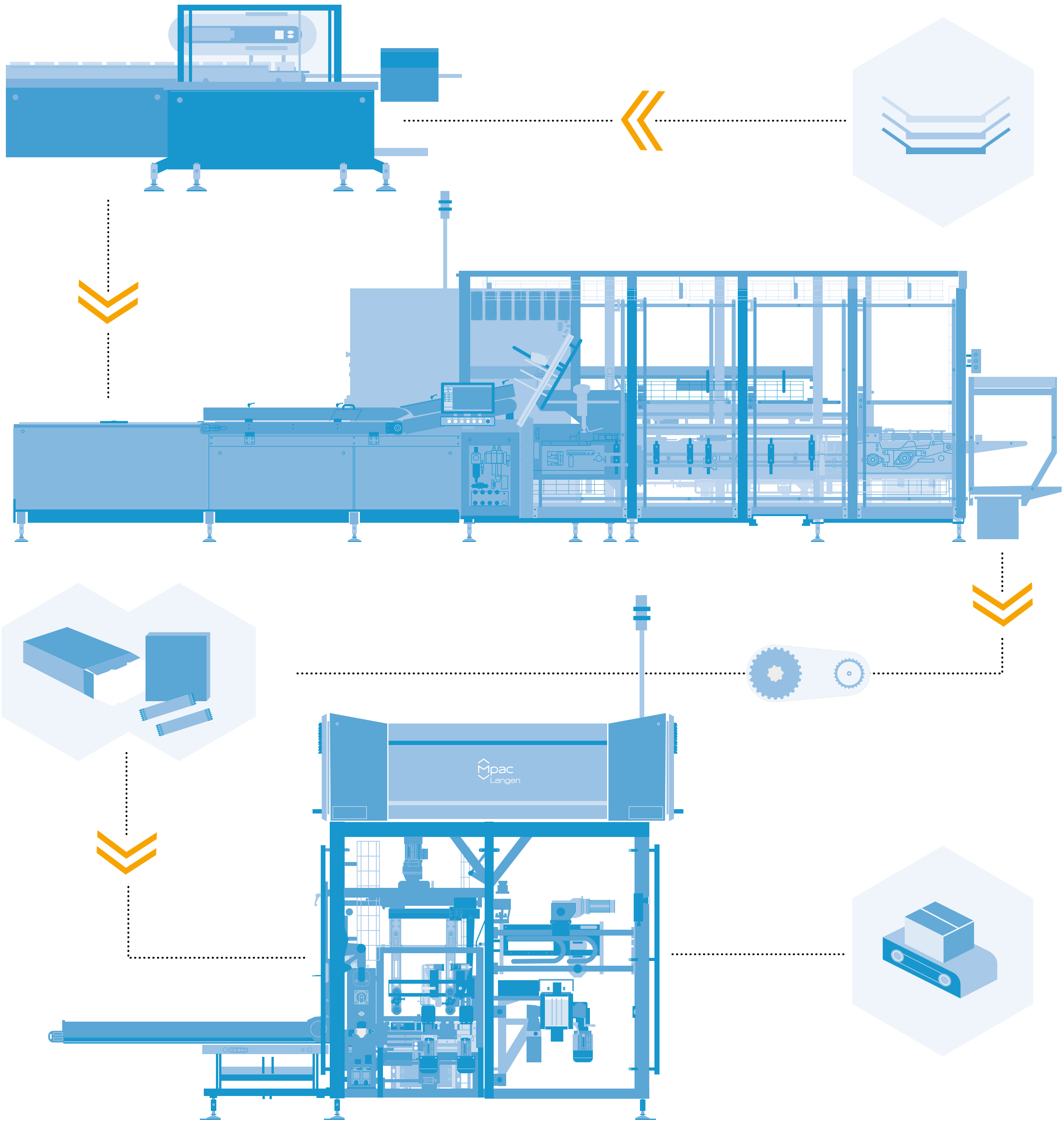
Building on strong foundations

Annual Report and Accounts 2018



Making an iMpacT

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.

Find out more online
mpac-group.com

Highlights

Order Intake
£63.8m
(2017: £61.1m)

Sales[2]
£58.3m
(2017: £53.4m)

Underlying earnings per share[1]
4.5p
(2017: 4.2p per share)

Net cash
£27.0m
(2017: £29.4m)

- Continued progress on the Group's strategic initiatives
- Increase in order intake of 4% and a closing order book 16% higher than at the start of 2018
- Sales growth of 9% to £58.3m (2017: £53.4m)
- Underlying profit before tax of £1.4m (2017: £1.1m)
- Non-underlying GMP equalisation charge of £7.3m (2017: nil)
- Statutory loss before tax from continuing activities of £7.4m (2017: profit £4.3m)
- Underlying earnings per share of 4.5p (2017: earnings of 4.2p)
- Basic loss per share from continuing activities of 30.1p (2017: earnings of 12.2p)
- Net cash of £27.0m (2017: £29.4m)
- The Board has decided not to recommend payment of a final dividend

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

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Our business at a glance

One Mpac

Mpac Group plc, following our strategic review is now entirely focused on the growth of its 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 serves customer needs for Ingenious, Innovative Packaging Machinery encompassing, Make, Pack, Monitor 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 with integrated testing solutions. In addition, we provide complete turnkey solutions including the design and integration of packaging systems.

Our markets

Healthcare

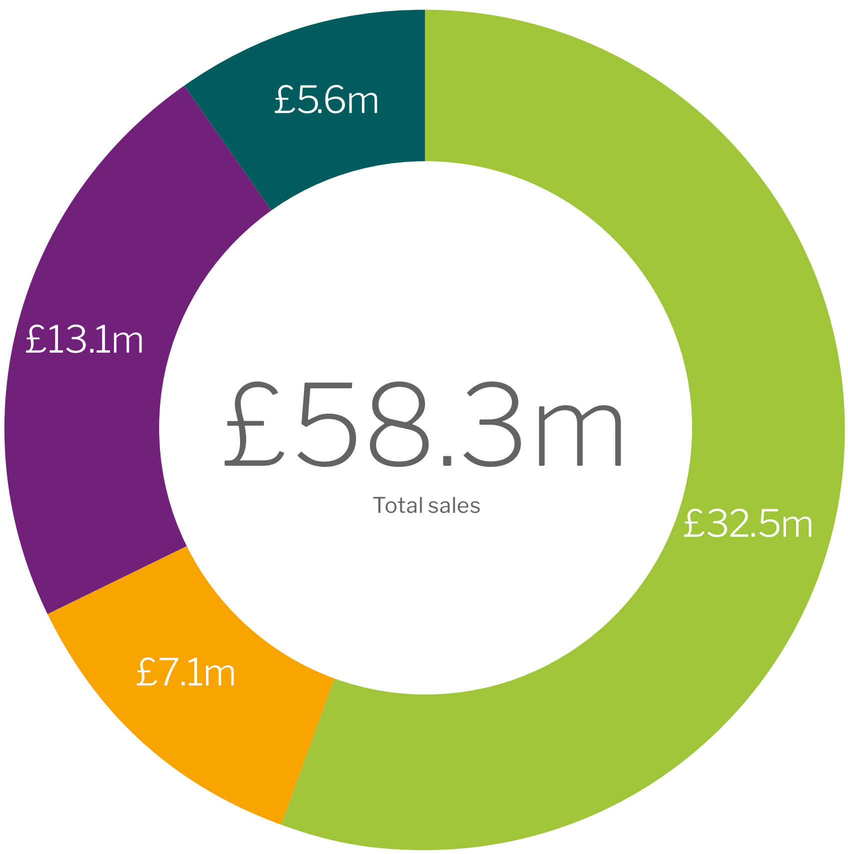
Supporting healthcare industries as diverse as contact lenses, facial tissues and dentifrice. Mpac supplies innovative first-of-a-kind machinery as well as standard packing and testing equipment.

Read more P14

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 and 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

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.

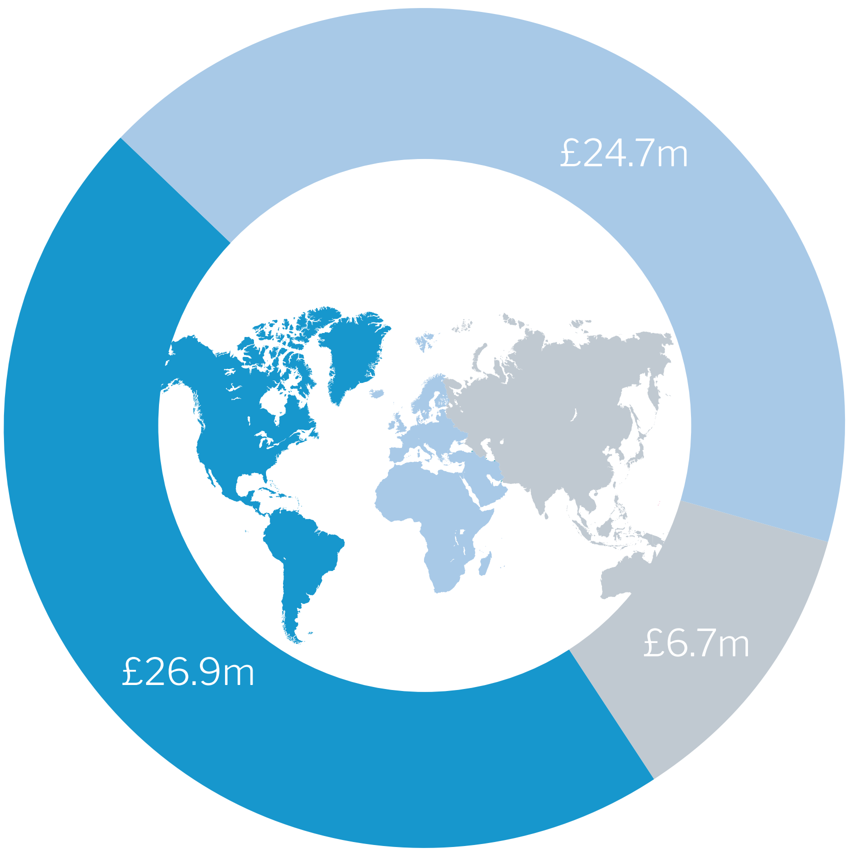
Americas
Established for more than 50 years in the region, the Group operates from its facilities in Ontario, Canada.

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 market (£m)
- Healthcare
- Pharmaceutical
- Food and Beverage
- Other

Sales by region (£m)
- America
- Europe, Middle East & Africa
- Asia Pacific



Chairman's introduction

Andrew Kitchingman
Chairman

Two years ago, the Board appointed a new Chief Executive Officer, Tony Steels, who initiated a strategic review of the business. The output of this review was a clearly defined set of strategic objectives aimed at transforming the performance of the Group over a five-year period.

Two years into this period, I am pleased to be able to report that further good progress has been made against these strategic objectives. Our strategy to focus on high growth Pharmaceutical, Healthcare and Food and Beverage sectors has been enhanced following the successful completion of several technology and product developments during the year and significant progress has been made to improve operational efficiency and productivity.

On pages 25 to 28 I discuss corporate governance and the Board's activities during the year.

