.7)	(0.9)
Unused amounts reversed	(0.2)	–	(0.2)	(0.3)	–	(0.3)
Retranslation	(0.1)	–	(0.1)	0.2	–	0.2
Balance at 31 December	1.0	–	1.0	1.4	0.3	1.7

Company	2017 Continued £m	2017 Discontinued £m	2017 Total £m	2016 Continued £m	2016 Discontinued £m	2016 Total £m
Balance at 1 January	0.2	0.3	0.5	0.2	0.4	0.6
Provisions created in the year	0.1	0.1	0.2	0.2	0.2	0.4
Utilised during the year	(0.2)	(0.4)	(0.6)	(0.1)	(0.1)	(0.2)
Unused amounts reversed	–	–	–	(0.1)	(0.2)	(0.3)
Balance at 31 December	0.1	–	0.1	0.2	0.3	0.5

Provisions are based on historical data and a weighting of all possible outcomes against their associated possibilities. Provisions relate primarily to product warranties. 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.

24. Employee benefits continued

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 2015 using the projected unit credit method. The market value of the scheme assets at that date was £350.6m and the funding level was 83% of liabilities, which represented a deficit of £70.0m. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 August 2029, but, is subject to reassessment every 3 years are as follows:

› the Company will continue to pay a sum of £1.8m per annum to the Fund (increasing at 2.1 per cent. per annum) in deficit recovery payments;
› if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is above certain levels; and
› payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Fund in any one year.

The Company paid a one-off amount to the fund of £2.4m, representing 10% of the net proceeds (after costs and taxation) of the sale of the Instrumentation & Tobacco Machinery (I&TM) division.

The deficit recovery period from 30 June 2015 was estimated to be 14 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 2018.

During the year the Company paid deficit recovery contributions of £1.8m (2016: £1.8m) and a contribution of £2.4m following the disposal of the I&TM business being 10% of net proceeds.

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 2017. Scheme assets are stated at their market value at 31 December 2017.

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 2017 using the projected unit credit method. The valuations under IAS 19 at 31 December 2017 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £0.7m (2016: £0.2m) including £0.4m as a result of the disposal in 2015 of the assets of Arista laboratories were paid during the year.

Assumptions

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

	UK (Company)		USA	
	2017	2016	**2017**	2016
Discount rate	**2.3%**	2.5%	**3.5%**	4.0%
Inflation rate				
– CPI	**2.1%**	2.2%	**n/a**	n/a
– RPI	**3.2%**	3.3%	**n/a**	n/a
Increases to pensions in payment				
– final salary benefits	**2.1%**	2.2%	**n/a**	n/a
– career average benefits	**1.9%**	2.0%	**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	21.3 years	20.6 years
Current pensioner aged 65 – female	23.6 years	22.6 years
Future retiree currently aged 45 upon reaching age 65 – male	22.6 years	20.5 years
Future retiree currently aged 45 upon reaching age 65 – female	25.1 years	23.1 years

At 31 December 2017 the weighted average duration of the defined benefit obligation in the UK scheme was 15 years (2016: 15 years) and in the USA schemes 11 years (2016: 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 2017	UK scheme	USA schemes
0.1% change in discount rate	£5.8m	£0.3m
0.1% change in inflation rate	£3.2m	n/a
Change in life expectancy by one year on average	£19.6m	£1.0m

Categories of assets and funded status
The fair values of scheme assets were as follows:

	UK (Company)		USA		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
UK equities	1.5	9.6	–	–	1.5	9.6
Overseas equities	80.0	103.9	6.2	5.4	86.2	109.3
Bonds – index linked gilts	102.3	81.2	–	–	102.3	81.2
Bonds – other	63.1	51.2	9.5	10.7	72.6	61.9
Properties – funds	38.9	36.6	1.0	1.0	39.9	37.6
Properties – directly owned	1.8	1.8	–	–	1.8	1.8
Absolute return funds	124.8	116.0	–	–	124.8	116.0
Other	2.2	1.6	–	–	2.2	1.6
Total fair (bid) value of scheme assets	414.6	401.9	16.7	17.1	431.3	419.0
Present value of defined benefit obligations	(397.0)	(397.3)	(22.9)	(23.9)	(419.9)	(421.2)
Defined benefit asset/(liability)	17.6	4.6	(6.2)	(6.8)	11.4	(2.2)

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

24. Employee benefits continued

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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Interest expense/(income)	(0.2)	(0.4)	0.3	0.3	0.1	(0.1)
Administration costs	0.6	0.7	0.2	0.2	0.8	0.9
Expense recognised in income statement	0.4	0.3	0.5	0.5	0.9	0.8

B) Statements of comprehensive income (SOCI)

The actuarial gains recognised in the SOCI in respect of pensions were £9.1m (2016: losses of £6.3m), comprising actuarial gains of £9.2m (2016: losses of £7.5m) for the UK defined benefit pension scheme and actuarial losses of £0.1m (2016: gains of £1.2m) for the USA schemes, all figures before tax.