Summary of results

Order intake for the Group of £63.8m (2017: £61.1m) was 4% above the prior year's, with a significant proportion of order intake generated by new product developments. Group continuing revenues of £58.3m increased by 9% (2017: £53.4m) while underlying operating profit was in line with revised market expectations at £1.4m (2017: £1.3m). Financial performance in the second half of 2018 was significantly improved compared with a challenging first half.

Group cash ended the year at £27.0m (2017: £29.4m).

Board changes

I would like to welcome Will Wilkins and Doug Robertson to the Board.

Will joined the Board in June 2018 as Group Finance Director, having spent six years working within the Group in both senior finance and operational roles. Previously Will has held senior finance positions at BSH Home Appliances Ltd and Booker Plc.

Doug joined the Board in November 2018 as non-executive director and as Chairman of the Audit Committee, having previously been Group Finance Director of SIG plc, Umeco plc and Seton House Group Limited. He spent his early career with Williams plc in a variety of senior financial and business roles.

I would also like to take this opportunity to thank Phil Moorhouse, who left the Board in April 2018, for the service he provided to the Group since joining in March 2011.

Dividend

Having considered the trading results for 2018, together with the opportunities for investment in the growth of the Group, the Board has decided that it is appropriate not to pay a final dividend. No interim dividend was paid in 2018. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2019 trading performance and when the Board believes it is prudent to do so.

Outlook

I consider that the prospects for the Group over the short and medium term 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 2019.

Andrew Kitchingman
Chairman
4 March 2019

Operating review

Tony Steels
Chief Executive

I am pleased to present my report as Chief Executive of Mpac Group plc. In the past year we have continued to make sound progress with our strategic plans and have delivered top line growth, an improved financial performance and an increased order book. We faced a challenging first half of the year with slower than anticipated order intake and two legacy contract issues, which the management took swift action to resolve and we are now confident we are back on track to achieve our strategic aims. Importantly, we have put in place the foundations to support a higher level of performance.

This past year, we deployed the One Mpac business model across the organisation, we established a number of significant customer relationships and we continued developing repeat business with new and long-term customers.

I am pleased about what has been accomplished, and I am confident that we are on the right track.

Whilst continuing to devote time to visiting our facilities and our customers around the world, this year I have spent more time focussing on developing the Group's innovation and technology roadmap and increasing the bandwidth of the development team to ensure that Mpac continues to offer our customers innovative and future proof solutions.

The Group launched several significant new development projects to the market during 2018 all of which have been extremely well received and commercially successful. In addition, further major development projects have commenced which are forecast to be completed in 2019.

We believe we are well positioned to drive above-market growth well into the future.

Mpac serves customer needs for ingenious, innovative packaging machinery encompassing, Make, Pack, Monitor 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 with integrated testing solutions. In addition, we provide complete turnkey solutions

Operating review continued

including the design and integration of packaging systems.

Mpac's fundamental strengths include:

- Sound long-term growth drivers in our target markets;
- Track record in delivering innovative solutions for our customers;
- Global commercial and services presence providing exceptional service to our customers; and
- An engaged, focussed and highly talented workforce.

Trading

The trading performance for the Group in 2018 was mixed. Overall order intake for the Group grew by 4% to £63.8m, with a significant increase in order intake growth in the second half of 2018.

Group revenues of £58.3m represent an increase of 9% compared to the previous year. Original equipment revenue grew by 14% to £46.2m, supported by strong growth in the Food and Beverage sector. Services revenue fell by 7% to £12.1m as a result of key services resource being dedicated to fulfilling machine installation, especially in the first half of 2018.

We were required to downgrade our 2018 profit expectations in July 2018, largely due to the cost overruns on two legacy contracts. We are pleased to report that underlying profit before tax was in line with these revised market expectations at £1.4m, an increase of £0.3m.

Group net cash ended the year at £27.0m compared to £29.4m in 2017, providing the Group with sufficient funds to invest in the strategic initiatives to deliver profitable growth in future years.

Moving forward, the Group entered 2019 with an order book of £39.8m, an increase of 16% over the December 2017 closing position of £34.4m. As we announced in our half year 2018 statement, we secured orders of significant value for delivery in 2019 and these customer orders represent a significant proportion of the 2018 closing order book.

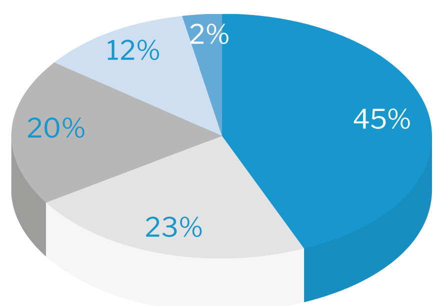
Strategic developments

Further significant progress has been made during 2018 in delivering upon the five-year strategic plan launched in 2017.

I believe that due to these strategic initiatives, the business was able to deliver order intake, revenue and underlying profitability growth above previous years and to close 2018 with a significantly larger closing order book to provide confidence that the recent trajectory will continue into 2019.

Restructuring

During the year the Group took the opportunity to initiate a limited restructuring, mainly focussed upon right sizing the Group administration cost base.



Revenue by geography

- North America
- Europe
- UK
- Asia Pacific
- Rest of the World

Food and beverage market sales

+15%

(2018: £32.5m)

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 percentage revenue growth over the medium term, culminating in delivering an improved Return on Sales, targeted 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.

Sales by region were, Americas £26.9m (2017: £23.2m), EMEA £24.7m (2017: £20.4m) and Asia £6.7m (2017: £9.8m).

Sales by sector were Food & Beverage £32.5m (2017: £28.1m), Healthcare £20.2m (2017: £17.8m) and Pharmaceuticals £5.6m (2017: £7.4m).

Original Equipment (OE)
Overall, the OE division generated a 14% year on year increase in revenue to £46.2m. Order intake in the OE business of £52.0m was £4.0m and 8% ahead of 2017. In the Americas there was a 75% increase in order intake, driven mainly by growth in our main Healthcare market and the significant investment plans by a new customer during the second half of 2018.

EMEA made considerable progress across most markets with packaging solutions, however this progress was offset by slow order intake for our 'first-of-a-kind' solutions in the region, resulting in the order intake for EMEA falling by £8m and 37% compared with 2017. There was also slowdown in order intake in the Asian region, driven mainly by sluggish demand in China which reduced order intake by £1.7m, down 25% compared with 2017.

A strong performance in sales to the Food and Beverage market contributed to Americas OE revenue in the period increasing to £20.5m from £16.4m in 2017.

EMEA sales in the period were £20.1m compared with £15.8m in 2017. The 2017 order intake included the investment plans of a major customer in the Pharmaceutical market which were directed towards Europe, resulting in revenue growth in 2018. Further, the closing order book in 2017 was heavily weighted towards projects for the EMEA region and consequently revenue growth was achieved despite lower OE order intake growth in the region. The closing order book in 2018 was weighted towards the Americas region.

Asia sales, predominantly driven by the Food and Beverage market, reduced to £5.6m compared to £8.2m in 2017.

Gross profit margins in the OE business reduced to 20.1% compared with 22.8% in 2017, with the reduction due mainly to the costs associated with two legacy contracts. The UK legacy contract has been resolved and we have agreed the commercial and technical approach to resolving the Canadian contract which is expected to be finalised during 2019

Overall order prospects remain strong and activity levels across the OE business remain high, such that the business is well positioned moving into 2019.

Service
Order intake for the Service division in 2018 of £11.9m was 9% below 2017. Revenue in 2018 of £12.1m was 7% below 2017. However, during 2018 the Group was successful in finding candidates to fill all vacant management positions across the regions and in expanding the number of field service fee generating technicians, which will give added momentum to the sales projected in 2019. The impact on the trading performance and order pipelines for the Service division of this new team was notable in the final months of 2018.

Americas revenue in the year was £6.4m compared with £6.8m in 2017. EMEA revenue in the year was £4.6m, unchanged compared with 2017. Order intake in the period was broadly in line with sales. Asia sales in the year fell by £0.5m to £1.1m.

The overall Service margin remained broadly unchanged compared with 2017.

Revenue growth

9%

(2018: £58.3m; 2017: £53.4m)

Order intake

£63.8m

(+4% on 2017)

Operating review continued

Outlook

The global marketplace is experiencing rising labour costs, a constant drive towards improved quality and continual time-to-market imperatives. These factors all play well with the value that Mpac delivers. Through the One Mpac business model and a rich history of innovative packaging machinery solutions, we are in an enviable position to serve our customers with efficient, reliable solutions.

Execution of the strategy has made significant progress and we continue to focus on the growth markets in which the Group 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. We continue to evaluate potential complementary acquisition opportunities.

The Group entered 2019 with a stronger order book than the year before and with a broader, updated product portfolio following the commercialisation of several innovation projects. 2019 has started well with order intake for the first two months ahead of the same period last year. With this foundation and a strong operational and management team, the future prospects remain positive.

Strategy Update

Our strategic review identified three key initiatives to drive growth:

Going for Growth

Offering customers comprehensive “Make, Pack, Monitor, 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.

Going for Growth

Our plans were launched in 2017 as part of the five-year strategic plan to develop the business through organic growth in our target markets of Pharmaceutical, Healthcare and Food and Beverage. To enable this, we created a global sales approach under our single entity model, One Mpac, offering innovative packaging machinery solutions from our extensive portfolio of engineered modules.

The sale of the Instrumentation and Tobacco Machinery division in 2017 provided the Group with additional liquidity to finance the delivery of our technology and innovation roadmap which will accelerate progress in achieving our strategic aims with the entire focus of the continuing business being the growth markets of Pharmaceutical, Healthcare and Food and Beverage.

The order book, order intake and revenues were all increased in 2018, continuing the growth profile. The commercial excellence programme deployment continues with new members of our sales team and further development of strategic selling to key accounts was delivered during 2018. Our global reach supported by the new branding and focused business approach enabled us to acquire a significant number of new customer relationships in our target markets.

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

Cross selling of the existing product and service offering to new and existing customers is a clear target, ensuring we better understand their evolving needs and extend our customer proposition with a broader solution approach.

Innovation is key to long term sustainable growth and during the year we launched several new products at the major industry exhibition in Chicago, where we also showcased the new Mpac branding. These new innovations were a significant success factor in developing new business, with customers appreciating the improved performance together with the Industry 4.0 enabled technology.

Make Service a Business

The new Service business operational leadership team was formed during the year, establishing the necessary skills and mindset to generate a best in class service offering to our customers. The on-boarding of the new team and structure was completed during the second half of 2018.

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 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.

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 contracted service programme agreements aimed at customer 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 continues to be a customer focused, responsive and flexible Group achieved through organisational excellence, underpinned by a global supply chain and supported by a single business model, One Mpac.

The Mississauga based business successfully moved to a new facility at the start of the year and has now established an impressive customer orientated facility to showcase new innovations whilst customers participate in new project discussions and packaging machinery acceptance testing.

A key focus during 2018 was to establish the global supply chain partnerships with key organisations that support our global manufacturing footprint. Significant progress has been made to migrate our global engineering teams onto common systems and solutions to further enhance our operational flexibility and efficiency. A common project management platform has also been implemented which enables more effective management of our portfolio of projects.