Actual return on scheme assets

The actual return on scheme assets were gains of £30.4m (2016: £73.7m), comprising gains of £28.4m (2016: £72.9m) for the UK defined benefit pension scheme and gains of £2.0m (2016: £0.8m) for the USA schemes, all figures before tax.

Reconciliation of the present value of defined benefit obligations

	UK (Company)		USA		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Present value of defined benefit obligations at 1 January	397.3	336.3	23.9	21.5	421.2	357.8
Interest cost	9.7	12.1	0.9	0.9	10.6	13.0
Actuarial losses/(gains)						
– Changes in demographic assumptions	–	–	(0.2)	(0.4)	(0.2)	(0.4)
– Changes in financial assumptions	11.5	72.0	1.3	–	12.8	72.0
– Experience	(2.2)	(4.1)	0.4	(0.6)	(1.8)	(4.7)
Benefit payments	(19.3)	(19.0)	(1.4)	(1.4)	(20.7)	(20.4)
Retranslation	–	–	(2.0)	3.9	(2.0)	3.9
Present value of defined benefit obligations at 31 December	397.0	397.3	22.9	23.9	419.9	421.2

At 31 December 2017 the pensioner population accounted for 64% (2016: 57%) of the UK scheme's obligations and 70% (2016: 56%) of the USA schemes' obligations.

Reconciliation of the fair value of scheme assets

	UK (Company)		USA		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of scheme assets at 1 January	401.9	346.9	17.1	14.9	419.0	361.8
Interest income	9.9	12.5	0.6	0.6	10.5	13.1
Actuarial gains/(losses)						
– Return on scheme assets	18.5	60.4	1.4	0.2	19.9	60.6
Company contributions	4.2	1.8	0.7	0.2	4.9	2.0
Administration expenses	(0.6)	(0.7)	(0.2)	(0.2)	(0.8)	(0.9)
Benefit payments	(19.3)	(19.0)	(1.4)	(1.4)	(20.7)	(20.4)
Retranslation	–	–	(1.5)	2.8	(1.5)	2.8
Fair value of scheme assets at 31 December	414.6	401.9	16.7	17.1	431.3	419.0

Experience gains and losses for the year

	UK (Company)		USA		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of scheme assets	414.6	401.9	16.7	17.1	431.3	419.0
Defined benefit obligations	(397.0)	(397.3)	(22.9)	(23.9)	(419.9)	(421.2)
Net asset/(liability)	17.6	4.6	(6.2)	(6.8)	11.4	(2.2)
Actuarial gains/(losses) on scheme assets	18.5	60.4	1.4	0.2	19.9	60.6
Actuarial (losses)/gains on defined benefit obligations	(9.3)	(67.9)	(1.5)	1.0	(10.8)	(66.9)
Net gain/(loss) recognised in the SOCI during the year	9.2	(7.5)	(0.1)	1.2	9.1	(6.3)

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

	UK (Company)		USA		Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Net (liability)/asset for employee benefits at 1 January	4.6	10.6	(6.8)	(6.6)	(2.2)	4.0
Expense recognised in the income statement (see below)	(0.4)	(0.3)	(0.5)	(0.5)	(0.9)	(0.8)
Company contributions	4.2	1.8	0.7	0.2	4.9	2.0
Actuarial (losses)/gains recognised in the SOCI	9.2	(7.5)	(0.1)	1.2	9.1	(6.3)
Retranslation	–	–	0.5	(1.1)	0.5	(1.1)
Net asset/(liability) for employee benefits at 31 December	17.6	4.6	(6.2)	(6.8)	11.4	(2.2)

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.

24. Employee benefits continued

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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Administrative expenses	0.6	0.7	0.2	0.2	0.8	0.9
Financial expense/(income)	(0.2)	(0.4)	0.3	0.3	0.1	(0.1)
Net pension expense	0.4	0.3	0.5	0.5	0.9	0.8

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

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 30 to 37 and in this note.

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

	At 1 January 2017	Granted	Lapsed	Exercised	At 31 December 2017
1 December 2013[a]	41,400	–	–	(41,400)	–
27 February 2014[b]	42,000	–	–	(42,000)	–
1 December 2014[c]	88,200	–	(75,600)	(12,600)	–
1 April 2016	122,200	–	(69,800)	–	52,400
8 June 2017	–	132,600	–	–	132,600
	293,800	132,600	(145,400)	(96,000)	185,000

a Exercised under Deferred share plan on 15 June 2017 at a market price of 119.0p.
b Exercised under Deferred share plan on 15 June 2017 at a market price of 119.0p.
c Exercised under Deferred share plan on 5 December 2017 at a market price of 152.0p.