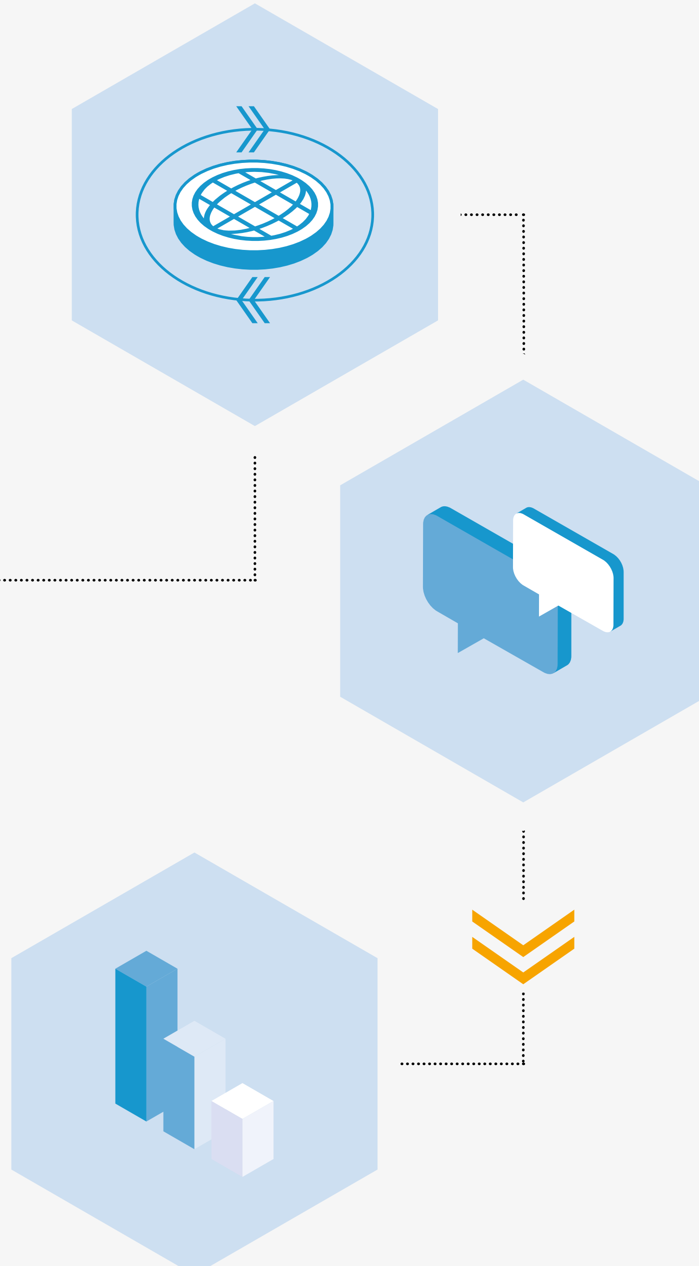
The final part of this solution is the implementation of common business systems (ERP), with the project launch in early 2019.

Mpac business model "One Mpac"

We have operations around the world and industry-leading technologies. None of that is possible, of course, without the intelligence and commitment of our people. Having a highly skilled, technical workforce in place – and ensuring everyone can contribute at his or her highest level and grow in his or her position over the long term – enables us to win as a team. Through One Mpac, we are developing leaders, while engaging and empowering our global workforce. With strong leaders and engaged people, we strengthen the organisation and create value for our customers and shareholders.

Tony Steels
Chief Executive

Product innovation



An innovation and technology roadmap to support our strategy

Mpac has a proud history as a leader of packaging machinery technology and product development. Our strategic review in 2017 identified three key strategic initiatives with our innovation and technology roadmap being key to delivering on the goals of our strategy. Our innovation team is globally located with an impressive track record of new products based on industry renowned engineering and development capabilities.

Our Innovation team provide dedicated resource to execute and deliver our new product development roadmap in addition to supporting our customers to meet their specific innovation needs.

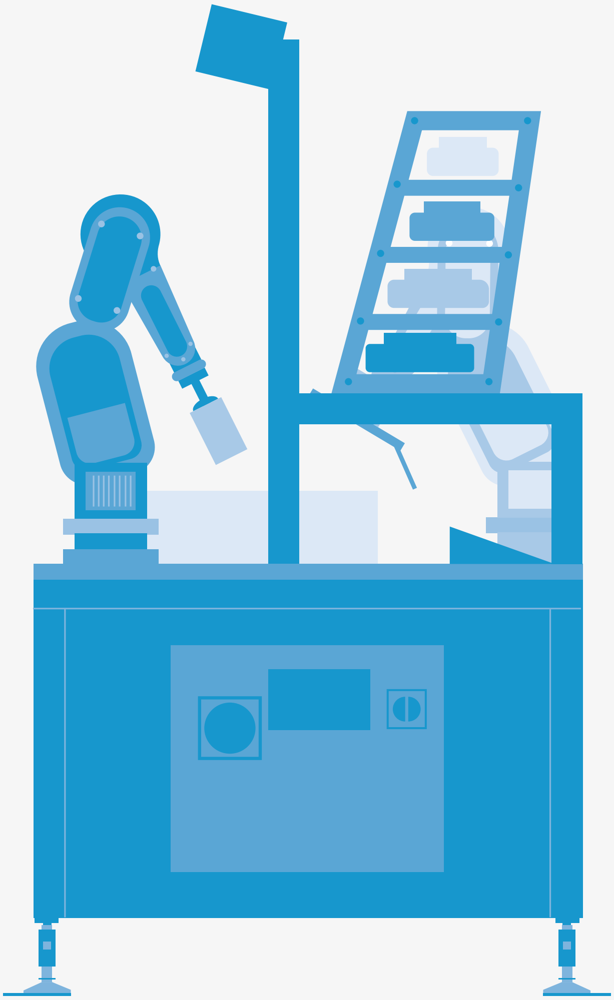
Investment in innovation and development increased significantly in 2018 and will continue as we strive to bring real competitive advantage to our customers.

Read more about our strategy on p14

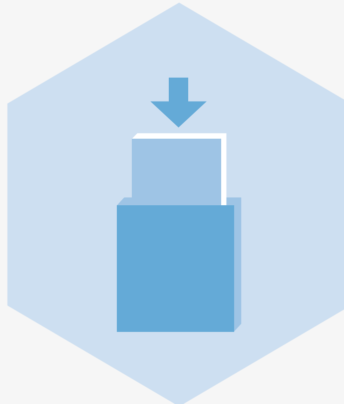
Product development costs capitalised

£0.3m

(2017: £0.1m)



Cartoner 4
Our development platform for the future of cartoning, incorporating infinitely flexible product combinations, collaborative robotics and live data analytics to pick, pack and place.



Orders for 2018 product launches

£24.1m

2018 innovation highlights

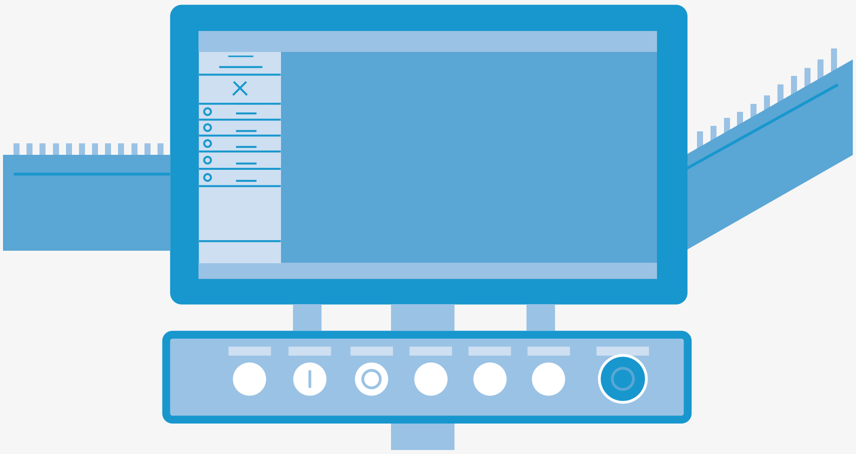
New products launched during 2018 include:

- SOLANO top-load case packer
  - our most successful commercial product launch, the SOLANO enhances our product portfolio as a full solutions provider
- MAESTRO-i indexing cartoner
  - future proofing our indexing cartoner solutions, offering our customers flexible packaging solutions capable of handling multiple SKU's from a standard single machine
- VENTO-i high speed cartoner
  - Based upon the unique high speed VENTO, the VENTO-i offers small footprint, hygienic features, great accessibility and flexibility
- Human Machine Interface
  - Providing customers with a common technology platform to optimise efficiency and productivity

As part of our innovation strategy to ensure our customers benefit from the paradigm shifts in performance offered by Industry 4.0, we are integrating our advanced HMI into all our machines. To exceed our customers' expectations of what Industry 4.0 can offer, the new platform provides the ability to unlock the potential of the vast amount of data generated by the machine during production. This information can then be tailored to suit the customers' specific needs. The resulting benefits include increased machine uptime and enhanced operator usability. 2019 will see these exciting product advances developed further and accompanied by fresh innovations already in the pipeline.

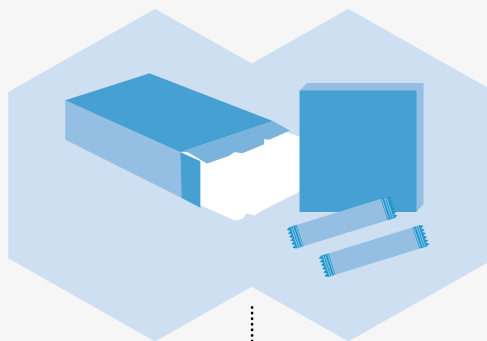
Human machine interface (HMI)
Redesign drives simplicity, speed of use and reduced errors, whilst providing greater control and data collection

Forecast annual growth in product development
35%



Packaging technology that is advanced, intelligent and sustainable

Increasingly, manufacturers need to react to predicted and unpredicted changes in both the packing process and the wider markets in which they operate. The machines they use must accommodate these challenges. To meet current needs and futureproof our customers from the challenges ahead, we design our machinery with features which allow them to identify efficiency and productivity improvements. We are investigating the greater use of innovative packaging materials to reduce the dependence on single-use plastics and increase the range of sustainable packaging machinery solutions for our customers.

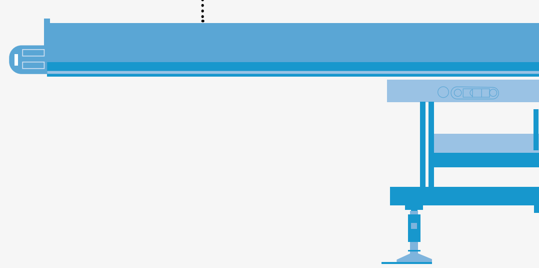


Creating an environment of innovation

Innovation is not possible without creating an environment that nurtures ideas and trust. Through a combination of the great ideas generated by our people, by being close to our customers and by understanding their current and future needs, we generate exciting technology innovations which fuel our strategic targets.

To support the two distinct phases of research and development, we have created Centres of Excellence for primary, secondary and end-of-line packaging at our manufacturing locations. So that we can benefit from the synergies existing between the people in our business, we have created and implemented standard engineering processes and platforms across our innovation and engineering teams. Sharing knowledge, expertise and our people in this way enhances our machine build and delivery, resulting in operational efficiencies. We have strong and growing relationships with thought leaders and academics that alert us to emergent technologies and can be commercialised by applying our unique innovation strategy.

This overarching approach has led to the commercial success of the new 2018 portfolio and underpins the future technology and product pipeline.



To improve customers' operations, reduce their costs and deliver greater product efficiency, internet technologies are being used that capture and analyse machine data. Extending internet connectivity beyond standard devices is shaping the future of ecommerce packaging and increasing the need for products to be packed on demand. Mpac's approach to innovation means we are fully prepared to provide customers with solutions that meet this industry shift.

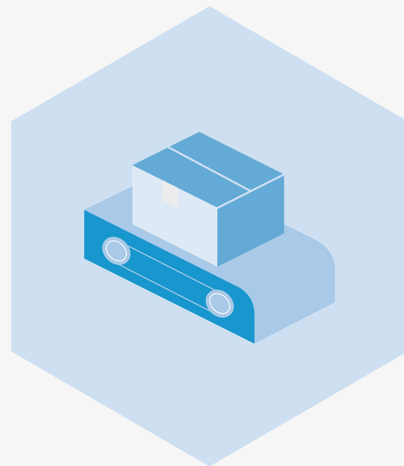
Environmental and economic pressures necessitate flexible packaging processes, creating new opportunities for Mpac. Reduction of packaging material and smaller packaging sizes call for a new solution in the industry. Our innovation strategy is designed to deliver solutions to those challenges known to the industry, with the flexibility to address fresh challenges and disruptors when they arise.

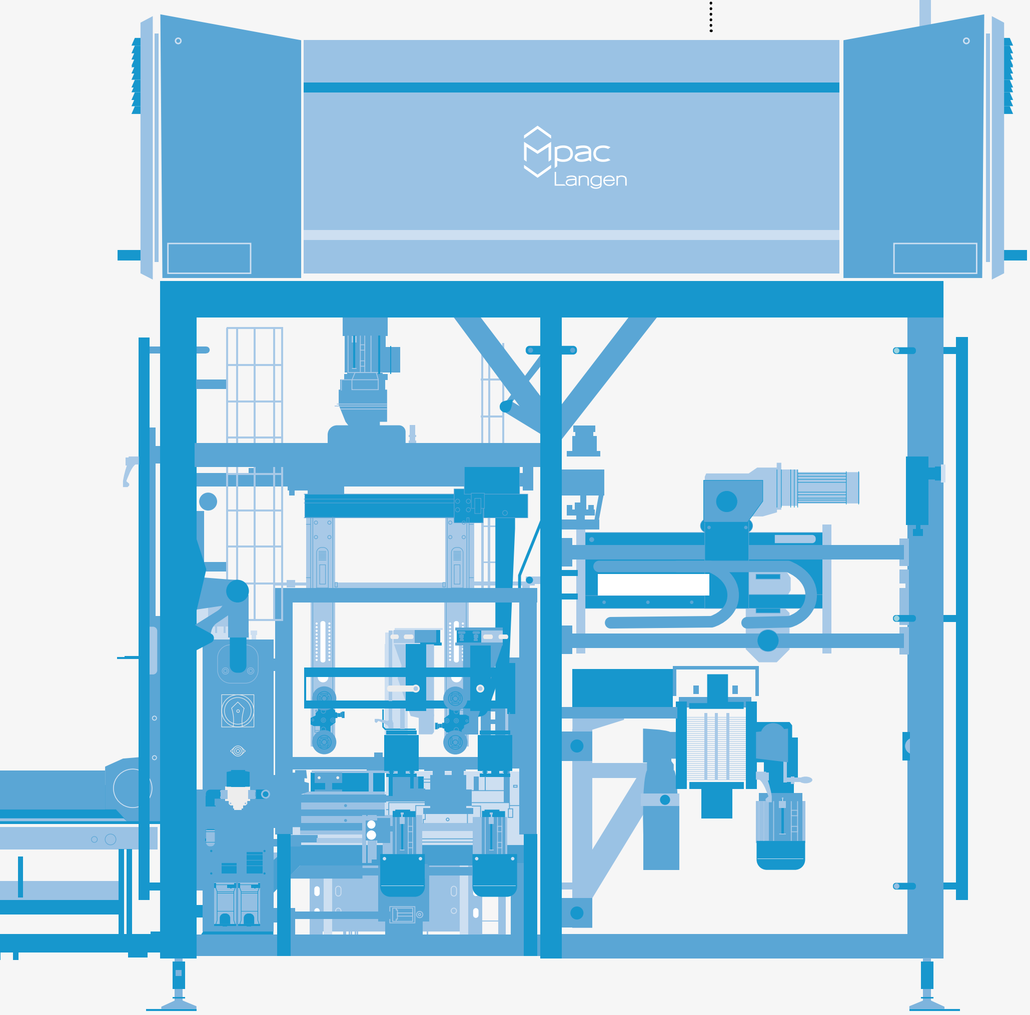
Forecast engineering team growth

30%

Solano

The new generation of top-load case packer – faster, more flexible and designed for data reporting.





The future of packaging automation: Cartoner 4.0

We showcased the launch of our most exciting innovaton, Cartoner 4.0 prototype at Packexpo 2018 Chicago alongside the Solano and Maestro-i. This innovative, intelligent and uniquely flexible automated cartoner generated huge customer interest and feedback both during and after the show. The cartoner uses two collaborative robots to pick and place varying batch sizes and product types without the need for adjustment. This solution, seamlessly processing a variety of products, is perfectly suited to cope with the changing face of e-commerce warehouse distribution.

As leaders in packaging automation innovation, with a supportive environment for new product development, we can imagine and create solutions like Cartoner 4.0. Addressing emergent market challenges in this way enables us to meet customer needs before they even know they exist.

Business model and strategy

Our 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;

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.

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.

Food and 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.

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.

Sustainability through the introduction of recyclable packaging materials will become another market opportunity in the future as development of new materials are progressively introduced into the industry. Changes to packaging material properties will necessitate upgrades or changes to packaging machinery equipment to maintain high performance.

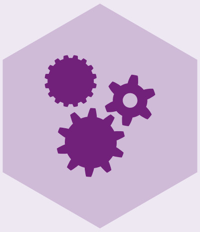
The extensive product range of process and packaging machinery solutions supports the whole Make, Pack, Monitor, Service cycle. This encompasses primary packaging, secondary packaging, instrumentation and servicing of equipment. Our Mpac Langen brands have solutions focused on the Pharmaceutical, Healthcare and 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, with the new product introductions in the previous year, to support the increased market demand for data capture and product traceability throughout the production process.

Customer focused, responsive and flexible through operational excellence underpinned by a global competitive supply chain and internal activities optimised to maximise efficiency;

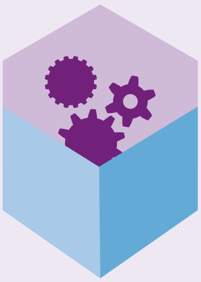
Address our customers' unmet needs by leveraging market leading technology, innovation and application know-how.

Business model



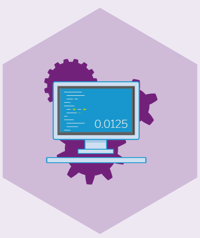
Make

Creating and enabling new ideas that give a competitive advantage and keep customers at the forefront of their markets.



Pack

Provider of high speed processing and packing technologies that drive business performance and long-term value.



Monitor

Condition monitoring technologies are incorporated into the solutions we provide to ensure product quality and compliance.

Service

Providing lifetime service and sustaining excellence, globally, quickly and efficiently.

The One Mpac business model was introduced in 2018 aimed at ensuring we deliver consistent high quality services to our customers globally and wherever they choose to locate a manufacturing site.

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.

The implementation of our One Mpac business model is well progressed covering contract engineering and project management. During 2019 we will focus on procurement and manufacturing, through 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 group is now able to exploit synergies, 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.

Business model and strategy continued

Strategic priorities

Going for Growth

2018 progress

- Innovation and new product launches
- New customer acquisition
- Brand marketing development
- Pipeline management

Future plans

- New customer acquisition
- Sales coaching and performance management
- New product development
- Full and cross solution selling

Make Service a Business

2018 progress

- Management team on-boarding
- Expansion of field service footprint
- Promote contractual agreements
- Focussed operational excellence
- Recruitment, training of key resources

Future plans

- Upgrade programmes
- Promote contractual agreements
- Life-cycle ROI proposition
- Develop rental revenue stream
- Leverage installed base

Operational Efficiency

2018 progress

- Global supply chain and outsourced standard model build
- Progress on shared engineering systems
- Common project management processes and systems
- Cross business project collaboration

Future plans

- Flexible project engineering resourcing
- Phased ERP launch
- Supply chain management efficiency
- 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. A detailed review of the customers has been undertaken 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 sustained growth in the large and attractive markets we operate in. Our current product development roadmap is under continued review to ensure it is realigned to effectively support customer trends in the identified growth markets.

Innovations to the current product range were launched successfully during 2018 with further launches 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.

One Mpac business model with 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

William Wilkins
Group Finance Director

Revenue and operating results

Group revenue in the year from continuing operations was £58.3m (2017: £53.4m). Sales in the Original Equipment (OE) division were £46.2m (2017: £40.4m) and gross profit was £9.3m (2017: £9.2m). Sales in the Service division were £12.1m (2017: £13.0m) and gross profit was £4.7m (2017: £5.3m). Underlying selling, distribution and administration costs were £12.6m (2017: £13.2m).

The additional cost provided against the two legacy contracts in the year amounted to £1.1m.

Underlying operating profit was £1.4m (2017: £1.3m). Underlying profit after tax was £0.9m (2017: £0.8m). Statutory loss for the period was £6.0m (2017: £1.6m profit).

Non-underlying items

The non-underlying loss before tax for the year was £8.8m (2017: profit £3.3m). This comprised £7.3m (2017: nil) of past service costs for GMP pension scheme equalisation, £0.9m (2017: £0.8m) of administration costs relating to the Group's defined benefit pension schemes and reorganisation and restructuring costs of £0.8m (2017: £0.7m). In 2017 a profit of £4.8m was realised on the sale of property in Canada. Financing income/expense on pension scheme balances is also considered to be a non-underlying item.

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 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 small number of restructuring initiatives during the year to reduce overheads, with changes made within the UK Head Office and the Coventry and Mississauga sites.

Interest and taxation

Net financing income was £0.2m (2017: expense £0.3m), which includes a net financing income of £0.2m (2017: £0.1m financing expense) on pension scheme balances. The tax charge on underlying profit before tax was £0.5m (2017: £0.3m), an underlying effective rate of 36% (2017: 27%). The total tax credit on the Group's profit before tax was £1.4m (2017: £1.9m tax charge).

Dividends

Having considered the trading results for 2018, together with the opportunities for investment in the growth of the Group, the Board has decided that it is appropriate not to pay a final dividend. No interim dividend was paid in 2018. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2019 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 £27.0m (2017: £29.4m). Net cash inflow from continuing operations before reorganisation was £1.1m (2017: £5.4m

Financial review continued

outflow), after a decrease in working capital of £1.9m (2017: £2.7m increase) and defined benefit pension payments of £3.0m (2017: £4.9m). Reorganisation payments of £1.0m (2017: £0.8m) were made in the year. Net taxation payments were £1.0m (2017: £0.3m). Capital expenditure on property, plant and equipment was £1.1m (2017: £1.6m) and capitalised product development expenditure was £0.3m (2017: £0.1m).