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

The share-based compensation charge for the year amounted to £nil (2016: £nil).

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
1 April 2016	46.0p
8 June 2017	74.0p

25. Capital and reserves

Share capital

Allotted, called up and fully paid	2017 £m	2016 £m
Ordinary shares of 25p each	5.0	5.0

There were 20,171,540 (2016: 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 347,016 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 30 to 37 and on page 76 in note 24.

At 31 December 2017 the employee trust held 347,016 (2016: 371,416) ordinary shares of 25p each, representing 1.7% of the issued shares (2016: 1.8%), 185,000 of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £0.5m (2016: £0.5m). The trust purchased 71,600 additional shares in the year at a cost of £0.1m. In 2016 there were no additional shares purchased.

The market value of the shares held by the trust at 31 December 2016 was £0.5m (2016: £0.2m).

Dividends

	2017 £m	2016 £m
Dividends to shareholders paid in the period:		
Final dividend for the year ended 31 December 2015 of 1.5p per ordinary share	–	0.3
Interim dividend for the year ended 31 December 2016 of 1.25p per ordinary share	–	0.2
	–	0.5

Having considered the trading results for 2017, 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. No interim dividend was paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 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 28 and 29.

26. Financial risk management continued

Categories of financial instruments

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Financial assets:				
Derivative instruments in designated hedge accounting relationships	0.5	–	0.3	0.3
Loans and receivables (including cash and cash equivalents)	43.5	26.8	25.4	12.5
	44.0	26.8	25.7	12.8
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	–	0.3	0.3	0.3
Amortised cost	21.8	33.8	24.7	29.9
	21.8	34.1	25.0	30.2

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 2017 and 31 December 2017 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 diversified base of customers. In certain years sales to a customer may be more than 5%, although the sales would typically be both original equipment and service, and 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.

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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	
	2017 £m	2016 £m	2017 £m	2016 £m
Trade receivables	11.7	17.8	3.1	7.8
Amounts owed by Group undertakings	–	–	0.1	2.0
Other receivables	1.5	–	1.5	–
Foreign currency derivatives	0.5	–	0.3	0.3
Cash and cash equivalents	30.3	9.0	20.7	2.7
	44.0	26.8	25.7	12.8

Impairment loss provisions

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

	2017			2016		
Group	Gross £m	Impairment loss provisions £m	Total £m	Gross £m	Impairment loss provisions £m	Total £m
Not past due	7.5	–	7.5	15.5	–	15.5
Past due up to 30 days	3.4	–	3.4	1.3	–	1.3
Past due 31–60 days	0.2	–	0.2	0.5	–	0.5
Past due 61–90 days	0.1	–	0.1	0.3	–	0.3
Past due more than 91 days	0.5	–	0.5	0.3	(0.1)	0.2
	11.7	–	11.7	17.9	(0.1)	17.8

	2017			2016		
Company	Gross £m	Impairment loss provisions £m	Total £m	Gross £m	Impairment loss provisions £m	Total £m
Not past due	3.1	–	3.1	6.8	–	6.8
Past due up to 30 days	–	–	–	0.5	–	0.5
Past due 31–60 days	–	–	–	0.4	–	0.4
Past due 61–90 days	–	–	–	0.1	–	0.1
Past due more than 91 days	–	–	–	0.1	(0.1)	–
	3.1	–	3.1	7.9	(0.1)	7.8

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 18 to 21.

26. Financial risk management continued

Liquidity risk continued

Contractual maturities of non-derivative financial liabilities

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

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Current liabilities:				
Trade and other payables (excluding derivatives)	20.9	25.6	23.8	22.0
Non-current liabilities:				
Interest-bearing loans and borrowings	0.9	7.9	0.9	7.9

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 18 to 21.

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 18 to 21.

Interest rate risk

Cash and cash equivalents

The cash profile at 31 December was:

	2017			2016		
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	16.5	–	16.5	2.7	0.5	3.2
Canadian dollar	5.6	–	5.6	0.4	–	0.4
US dollar	2.4	1.1	3.5	0.1	0.6	0.7
Euro	4.6	–	4.6	3.0	0.3	3.3
Czech koruna	–	–	–	(0.3)	–	(0.3)
Brazilian real	–	–	–	1.3	–	1.3
Other	0.1	–	0.1	–	0.1	0.1
	29.2	1.1	30.3	7.2	1.5	8.7

Company	2017 Cash at floating rates £m	2017 Cash on which no interest received £m	2017 Total £m	2016 Cash at floating rates £m	2016 Cash on which no interest received £m	2016 Total £m
Currency:						
Sterling	16.3	–	16.3	2.7	–	2.7
Canadian dollar	0.5	–	0.5	–	–	–
US dollar	1.1	–	1.1	(0.2)	–	(0.2)
Euro	2.8	–	2.8	0.2	–	0.2
	20.7	–	20.7	2.7	–	2.7

All cash surplus to immediate operational requirements is placed on deposit at floating rates of interest.