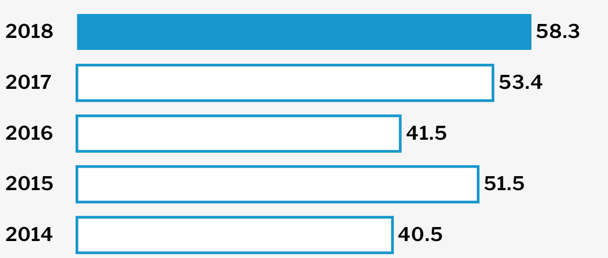
There were no significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (mainly forward foreign exchange contracts)

Reconciliation of profit/(loss) before tax to underlying profit before tax	2018 £m	2017 £m
(Loss) / profit before tax	**(7.4)**	4.3
Defined benefit pension scheme – GMP equalisation past service cost	**7.3**	–
Defined benefit pension scheme administration costs	**0.9**	0.8
Reorganisation costs	**0.8**	0.7
Profit on sale of surplus property	**–**	(4.8)
Net financing expense /(income) on pension scheme balances	**(0.2)**	0.1
Underlying profit before tax	**1.4**	1.1

Key performance indicators

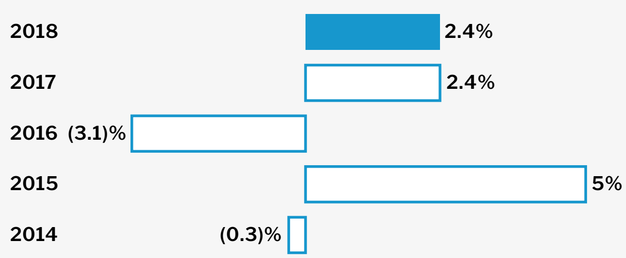
Sales[1]
(£m)

£58.3m



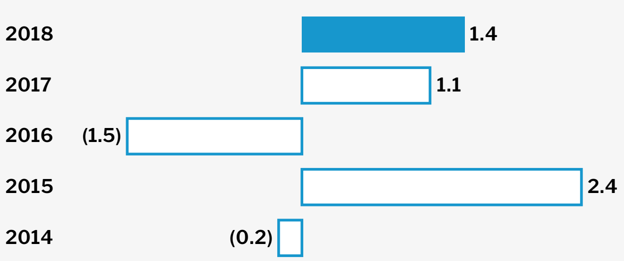
Underlying operating return on sales[1]
(%)

2.4%



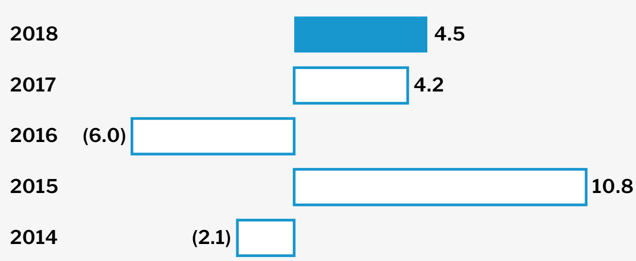
Underlying operating return on sales[1]
(£m)

£1.4m



Underlying EPS[1]
(p)

4.5p



[1] From continuing operations

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 UK 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 three years as follows:

» the Company will continue to pay a sum of £1.9m per annum to the Fund (increasing at 2.1% 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 2018 and was based on the information used for the funding valuation work as at 30 June 2015, updated to reflect both conditions at the 2018 year end and the specific requirements of IAS 19. The smaller USA defined benefit schemes were valued as at 31 December 2018, 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 £20.5m (2017: £17.6m). The value of the scheme's assets at 31 December 2018 was £398.2m (2017: £414.6m) and the value of the scheme's liabilities was £377.7m (2017: £397.0m). The scheme's assets have benefited from strong returns in the year which has increased the scheme's surplus.

Following a High Court ruling in October 2018, the company has recognised a non-underlying charge of £7.3m in respect of increased future liabilities relating to GMP equalisation. The precise method to be used to equalise the benefits will be agreed between the trustee and the company in due course.

The accounting valuations of the USA pension schemes showed an aggregated net deficit of £6.2m (2017: £6.2m) with total assets of £16.3m (2017: £16.7m).

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 £1.9m 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 from the sale of the Instrumentation and Tobacco Machinery 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 £0.9m (2017: £0.8m). The net financing income in respect of the schemes was £0.2m (2017: expense £0.1m).

During the year the Company made payments to the UK defined benefit scheme of £1.9m (2017: £1.8m) in respect of the deficit recovery plan. The Company paid a one-off amount to the Fund of £0.1m (2017: £2.4m), representing 10% of the net proceeds in the year (after costs and taxation) from the sale of the Instrumentation & Tobacco Machinery division. Payments of £1.0m (2017: £0.7m) were made to the USA schemes in the year.

Equity

Group equity at 31 December 2018 was £40.6m (2017: £42.8m). The movement arises mainly from the net actuarial gains in respect of the Group's defined benefit pension schemes of £5.4m, a loss for the period of £6.0m, and currency translation losses on foreign currency net investments of £1.6m; all figures are stated net of tax where applicable.

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 and Food and Beverage industries. Such potential changes include those arising as a consequence of governmental activities, such as regulation and taxation. Additionally, the impact on the Group of the UK leaving the EU 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. Brexit risk is mitigated by matching the locations of customers and production, along with limited reliance upon the UK market.
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 2018, the Group holds net cash balances of £27.0m. 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 £377.7m at 31 December 2018 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 £398.2m at 31 December 2018, 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 as distributable profits. The Group has responsibility for the adequate funding of the pension schemes and is currently paying to the UK scheme £1.9m 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 which 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 Corporate Governance statement

Andrew Kitchingman
Chairman

Following a review earlier in the year, the Board has decided to apply the QCA Corporate Governance Code, an updated version of which was published in April 2018.

As Chairman, I am responsible for leading the Board and upholding high standards of corporate governance throughout the Group and particularly at Board level. It therefore gives me pleasure to introduce our governance statement.

The Company is listed on AIM and since September 2018 has been required to provide a statement of its compliance with a recognised corporate governance code. The Directors share the view that sound governance is fundamental to the successful growth of the business. After the Company's admission to AIM in 2014, the Board continued to follow the principles of the UK Corporate Governance Code, as appropriate to the size and nature of the Group. Following a review earlier in the year, the Board has decided to apply the QCA Corporate Governance Code, an updated version of which was published in April 2018 (the "New QCA Code").

Compliance with the QCA Code:
The Board believes that it applies the ten principles of the New QCA Code but recognises the need to continue to develop governance practices and disclosures in some areas in order to ensure we continue to apply the principles going forwards. The policies, procedures and relevant systems we have implemented to date have given us a firm foundation for our governance structure, which is described on page 23. The Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group.

Deliver Growth
The Board has collective responsibility for setting the strategic aims and objectives of the Group. Our strategy is articulated on pages 14 to 16 and on our website. In the course of implementing our strategic aims, the Board takes into account expectations of the Company's shareholder base and also its wider stakeholder and social responsibilities.

The Board also has responsibility for the Group's internal control and risk management systems. The Board regularly reviews the risks faced and ensures the mitigation strategies in place are the most effective and appropriate to the Group's operations.

Dynamic Management Framework

As Chairman, I consider the operation of the Board as a whole and the performance of the directors individually, regularly. The directors attend seminars from time to time as appropriate and have regular updates at Board meetings to assist with training and awareness of compliance issues facing boards of quoted companies. The Board carries out a formal review annually in respect of its performance over the previous year. The evaluation is informed by detailed questionnaires completed by each director. All appointments to the Board will be on merit, but with due consideration to the need for diversity on the Board. Such appointments will be made to complement the existing balance of skills and experience on the Board.

The Company operates an open and inclusive culture and this is reflected in the way that the Board conducts itself. The Non-Executive Directors regularly attend the Group's offices and other Group events. With a relatively small employee base, such interactions mean it is relatively straightforward for the Board to promote and assess the desired corporate culture. We recognise this is an area for development and we intend to further develop our culture during the course of the year.

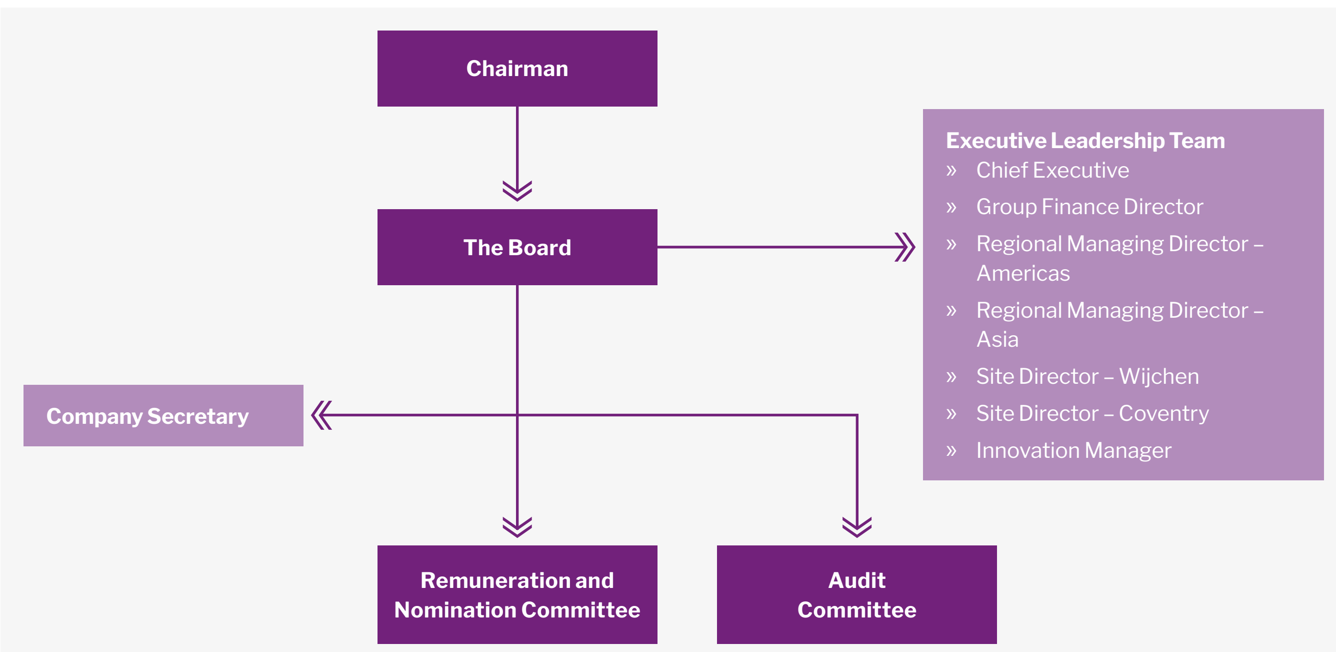
Build Trust

During the year the Board has continued to review governance and the Group's corporate governance framework. The Board will continue to monitor its application of the QCA Code and revise its governance framework as appropriate as the Group evolves.

The Board recognises the importance of maintaining regular dialogue with institutional shareholders to ensure that the Group's strategy is communicated and to understand the expectations of our shareholders.