Interest-bearing loans and borrowings

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

Group and Company	2017 Borrowings at floating rates £m	2017 Borrowings at fixed rates £m	2017 Total £m	2016 Borrowings at floating rates £m	2016 Borrowings at fixed rates £m	2016 Total £m
Currency:						
Sterling	–	0.9	0.9	7.0	0.9	7.9
	–	0.9	0.9	7.0	0.9	7.9

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 were 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 (2016: £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 2016.

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 22, 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.

26. Financial risk management continued

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

	Average rate		Closing rate	
	2017	2016	2017	2016
US dollar	1.30	1.36	1.35	1.24
Canadian dollar	1.69	1.80	1.69	1.66
Euro	1.15	1.23	1.13	1.17
Czech koruna	30.17	33.26	28.76	31.59
Brazilian real	4.16	4.78	4.49	4.04

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	2017 £m	2016 £m	2017 £m	2016 £m
Gain	0.3	0.1	–	–
Loss	–	(0.3)	–	(0.1)
	0.3	(0.2)	–	(0.1)

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 2017 or 2016, that had been designated as fair value hedges under IAS 39 Financial instruments: recognition and measurement.

During the period a credit of £0.4m for the Group (2016: £0.7m) and £0.1m for the Company (2016: £0.6m) 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:

	2017				2016			
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	Between twelve and twenty-four months £m	Total £m
Outflow	(1.9)	(0.3)	–	(2.2)	(2.3)	(0.3)	–	(2.6)
Inflow	11.8	0.8	0.2	12.8	9.4	4.8	0.3	14.5
	9.9	0.5	0.2	10.6	7.1	4.5	0.3	11.9

Company	2017 Less than six months £m	2017 Between six and twelve months £m	2017 Between twelve and twenty-four months £m	2017 Total £m	2016 Less than six months £m	2016 Between six and twelve months £m	2016 Between twelve and twenty-four months £m	2016 Total £m
Outflow	(12.9)	(1.1)	(0.2)	(14.2)	(9.1)	(3.9)	–	(13.0)
Inflow	15.9	1.4	0.2	17.5	9.4	5.0	0.3	14.7
	3.0	0.3	–	3.3	0.3	1.1	0.3	1.7

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.

Group	2017 US dollar £m	2017 Euro £m	2017 Total £m	2016 US dollar £m	2016 Euro £m	2016 Total £m
Functional currency:						
Sterling	–	0.1	0.1	0.3	0.3	0.6
Canadian dollar	2.0	0.7	2.7	0.6	–	0.6
Euro	–	(0.1)	(0.1)	–	–	–
Czech koruna	–	–	–	0.1	–	0.1
Brazilian real	–	–	–	(0.1)	–	(0.1)
	2.0	0.7	2.7	0.9	0.3	1.2

Company	2017 US dollar £m	2017 Euro £m	2017 Total £m	2016 US dollar £m	2016 Euro £m	2016 Total £m
Functional currency:						
Sterling	–	–	–	0.3	0.4	0.7

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 against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have increased Group profit for the year by £0.6m (2016: £0.1m). If sterling had been 10% weaker against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have decreased Group profit for the year by £0.5m (2016: £0.1m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2017, Group equity would have reduced by £0.4m (2016: £0.8m). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 2017, Group equity would have increased by £0.3m (2016: £0.9m). This analysis assumes that all other variables remain constant.

26. Financial risk management continued

Fair values

The fair value of borrowings at fixed rates for both the Group and the Company at 31 December 2017 is £0.8m (2016: £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	
	2017 £m	2016 £m	2017 £m	2016 £m
Less than one year	0.7	0.5	–	–
Between one and five years	3.0	0.6	0.1	0.1
More than five years	1.0	–	–	–
	4.7	1.1	0.1	0.1

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 £0.6m was recognised as an expense in the Consolidated income statement in respect of operating leases of the continuing operations (2016: £0.7m). In addition, £0.4m (2016: £0.7m) was recognised as an expense in the Consolidated income statement in respect of operating leases of the discontinued operations.

28. Capital commitments

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Capital investment contracted but not provided for	–	0.1	–	–

29. Contingent liabilities

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts	2.1	2.0	3.4	3.3

30. Discontinued operations

On 1 August 2017 the Group sold its Instrumentation & Tobacco Machinery (I&TM) business. The results of the I&TM business are presented as results from a discontinued operation in the Consolidated income statement and the comparative information has been re-presented accordingly. 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 for the period to 1 August 2017	2017 £m	2016 £m
Revenue from trading activities	21.1	38.6
Costs from trading activities	(19.1)	(36.4)
Operating profit from trading activities	2.0	2.2
Financial income from trading activities	0.1	0.1
Profit before tax from trading activities	2.1	2.3
Income tax expense from trading activities	(0.2)	(0.5)
Profit after tax from trading activities	1.9	1.8
Costs incurred on disposal	(1.1)	–
Loss on disposal of net assets	(0.8)	–
Tax on disposal of net assets	(1.9)	–
Foreign exchange gains recycled through income statement	1.1	–
(Loss)/profit after tax	(0.8)	1.8

Cash flow statement for the period to 1 August 2017	2017 £m	2016 £m
Operating activities		
Operating profit	2.0	2.2
Non-underlying items included in operating profit	–	0.1
Amortisation	0.6	1.2
Depreciation	0.4	0.6
Net movements in working capital	1.4	0.2
Cash flows from operations before reorganisation	4.4	4.3
Reorganisation costs paid	–	(0.1)
Cash flows from operating activities	4.4	4.2
Investing activities		
Cash flows from investing activities	(0.3)	(0.9)
Net increase in cash and cash equivalents	4.1	3.3

In 2017 the loss per ordinary share from discontinued operations was 3.8p (2016: 9.0p earnings) and the diluted loss per ordinary share from discontinued operations was 3.8p (2016: 9.0p earnings).

31. Related parties

Transactions with key management personnel

The compensation of key management personnel is disclosed in the Remuneration report on pages 30 to 37.

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 30 to 37.

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 2017 was £0.2m (2016: £0.2m).

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. Principal subsidiary undertakings are shown on page 88. 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

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	Langen Packaging Inc (Canada)
Edisonstraat 14, 6604 BV Wijchen, The Netherlands	Langenpac BV (Netherlands)
8 Burn Road, #09-01 Trivex, Singapore 369977	Langen Pte. Ltd (Singapore)

Subsidiary undertakings registered at Mpac Group plc Registered Office

Arista Laboratories Europe Limited	Mpac Machine Company Limited	Molmac Engineering Limited
Hartsvale Limited	Mpac Machinery Limited	Thrissell Limited
Mpac Corporate Services Limited	Mpac Overseas Holdings Limited	
Mpac ITCM Limited	Mpac Tobacco Machinery Limited	

Overseas subsidiary undertakings

Registered office	Subsidiary undertakings
6500 Kitimat Road, Unit 1, Mississauga, Ontario LN5 2B8, Canada	1456074 Ontario Inc (Canada)
1470 East Parham Road, Richmond, Virginia 23228-2300, USA	Mpac Corporation (USA) ITCM North America Inc (USA) Mpac Delaware, Inc (USA) Mpac Laboratories, Inc (USA) Mpac Machine Company, Inc (USA) SASIB Corporation of America (USA) Mpac Richmond, Inc (USA)
Leningradsky prospekt, 1 bldg. 8 room 1, 125040 Moscow, Russia	Molins Tobacco CIS (69% owned by Mpac Group plc) (Russia)

During the year ended 31 December 2017 the Company received interest income from subsidiary undertakings of £nil (2016: £nil) and management fees of £0.7m (2016: £0.6m).

At 31 December 2017 amounts owed by subsidiary undertakings to the Company were £0.1m (2016: £2.0m) and amounts owed by the Company to subsidiary undertakings were £16.5m (2016: £10.2m). The amounts owed by subsidiary undertakings to the Company are stated after a provision of £10.2m (2016: £10.5m) representing amounts owed to the Company which are no longer considered recoverable.

At 31 December 2017 investments in subsidiaries by the Company were £47.4m (2016: £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.

Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the year in which the estimates are revised and in any future years affected. The areas involving significant risk resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

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.

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 and hours expended on each contract at the statement of financial position date as a proportion of estimated total labour costs and hours on each contract.

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.

Judgements

Management do not believe there are any significant judgements made when applying the Group's accounting policies.