Andrew Kitchingman
Chairman
Mpac Group plc
4 March 2019

Our Board and Committee Structure



Board of Directors

1 Andrew Kitchingman FCA
Independent Non-Executive Chairman

Appointment: Andrew Kitchingman was appointed Chairman of the Board on 19 April 2018. He joined the Board on 11 May 2016 as a non-executive director.

Committees: Member of the Audit Committee and Remuneration and Nomination Committee.

Skills and experience: Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales and formerly worked in senior positions in corporate finance with a number of firms, including KPMG, Hill Samuel, Albert E Sharp, Brewin Dolphin and WH Ireland.

Key strengths:
- Strong experience of financial control and good corporate governance
- Expertise in equity and debt capital raising
- Mergers & acquisitions

Other commitments: Non-executive director of Andrew Sykes Group plc, Morhomes plc, Lon-Pro Holdings plc and Incommunities Group Limited and a director of The Cathedral Choir School Ripon Limited.

2 Dr Tony Steels
Chief Executive

Appointment: Tony Steels joined the Company and was appointed to the Board as Chief Executive on 6 June 2016.

Skills and experience: Tony previously held a number of senior UK and international management positions, most recently at Cytec Industries, Umeco plc and Georg Fischer AG. He has degrees in both Engineering and Management augmented with over 30 years Industrial management experience.

Key strengths:
- Capital Equipment Industry experience of more than 15 years
- Delivery of strategic transformations and sustainable profitable growth
- Extensive senior executive international business development
- Selection and development of high-performance leadership teams

3 Will Wilkins FCCA
Group Finance Director

Appointment: Will Wilkins joined the Mpac Group Board as Group Finance Director on 22 June 2018.

Skills and experience: Will is a chartered certified accountant and prior to his appointment, he held a variety of senior positions with the Company including Group Financial Controller and Group Operations Director. He previously held a senior financial position at BSH Home Appliances and began his career at Grant Thornton in 1992.

Key strengths:
- Extensive experience at improving business systems, processes and controls
- More than 25 years proven track record as a senior finance professional with strong financial reporting discipline
- Cross functional practical experience in operations and finance

4 John Davies
Independent Non-Executive Director

Appointment: John Davies joined the Board on 27 January 2011 as a non-executive director.

Committees: Chairman of the Remuneration and Nomination Committee and member of the Audit Committee.

Skills and experience: John 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.

Key strengths:
- Proven track record of developing companies through acquisition and mergers
- International business experience
- Strong financial analysis and financial control skills
- Experience of negotiating and managing joint ventures

Other commitments: Non-executive director of Redde plc.

5 Doug Robertson
Independent Non-Executive Director

Appointment: Doug Robertson joined the Mpac Group Board on 1 November 2018 as a non-executive director.

Committees: Chairman of the Audit Committee and member of the Remuneration and Nomination Committee.

Skills and experience: Doug was Group Finance Director of SIG plc until he retired from the role in January 2017. Prior to joining SIG, Doug was Group Finance Director of Umeco plc and Seton House Group Limited. He spent his early career with Williams plc in a variety of senior financial and business roles.

Key strengths:
- Extensive multinational financial management experience in both public and private companies
- Strategic planning
- Acquisitions and divestments

Other commitments: Non-executive director at HSS Hire Group plc and Zotefoams plc.

Corporate Governance report

Composition and independence of the Board

The Board consists of five directors: the Non-Executive Chairman, two executive directors and two non-executive Directors. All of the non-executive Directors are considered independent, as assessed by reference to larger company corporate governance codes.

Details of each Director's experience and background are given in their biographies on page 24. The skill-set and experience of Board members is relevant for the current position of the Company and covers areas including financial management and control, capital raising, capital goods industries, banking, engineering, strategic planning, business development, mergers and acquisitions and international management.

Appointments to the Board and re-election

Phil Moorhouse resigned as Non-Executive Chairman of the Company on 19 April 2018. Will Wilkins joined the Board as Group Finance Director on 22 June 2018 following the resignation of Jim Haughey as Group Finance director on 22 June 2018. Doug Robertson was appointed to the Board as an independent Non-Executive Director on 1 November 2018.

The Board has delegated the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors to the Remuneration and Nomination Committee. Further details on the role of the Remuneration and Nomination Committee may be found on page 32.

As directors appointed during the year, both Will Wilkins and Doug Robertson will stand for election at the 2019 Annual General Meeting and the remaining directors will offer themselves for re-election, in accordance with best practice in corporate governance.

The Board considers all directors to be effective and committed to their roles.

Division of responsibilities

The Chairman and Chief Executive have separate, clearly defined roles. The Chairman is responsible for overseeing the Board and the Chief Executive is responsible for implementing the Group's strategy and for its operational performance.

Executive directors

The executive directors are full time employees of the Company and have entered into service agreements with the Company.

Non-Executive directors

Each of the non-executive directors has entered into a letter of appointment with the Company which set out the duties of the Director and commitment expected. They are expected to commit at least 24 days per annum to their role and are specifically tasked with:

» bringing independent judgement to bear on issues put to the Board;
» applying their knowledge and experience in considering matters such as strategy, company performance, use of resources and standards of conduct; and
» ensuring high standards of financial probity and corporate governance.

How the Board operates

The Board is responsible for:

» developing 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.

The Board retains control of certain key decisions through the schedule of matters reserved for the Board. It has delegated other matters, responsibilities and authorities to each of the Audit and Remuneration and Nomination Committees and these are documented in the Terms of Reference of each of those committees. Anything falling outside of the schedule of matters reserved or the committee Terms of Reference falls within the responsibility and authority of the Chief Executive, including all executive management matters.

Day to day management of the Company's business 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.

Corporate Governance report continued

The Board meets at regular intervals and met seven times during the year. Directors also have contact on a variety of issues between formal meetings and there is also regular contact with the Executive Leadership Team.

An agenda and accompanying detailed papers, covering key business and governance issues and including reports from the Executive Directors and other members of senior management, are circulated to the Board in advance of each Board meeting. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. A calendar of matters to be discussed at each meeting is prepared to ensure that all key issues are captured.

At each meeting, the Board reviews comprehensive financial and trading information produced by the management team and considers the trends in the Company's business and its 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.

All Directors are expected to attend all meetings of the Board and any committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Where Directors are unable to attend a meeting, they are encouraged to submit any comments on paper to be considered at the meeting to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Directors are encouraged to question and voice any concerns they may have on any topic put to the Board for debate. The Board is supported in its work by Board Committees, which are responsible for a variety of tasks delegated by the Board. There is also an Executive Leadership Team composed of the Chief Executive and Group Finance Director and representatives from senior management whose responsibilities are to implement the decisions of the Board and review the key business objectives and status of projects.

Attendance at Board and Committee meetings by the Directors is shown below. In addition, there was a short Board meeting to convene the General meeting which was held on 22 January 2018 in respect of the change of Company name to Mpac Group plc.

	Board	Audit Committee	Remuneration and Nomination Committee
Andrew Kitchingman	7/7	4/4	5/5[5]
John Davies	7/7	4/4	7/7
Doug Robertson[2]	1/1	1/1	1/1
Tony Steels	7/7	–	–
Will Wilkins[1]	3/3	–	–
Phil Moorhouse[3]	3/3	2/2	2/2
Jim Haughey[4]	4/4	–	–

1 Appointed to the Board on 22 June 2018
2 Appointed to the Board on 1 November 2018
3 Resigned from the Board on 19 April 2018
4 Resigned from the Board on 22 June 2018
5 Andrew Kitchingman did not attend the Remuneration and Nomination Committee meetings in which the appointment of Chairman and his remuneration were discussed.

The main activities of the Board during the year

There are a number of standing and routine items included for review on each Board agenda. These include the Chief Executive's trading update, operations reports, financial reports, governance and investor relations updates. In addition, key areas put to the Board for consideration and review included:

- approval of annual and half year report and financial statements;
- budget review;
- going concern and cash flow;
- approving capital expenditure on new projects;
- consideration of banking arrangements;
- investor relations;
- acquisitions;
- review of corporate governance and QCA Code compliance;
- review of AGM business;
- outcomes from the Board evaluation process; and
- briefings and review of conflicts of interest.

During the year, a strategy meeting was held with members of the Board and senior management, giving the Board greater visibility and understanding over the Company's business and the steps being taken to execute its strategy. Board meetings are held at the Group's facilities in Wijchen, the Netherlands and Mississauga, Ontario, Canada and the Chairman and non-executive directors are invited to participate in senior leadership meetings.

The Board Committees
During the year, the Board agreed to amalgamate the Remuneration Committee and the Nomination Committee into one Committee. There are therefore two Board Committees, the Audit Committee and the Remuneration and Nomination Committee. Both Committees are composed of the three Non-Executive Directors.

Each committee has approved Terms of Reference setting out their responsibilities which were reviewed and approved by the Board during the year and are available on the Company's website www.mpac-group.com.

Details of the operation of the Board Committees are set out in their respective reports below. All of the Board Committees are authorised to obtain, at the Company's expense, professional advice on any matter within their Terms of Reference and to have access to sufficient resources in order to carry out their duties.

External Advisers
The Board seeks advice on various matters from its nominated adviser, Panmure Gordon & Co. The Board also uses the services of an external company secretarial provider, Prism Cosec. Prism Cosec was appointed Company Secretary for the year under review. The Board decided to make an internal appointment from 1 January 2019 and Duncan Tyler was appointed Company Secretary.

Development, information and support
Directors keep their skillset up to date with a combination of attendance at industry events, individual reading and study and experience gained from other board roles. The Company Secretary ensures the Board is aware of any applicable regulatory changes and updates the Board as and when relevant. Directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. Directors also have direct access to the advice and services of the Company Secretary.

The Company Secretary supports the Chairman in ensuring that the Board receives the information and support it needs to carry out its roles.

Directors' induction
When Directors join the Board, they receive an induction covering topics such as the operation of the Board, Directors' responsibilities, insider dealing, AIM Rules and governance documents.

Conflicts of interest
Under the Articles, the Directors may authorise any actual or potential conflict of interest a Director may have and may impose any conditions on the Director that are felt to be appropriate. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and they are not counted in the quorum.

A process is in place to identify any of the Directors' potential or actual conflicts of interest.

Performance evaluation
The Chairman considers the operation of the Board and performance of the Directors on an ongoing basis as part of his duties and will bring any areas of improvement he considers are needed to the attention of the Board. The Board carries out an evaluation process each year in respect of its performance over the previous year. The evaluation is informed by a detailed Board effectiveness questionnaire completed by each director with the results being collated and reported to the Board for discussion.

An evaluation process has been undertaken in respect of 2018 and the results discussed by the Board.

Accountability
The Company has in place a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. These procedures include the preparation of management accounts, forecast variance analysis and other ad-hoc reports. There are clearly defined authority limits throughout the Group, including matters reserved specifically for the Board.

Risk management and internal control
Risks throughout the Group are considered and reviewed on a regular basis. Risks are identified and mitigating actions put into place as appropriate. Principal risks identified are set out in the Strategic report on pages 20 to 21. Internal control and risk management procedures can only provide reasonable and not absolute assurance against material misstatement. The internal control procedures were in place throughout the financial year and up to the date of approval of this report.

Financial and business reporting
The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects in all half-year, final and any other ad-hoc reports and other information as may be required from time to time. The Board receives a number of reports, including those from the Audit Committee, to enable it to monitor and clearly understand the Group's financial position.

Corporate Governance report continued

Business Ethics
The Board is committed to the Group operating to the highest standards of ethical behaviour. The Group's Ethics policy sets out certain principles that the Board expects all businesses within the Group to adhere to and certain values that should be embodied in the day-to-day activities of the Group. It expects all employees of the Group, led by the members of the Board and the Group's senior management, to encourage and support all other employees in acting in accordance with the policy. In support of this policy and its principles, the Board has published guidance in the Group Ethics policy, which is available on the Company's website at www.mpac-group.com/mpac-group-policies

Whistleblowing
The Company has a whistleblowing procedure, details of which are provided to all employees. Staff may report any suspicion of fraud, financial irregularity or other malpractice to a senior manager, executive director or an independent help-line. The policy is reviewed by the Audit Committee every year and updated as required. Details of any matters raised under this procedure are reported to the Audit Committee.

Shareholders
The Company welcomes contact with its shareholders and the Group Finance Director's contact details are set out in the Investors section of our website: www.mpac-group.com/investors/ir-contacts

Directors are available to discuss any matters that shareholders might wish to raise. They maintain communication with institutional shareholders, other investors and analysts through meetings, particularly following publication of the Group's interim and full year preliminary results.

Investor relations activity and a review of the shareholder register are quarterly items on the Board's agenda. The Board also regularly receives copies of analysts' and brokers' briefings.

The Company strives to provide a clear, balanced and comprehensive level of information and written material. The Company maintains a corporate website which contains regularly updated regulatory and other information. The annual report and accounts is a key communication document and is also available on the Company's website. The Company also issues both statutory and non-statutory regulatory news announcements throughout the year to update on financial, operational and other matters. The Company offers its larger shareholders, either directly or via its broker, face-to-face meetings on a bi-annual basis at a minimum to present and discuss performance and other matters, and obtain any feedback. These meetings are hosted by the Company's Chief Executive and Group Finance Director. The Company also hosts a briefing for analysts, arranged by the Company's financial public relations adviser, twice a year to coincide with the announcement of its half year and full year financial results to present and discuss the same matters.

All shareholders are encouraged to attend the Annual General Meeting (AGM) at which the Group's activities will be considered and questions answered. The Directors are available to listen to the views of shareholders informally immediately following the AGM.

This year's AGM will be held on Thursday 2 May 2019. The Notice of Annual General Meeting is set out on pages 101 to 107 and will be available on the Company's website at www.mpac-group.com. Separate resolutions are provided on each issue so that they can be given proper consideration.

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 Group's performance in 2018.

Andrew Kitchingman
Chairman
4 March 2019

Audit Committee report

Doug Robertson
Chairman of the Audit Committee

I am pleased to present my first report as Chairman of the Audit Committee for the year ended 31 December 2018.

Membership

The Committee's members are the non-executive directors, whose biographies are set out on page 24. Andrew Kitchingman stood down as Chairman of the Committee and I was appointed in his place on my appointment to the Board on 1 November 2018. Andrew remains a member of the Committee, together with our fellow non-executive director, John Davies. The members of the Committee are all independent, non-executive directors.

Meetings and attendance

The Committee met four times during the year. All members of the Committee at the time of each meeting were present at the meetings. 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 considered) are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

Duties

The duties of the Committee are as set out in its Terms of Reference which are available on the Company's website at www.mpac-group.com. The Terms of Reference are reviewed annually and approved by the Board.

The main items of business considered by the Committee during the year included:

- review of the year-end audit plan, and consideration of the scope of the audit, Group accounting policies and the external auditor's fees
- review of the annual report and financial statements, including consideration of the significant accounting issues relating to the financial statements, and the going concern review
- consideration of the external audit report and management representation letter
- review and approval of the interim financial statements and the external auditor's report
- review of the risk management and internal control systems
- assessment of external audit effectiveness
- review of the internal audit function
- review of whistleblowing arrangements
- review of the Committee's Terms of Reference

External auditor

In our 2017 annual report, the Committee stated its intention to hold a competitive tender for external audit services during the year, due to the long tenure of KPMG LLP as auditors of the Group and as the Senior Statutory Auditor was due to change under KPMG's internal policy of rotating audit partners every five years. The tender process was duly conducted by the Committee Chairman, the Group Finance Director and members of the Finance team, with three audit firms being invited to present their proposals. On completion of the tender process, a recommendation was made to the Board to appoint Grant Thornton UK LLP as external auditor following the announcement of the half year results in September 2018.

Having reviewed the auditor's independence and performance to date, the Committee has recommended to the Board that they should be re-appointed for the 2019 audit. A resolution to appoint Grant Thornton UK LLP as the Company's auditor is to be proposed at the forthcoming Annual General Meeting on Thursday 2 May 2019.

Policies for non-audit services and engagement of former employees of the external auditor

The Committee has developed policies relating to the employment of former employees of the external auditor and the engagement of the auditors, or advisors related to the auditors, on non-audit services. These policies, which have been adopted formally by the Board, require, inter alia, the Committee's consent to material engagements or any employment, with appropriate confirmation of independence from the auditors.

External financial reporting

The committee reviews all areas of the Group's external financial reporting, with particular focus on judgemental areas such as going concern, pension fund valuation and contract accounting.

Audit process

The external auditor prepares an audit plan for its review of the full-year financial statements, and the audit plan is reviewed and agreed in advance by the Committee. Prior to approval of the financial statements, the external auditor presents its findings to the Committee, highlighting areas of significant financial judgement for discussion.

Internal audit

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 reviewed adequately. The Committee also approves the internal audit work plan each year. This function is part of the Group's 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.

During the year, the principal activities have included a review of the internal audit provision, incorporating the use of external specialists and in-depth support to one of the Group's key sites.

Risk management and internal controls

The Group has established a system of risk management and internal controls. The Committee is responsible for reviewing the systems of risk management and internal control and has reviewed management's progress in implementing and maintaining such control systems during the year. The Committee is satisfied that the internal control systems are operating effectively.

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;

- 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.

Whistleblowing
The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is an annual item on the Committee's agenda, and any reported incidents will be notified to the Committee. During the year under review, there were no reported incidents.

Activities during the year
A summary of the Committee's principal activities in 2018 is set out below.

Doug Robertson
Chairman of the Audit Committee
4 March 2019

Month	Principal activities
March	» Review of financial reporting, including material judgements and estimates, goodwill impairment review assumptions, going concern assumptions, draft Annual Report and Accounts 2017, governance reports, draft preliminary results announcement, representation letter to the external auditors and the audit report. » Consideration of the external auditors' activities, effectiveness, objectivity and independence. » Consideration of the re-appointment of KPMG LLP as external auditors. » Review of internal controls and risk management processes and environment.
April	» Approval of the internal audit work plan for the year. » Consideration of the effectiveness of the external audit process. » Consideration of external audit tender process. » Review of internal controls and risk management processes and environment
September	» 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. » Consider the outcome of the external audit tender process and the appointment of Grant Thornton UK LLP as external auditors.
November	» Appointment of Committee Chairman » Review and approval of the external audit plan for 2018 financial reporting. » Consideration of and approval of external audit fee quotation for 2018 financial reporting. » Review of financial controls and accounting policies. » Consider approach to resourcing of internal audit function » Review of internal controls and risk management processes and environment. » Review of Committee terms of reference for Board approval » Review of whistleblowing arrangements.

Remuneration and Nomination Committee report

John Davies
Chairman of the Remuneration and Nomination Committee

The Committee deals with all aspects of remuneration of the executive directors and certain senior managers and identifying and nominating members of the Board.

During the year, the Board agreed to amalgamate the Remuneration Committee and the Nomination Committee into one joint Committee. As Chairman of the Remuneration and Nomination Committee (the Committee) and on behalf of the Board, I am pleased to present our report which is presented in three sections: the Remuneration and Nomination Committee report, the Remuneration report and the forward-looking Remuneration policy.

The Remuneration report, on pages 34 to 35, details the amounts earned by the directors in respect of the period to 31 December 2018 and is subject to an advisory shareholder vote. The Remuneration policy, on pages 36 to 40, sets out the policy which was approved by shareholders at the Annual General Meeting held on 20 April 2017 and will remain in place until 20 April 2020.

Remuneration and Nomination Committee

Membership
The members of the Committee are the non-executive directors, whose biographies are set out on page 24. The members of the Committee are all independent, non-executive directors.

Meetings and attendance
The Committee meets as often as required and at least twice a year.

The Committee met six times during the year. All members of the Committee at the time of each meeting were present at the meetings. The Chief Executive, Group Finance Director and Company Secretary are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

Duties
The duties of the Committee are as set out in its Terms of Reference which is available on the Company's website at www.mpac-group.com/investors The Terms of Reference are reviewed annually and approved by the Board.

The Committee deals with all aspects of remuneration of the executive directors and certain senior managers and identifying and nominating members of the Board.

The main items of business considered by the Committee during the year focused on remuneration matters, including:

- approving bonus payments to executive directors under the Management Incentive Bonus Scheme 2017, following assessment of 2017 performance against agreed objectives and approving the performance criteria for the 2018 annual bonus;
- approving awards under the Deferred Share Plan;
- selection process for the appointment of a new Chairman and making a recommendation to the Board to appoint Andrew Kitchingman;
- selection process for the appointment of a new Group Finance Director following the resignation of Jim Haughey and making a recommendation to the Board to appoint Will Wilkins;
- selection process for the appointment of a new non-executive director and making a recommendation to the Board to appoint Doug Robertson;
- succession planning;
- re-election of directors at the AGM; and
- reviewing the Committee's Terms of Reference.

Benchmarking executive remuneration

During the early part of the year, as part of their review of executive remuneration, the Committee undertook a benchmarking exercise, conducted by Deloitte LLP, of remuneration in respect of the Chief Executive, Group Finance Director and certain other senior executive roles.

Annual Remuneration report

Directors' total remuneration

The remuneration of the executive directors for the years 2018 and 2017 is made up as follows:

Executive directors' remuneration as a single figure

2018	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
T Steels	**237**	**14**	**–**	**24**	**105**	**24**	**405**
J R Haughey (resigned 22 June 2018)	**120**	**9**	**33**	**–**	**–**	**12**	**174**
W C Wilkins (appointed 22 June 2018)	**76**	**7**	**–**	**30**[f]	**–**	**7**	**120**

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

[a] Taxable benefits include:
Dr Steels, Mr Haughey and Mr Wilkins – car allowance payments, income replacement insurance and private medical cover;
Mr Cowen – car allowance payments, private medical cover and income replacement insurance and life assurance premiums;

[b] Mr Haughey resigned as a director of the Company on 22 June 2018 and as an employee on 31 August 2018. The termination payment represents pay in lieu of notice and reflects the principle of mitigation;
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;

[c] The performance criteria for the Short-term incentive scheme is described in the Remuneration policy on page 36.

[d] The performance criteria for the Deferred share plan is described in the Remuneration policy on page 36. 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 2018 was 178.9p (2017: 79.0p.)

[e] The values in respect of Dr Steels, Mr Wilkins and Mr Haughey are the amounts contributed by the Company into the Company's Personal Pension Plan on their accounts. 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.

[f] Includes an amount related to the period prior to Mr Wilkins appointment as a director.