Five year record

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue[1]	53.4	41.5	51.0	40.5	44.3
Underlying operating profit/(loss)[2]	1.3	(1.2)	2.5	(0.1)	(1.1)
Non-underlying items[1]	3.3	(1.7)	(0.8)	(0.7)	(0.8)
Operating profit/(loss)[1]	4.6	(2.9)	1.7	(0.8)	(1.9)
Net financing expense[1]	(0.3)	(0.2)	(0.8)	(0.4)	(0.9)
Profit/(loss) before tax[1]	4.3	(3.1)	0.9	(1.2)	(2.8)
Taxation[1]	(1.9)	0.7	0.1	0.2	1.0
Profit/(loss) for the period from continuing operations	2.4	(2.4)	1.0	(1.0)	(1.8)
(Loss)/profit for the period from discontinued operations	(0.8)	1.8	(5.1)	0.7	5.3
Profit/(loss) for the period	1.6	(0.6)	(4.1)	(0.3)	3.5
Underlying operating return on sales[2]	2.4%	(3.1)%	5.0%	(0.3)%	(2.5)%
Underlying earnings/(loss) per ordinary share[2]	4.2p	(6.0)p	10.8p	(2.1)p	(3.8)p
Basic earnings/(loss) per ordinary share	20.6p	(3.3)p	(20.9)p	(1.3)p	18.0p
Dividends per ordinary share in respect of the year	–	1.25p	4.0p	5.5p	5.5p
Intangible assets	0.9	15.2	14.9	15.7	15.2
Property, plant and equipment and investment property	4.8	9.3	8.8	12.1	12.0
Inventories	2.4	13.0	15.1	18.5	18.5
Trade and other receivables (including taxation)	22.7	29.3	22.1	32.6	27.5
Employee benefits	11.4	(2.2)	4.0	(20.6)	(5.6)
Trade and other payables (including taxation and provisions)	(28.8)	(30.0)	(25.1)	(30.3)	(32.3)
	13.4	34.6	39.8	28.0	35.3
Net funds/(debt)	29.4	0.8	(3.2)	(2.1)	5.2
Net assets	42.8	35.4	36.6	25.9	40.5
Net assets per ordinary share	212p	176p	181p	128p	201p
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 companies are held directly by Mpac Group plc and those in the other overseas subsidiaries by intermediate holding companies.

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Notice of Annual General meeting

Notice is hereby given that the one hundred and sixth Annual General Meeting (the Meeting) of Mpac Group plc (formerly Molins PLC) (the Company) will be held at the Company's offices at 13 Westwood Way, Westwood Business Park, Coventry, CV4 8HS on Thursday 19 April 2018 at 12 noon to consider and, if thought appropriate, to pass the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 to 14 will be proposed as special resolutions:

Ordinary resolutions

Report and Accounts

1. To receive the audited annual accounts of the Company for the year ended 31 December 2017 together with the directors' report and the auditors' report on those annual accounts.

Directors

2. To elect Mr J R Haughey as a director.
3. To re-elect Mr J L Davies as a director.
4. To re-elect Mr A J Kitchingman as a director.
5. To re-elect Mr P J Moorhouse as a director.
6. To re-elect Dr A Steels as a director.
7. To approve the Remuneration report set out on pages 30 to 37 of the Annual Report and Accounts 2017.

Auditors

8. To re-appoint KPMG LLP as auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next AGM at which accounts are laid before the Company.

Remuneration of Auditors

9. To authorise the Audit Committee to determine the remuneration of the auditors.

Directors' authority to allot shares

10. To generally and unconditionally authorise the directors pursuant to and in accordance with Section 551 of the Companies Act 2006 (the Act), in substitution for all previous authorities to the extent unused, to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company

    a) up to an aggregate nominal amount of £1,680,000 (representing approximately one third of the total ordinary share capital in issue at 9 March 2018, being the latest date prior to publication of this notice of meeting); and
    b) comprising equity securities (as defined in Section 560 (1) of the Act) up to a further aggregate nominal value of £1,680,000 in connection with an offer by way of a rights issue, such authorities to expire at the conclusion of the 2019 AGM or if earlier, at close of business on 19 July 2019, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the authority ends.

    For the purposes of this Resolution, 'rights issue' means an offer to:
    a) shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
    b) holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities;

    to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors consider necessary or appropriate in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

Special resolutions

Disapplication of pre-emption rights

11. That if resolution 10 is passed, the Board be authorised to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be limited:

    a) to allotments for rights issues and other pre-emptive issues; and

    b) to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) above) up to a nominal amount of £252,000, such authority to expire at the end of the next AGM of the Company (or, if earlier, at the close of business on 19 July 2019) but, in each case, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

12. That if resolution 10 is passed, the Board be authorised in addition to any authority granted under resolution 11 to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, such authority to be:

    a) limited to the allotment of equity securities or sale of treasury shares up to a nominal amount of £252,000; and

    b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Dis-applying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice, such authority to expire at the end of the next AGM of the Company (or, if earlier, at the close of business on 19 July 2019 save that, in each case, the Company may before such expiry make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

Authority to purchase of own shares

13. That the Company be generally and unconditionally authorised for the purpose of Section 701 of the Act to make market purchases (as defined in Section 693 of the Act) of ordinary shares of 25 pence each in the capital of the Company ('ordinary shares') provided that:

    a) the maximum number of ordinary shares hereby authorised to be purchased is 3,000,000;

    b) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 25 pence per share, being the nominal amount thereof;

    c) the maximum price (exclusive of expenses) which may be paid for such ordinary shares shall be an amount equal to the higher of: (i) 5% above the average of the middle market quotations for such shares taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and (ii) the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System (SETS); and

    d) the authority hereby conferred shall (unless previously renewed or revoked) expire at the end of the 2019 AGM, save that the Company may before such expiry make a contract or agreement to make a market purchase of its own ordinary shares which will or may be executed wholly or partly after the expiry of such authority and the Company may purchase such shares as if the authority conferred hereby had not expired.

Notice of general meetings

14. 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.

By order of the Board

Prism Cosec Limited
Secretary
19 March 2018

Registered in England and Wales
No. 00124855

Registered office:
13 Westwood Way
Westwood Business Park
Coventry
CV4 8HS

Notes relating to the Notice

Entitlement to attend and vote

1. Entitlement to attend and vote at the meeting, and the number of votes which may be cast at the meeting, will be determined by reference to the Company's register of members as at close of business on Tuesday 17 April 2018 or, if the meeting is adjourned, close of business on the day which is two days' prior to the adjourned meeting. In each case, changes to the register of members after such time will be disregarded in determining the rights of any person to attend and vote at the AGM.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. The proxy form may be photocopied or additional proxy forms may be obtained by contacting the Company's Registrar, Link Asset Services on 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Lines are open between 9.00 am – 5.30 p.m., Monday to Friday, excluding public holidays in England and Wales. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.
5. In the case of a joint shareholding, the vote of the first named holder shown in the register of members, whether tendered in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.
6. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
7. To be valid, a proxy form must be received by post or (during business hours only) by hand at the offices of the Company's Registrar, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF, no later than 12 noon on Tuesday 17 April 2018 (or if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

Notes relating to the Notice continued

Corporate representatives

8. A member which is a company can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. Members considering the appointment of a corporate representative should check their legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

Questions at the meeting

9. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so 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.

Issued shares and total voting rights

10. As at 9 March 2018 (being the latest practicable date prior to publication of this notice), the Company's issued share capital consisted of 20,171,540 ordinary shares of 25 pence each. Each ordinary share carries one vote and the total voting rights in the Company as at 9 March 2018 are therefore 20,171,540.

Website giving information regarding the meeting

11. A copy of this notice and other information required by section 311A of the Companies Act 2006 is available on the Company's website at http://www.mpac-group.com.

Communication

12. Members may not use any electronic address provided in this document or any related documents (including the form of proxy) to communicate with the Company for any purpose other than those expressly stated.

13. Except as provided above, shareholders who have general queries about the AGM should either call the Registrar's helpline on 0371 664 0300 or write to the Registrar, Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4TU. No other method of communication will be accepted.

Documents on display

14. Copies of the executive Directors' service contracts and letters of appointment of the Non-Executive Directors may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at 13 Westwood Way, Westwood Business Park, Coventry, CV4 8HS up to and including the date of the AGM and for 15 minutes before, and during, the Meeting.

After the meeting

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

For CREST members only:

16. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
17. To be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via euroclear.com/CREST). The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Link Asset Services (RA10) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Link Asset Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
18. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of CREST by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
19. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Explanatory notes on the resolutions

Resolutions 1 to 10 are ordinary resolutions; resolutions 11 to 14 are special resolutions. To be passed, ordinary resolutions require more than 50% of votes cast to be in favour of the resolution whilst special resolutions require at least 75% of the votes cast to be in favour of the resolution.

Ordinary Resolutions

To receive the Annual Report and Accounts 2017

Resolution 1 is a standard resolution. 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 directors' report and auditor's report on those accounts. The Annual Report and Accounts 2017, which includes this Notice of Annual General Meeting, will be available online at www.mpac-group.com

Election and re-election of directors

Resolution 2 seeks approval for the election of Mr J R Haughey, who was appointed as Group Finance Director on 2 October 2017. This year, in accordance with best practice in corporate governance, all the remaining directors are standing for re-election. Resolutions 3 to 6 seek approval for the re-election of the remaining directors. Biographical information for each of the directors is provided on page 27 of the Annual Report and Accounts 2017.

The Board has no hesitation in recommending the election or re-election of the directors to shareholders. In making these recommendations, the Board confirms that it has given careful consideration to the Board's balance of skills, knowledge and experience and is satisfied that each of the directors putting themselves forward for election or re-election has sufficient time to discharge their duties effectively, taking into account their other commitments.

Remuneration report

Resolution 7 seeks shareholders' approval for the Directors' Remuneration report, excluding the summary Directors' Remuneration Policy which is set out on pages 30 to 37 of the Annual Report and Accounts 2017, for the year ended 31 December 2017. The vote is advisory only.

Re-appointment of auditors

The auditors of a company must be appointed or re-appointed at each general meeting at which the accounts are laid. Resolution 8 seeks approval to re-appoint KPMG LLP as the Company's auditors until the conclusion of the next general meeting of the Company at which accounts are laid.

Remuneration of auditors

Resolution 9 seeks consent for the directors to determine the remuneration of the auditors.

Directors' authority to allot shares

Resolution 10 shareholders to grant the directors authority to allot shares or grant rights to subscribe for or convert securities into shares, up to a maximum aggregate nominal value of £3,360,000, which is approximately two-thirds of the nominal value of the issued ordinary share capital of the Company as at 9 March 2018, being the latest practicable date prior to the publication of this notice. £1,680,000 of this authority is reserved for a fully pre-emptive rights issue. This is the maximum permitted amount under best practice corporate governance guidelines. The authority will expire at the next Annual General Meeting of the Company or if earlier, at close of business on 19 July 2019. The directors have no current intention of exercising such authority and will exercise this power only when they believe that such exercise is in the best interests of the shareholders.

Special resolutions

Disapplication of pre-emption rights

Resolutions 11 and 12 will be proposed as special resolutions, each requiring a majority of 75% of those voting to be in favour. If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme), company law requires that these shares are offered first to shareholders in proportion to their existing holdings.

Resolution 11 deals with the authority of the directors to allot new shares or other equity securities pursuant to the authority given by resolution 10, or sell treasury shares, for cash without the shares or other equity securities first being offered to shareholders in proportion to their existing holdings. Such authority shall only be used in connection with a pre-emptive offer, or otherwise, up to an aggregate nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 9 March 2018.

The Pre-Emption Group Statement of Principles supports the annual disapplication of pre-emption rights in respect of allotments of shares and other equity securities (and sales of treasury shares for cash) representing no more than an additional 5% of issued ordinary share capital (exclusive of treasury shares), to be used only in connection with an acquisition or specified capital investment. The Pre-Emption Group's Statement of Principles defines 'specified capital investment' as meaning one or more specific capital investment related uses for the proceeds of an issuance of equity securities, in respect of which sufficient information regarding the effect of the transaction on the Company, the assets the subject of the transaction and (where appropriate) the profits attributable to them is made available to shareholders to enable them to reach an assessment of the potential return.

Accordingly, and in line with the template resolutions published by the Pre-Emption Group, resolution 12 seeks to authorise the directors to allot new shares and other equity securities pursuant to the authority given by resolution 11, or sell treasury shares, for cash up to a further nominal amount of £252,000, being approximately 5% of the total issued ordinary share capital of the Company as at 9 March 2018, only in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. If the authority given in resolution 12 is used, the Company will publish details of the placing in its next Annual Report. If these resolutions are passed, the authorities will expire at the end of the next AGM or on 19 July 2019, whichever is the earlier.

The Board considers the authorities in resolutions 11 and 12 to be appropriate in order to allow the Company flexibility to finance business opportunities or to conduct a rights issue or other pre-emptive offer without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board does not intend to issue more than 7.5% of the issued share capital of the Company for cash on a non pre-emptive basis in any rolling three-year period (other than in connection with an acquisition or specified capital investment as described in the Pre-Emption Group's Statement of Principles) without prior consultation with shareholders.

Authority to purchase own shares

Resolution 13 seeks authority for the Company to make market purchases of its own ordinary shares up to a maximum number of 3,000,000 ordinary shares, representing approximately 15% of the issued ordinary share capital at 9 March 2018. The authority requested would replace a similar authority granted last year and would expire at the end of the 2019 AGM, or if earlier, 19 July 2019.

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.

Notice of general meetings

Resolution 14 is an annual permission request for general meetings, other than the AGM, to be called on 14 clear days' notice. There is no current intention to hold such a meeting but the directors wish to retain the ability to call a meeting on shorter notice if the circumstances should require it. The Companies (Shareholders' Rights) Regulations 2009 specify that approval must be sought from shareholders by special resolution at an annual or subsequent general meeting and the Company would need to make a means of electronic voting available to all shareholders for any general meeting called on less than 21 clear days' notice. If passed, the resolution would remain valid until the end of the 2019 AGM, at which it is intended that a similar resolution will be proposed.

Corporate information

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13 Westwood Way
Westwood Business Park,
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Email: ho@mpac-group.com

Registered number
124855

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

Website
Further information is available at www.mpac-group.com

Timetable
Annual General Meeting
19 April 2018

Payment dates for preference dividend
30 June 2018 and 31 December 2018

Half-year announcement
August 2018

Notes

Notes

Design and production
www.luminous.co.uk

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