The remuneration of the non-executive directors for the years 2018 and 2017 is made up as follows:

Non-executive directors' remuneration as a single figure

	2018			2017		
	Fees £000	**All taxable benefits £000**	**Total £000**	Fees £000	All taxable benefits £000	Total £000
P J Moorhouse (resigned 19 April 2018)	**25**	**–**	**25**	75	–	75
J L Davies	**50**	**–**	**50**	50	–	50
A J Kitchingman	**65**	**–**	**65**	45	–	45
D G Robertson (appointed 1 November 2018)	**8**	**–**	**8**	–	–	–

Directors' interests in shares
The beneficial interests of directors holding office at 31 December 2018 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

	Held at 1 January 2018	Acquired in the year	Held at 31 December 2018
T Steels	–	18,650	18,650
A J Kitchingman	6,451	–	6,451

Mr P J Moorhouse resigned during the year. As at 31 December 2017, Mr Moorhouse held 20,000 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 2018 and 5 March 2019.

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	13 March 2018	45.0%	58,811	105
T Steels	8 June 2017	38.5%	113,924	90
W C Wilkins	13 March 2018		7,713	14

Mr Wilkins' shares were awarded whilst he was an employee, but not a director, of the Company.

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.

Awards made to Mr Haughey in March 2018, with a face value at the time of the grants were made of £7,000, lapsed as a consequence of his leaving the employment of the Company.

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 Haughey received remuneration for the period from the date he ceased to be a director, on 22 June 2018, until the date his employment ceased on 31 August 2018. In 2017, 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 and Nomination Committee report continued

Remuneration policy

This part of the Remuneration and Nomination 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 Annual General Meeting on 20 April 2017, and it will be effective until no later than 20 April 2020. The policy is not subject to audit.

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 and Nomination 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 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 Committee.

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 Wilkins on 22 June 2018. 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 an executive director's contract within six months of the change of control, or if an executive director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of 12 months' salary. 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 that 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 and Nomination 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 and Nomination 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 and Nomination 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 and Nomination Committee. In some years the targets for the Short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration and Nomination Committee. The Remuneration and Nomination 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 and Nomination 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 and Nomination 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 and Nomination 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 and Nomination 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 Group
The Group 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 Group.

By order of the Board

John Davies
Chairman of the Remuneration and Nomination Committee
4 March 2019

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 54 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 as described within the Strategic report on pages 2 to 21. The directors have considered the trading outlook of the Group, its financial resources including its cash resources and access to borrowings, as set out in note 20 to the accounts on page 80, 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 81 to 87. 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.

Change of Name
A special resolution was passed at a general meeting of the Company held on 22 January 2018 to change the name of the Company from Molins PLC to Mpac Group plc.

Future developments
Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic report on pages 2 to 21.

Directors
Biographical details of the Directors currently serving on the Board and their dates of appointment are set out on page 24 .

The Directors who served during the year are as follows:

Executive Directors	Non-Executive Directors
Tony Steels	John Davies
Will Wilkins[1]	Andrew Kitchingman
Jim Haughey[2]	Doug Robertson[3]
	Phil Moorhouse[4]

1 Appointed to the Board on 22 June 2018
2 Resigned from the Board 22 June 2018
3 Appointed to the Board 1 November 2018
4 Resigned from the Board 19 April 2018

The Company's approach to the appointment and replacement of Directors is governed by its Articles of Association (together with relevant legislation) and takes into consideration any recommendations of the QCA Code.

Subject to any restrictions in its Articles of Association and the Companies Act 2006, the Directors may exercise any powers which are not reserved for exercise by the shareholders.

Directors and directors' interests
Directors' interests in the Company's shares as at 31 December 2018 are shown on page 35 in the Remuneration report. There are no shareholding requirements for directors.

Substantial shareholdings
At 1 March 2019, the Company had been notified, or is aware 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	4,383,152	21.7
River and Mercantile Asset Management LLP	1,531,526	7.6
Mr G V L Oury	1,095,000	5.4

Results and dividends
The Group's loss for the year was £6.0 million (31 December 2017: £1.6 million profit). Having considered the trading results for 2018, together with the opportunities for investment in the growth of the Group, the Board has decided that it is appropriate not to pay a final dividend. No interim dividend was paid in 2018. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2019 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 2018 amounted to £0.1m (2017: £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 Group incurred in 2018, net of third-party income, amounted to £1.2m (2017: £0.6m), of which £0.9m (2017: £0.5m) was charged to the Consolidated income statement and £0.3m (2017: £0.1m) was capitalised and included in development costs.

Share capital
At 31 December 2018, the Company's issued share capital was £5,042,885 divided into 20,171,540 ordinary shares of £0.25 each. Details of movements in issued share capital in the year are set out in note 25 to the financial statements. Authority for the purchase of up to 3,000,000 ordinary shares for cancellation was granted at the 2018 Annual General Meeting and this authority expires at the end of the 2019 AGM or if earlier, 19 July 2019. 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. No shares were purchased by the Company during the year.

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 5 March 2019 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 87.

Disclosure of information to the auditor
As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all reasonable steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information to establish that the Group's auditors are aware of that information.

Auditor
Grant Thornton UK LLP has indicated its willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Annual General Meeting will take place on 2 May 2019. Notice of the meeting can be found on pages 101 to 107.

Political donations
The Company made no political donations during the year to 31 December 2018.

Financial instruments
The financial risk management objectives of the Group, including details of the exposure of the Company and its subsidiaries to financial risks including credit risk, interest rate risk and currency risk, are provided in note 26 of the financial statements.

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.

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 February 2019. 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	611	
Combustion of fuel	279	
Total	890	2.9

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

The Strategic report on pages 2 to 21 and Directors' report on pages 41 to 43 are hereby approved by the Board of Directors.

By Order of the Board

Duncan Tyler
Company Secretary
4 March 2019

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
4 March 2019

Will Wilkins
Group Finance Director

Independent Auditor's report to the members of Mpac Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Mpac Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

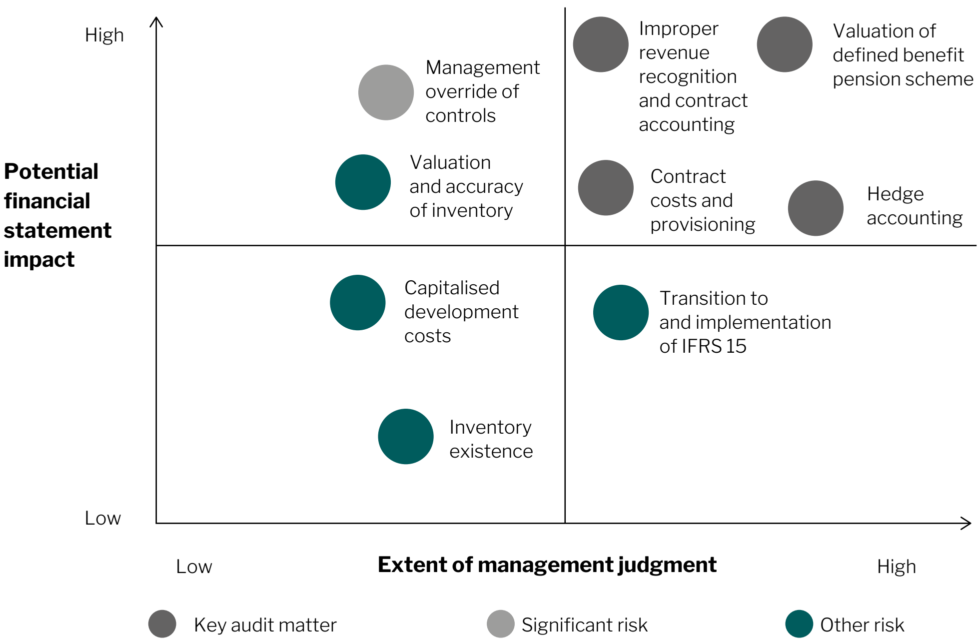
Independent Auditor's report to the members of Mpac Group plc continued

Overview of our audit approach

- Overall materiality: £150,000, which represents approximately 10% of group's profit before tax before non underlying items.
- Key audit matters were identified as Improper revenue recognition and contract accounting, Contract costs and provisioning, Valuation of defined benefit pension scheme and Hedge accounting.
- We performed full scope audit procedures on the financial statements of both components in the United Kingdom and GT member firms performed full scope work over the significant components in Netherlands and Canada. We performed analytical procedures over the component in Singapore.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Improper revenue recognition and contract accounting Revenue is recognised throughout the group as the fair value of consideration received or receivable in respect of the performance of contracts and the sale of spares and services. Determining the amount of revenue to be recognised from the performance of contracts requires management to make significant judgements and estimates as to the stage of completion, the costs to complete, the impact of any changes in scope of work and the recoverability of contract assets and receivables balances. There is a significant financial statement impact of the revenue derived from sales of spares and services and performance of contracts, as well as the high level of estimation required in determining the appropriate accounting treatment on contract accounting. There is also a risk of fraud/improper revenue recognition within these revenue streams. We therefore identified improper revenue recognition and contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls; » judgementally selecting contracts by reference to materiality and other risk factors including loss making contracts and contracts with significant profit and loss balance, contract assets and receivables balances; » for contracts selected for testing, assessing whether the revenue and profit recognised are in accordance with the group's accounting policies and International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers'. This is by agreeing inputs to contract terms, re-performing management's calculations and challenging management's assumptions and assertions underpinning their forecast for contracts' future performance. We have done this by reference to supporting documentation, such as contracts KPIs, historical performance against forecasts, and discussions with key contract accounting personnel; » investigating the recoverability of contract assets and receivables for a sample of contracts by reference to post report date collection; » examining those contracts management identified as being at risk of incurring future losses during the remaining life of the contract, and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence, such as forecast models and post statement of financial position contract performance; and » testing a sample of non-contract revenue transactions, covering both spares and service sales, agreeing items selected for testing through to document to support occurrence. » The group's accounting policy on long term contracts is shown on pages 63 and 64 of the financial statements and related disclosures are included in note 1. **Key observations** Based on our audit work, we found that the assumptions and judgements used in management's application of the group's contract accounting was appropriate. We found no significant errors in the underlying calculations for the contract samples we have tested.

Independent Auditor's report to the members of Mpac Group plc continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Valuation of defined benefit pension scheme **UK pension scheme** The Group operates a defined benefit pension scheme in the UK that provides benefits to a number of current and former employees. At 31 December 2018, the defined benefit asset was £20.5 million. The total fair (bid) value of scheme assets and present value of defined benefit obligations which form the net asset amount to £398.2 million and £377.7 million respectively. The valuation of the pension liabilities and assets in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the group financial statements. The impact of the equalisation of Guaranteed Minimum Pensions (GMPs) on the accounting for the defined benefit pension scheme also requires to be considered by management and their expert. Management also need to interpret the scheme rules in order to assess whether it is appropriate to recognise a pension surplus within the provisions of IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. We therefore identified valuation of the UK defined benefit pension scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls; » evaluating the competence of management's expert » using an internal actuarial expert to inform our challenge of the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability; » testing the accuracy of underlying membership data used by the group's actuary for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key member data to source records and by testing a sample of movements in the pension scheme membership; » using the work of our internal actuarial expert to assess the accuracy of the GMP impact calculation and the appropriateness of the accounting treatment in the accounts » directly confirming the existence of the pension scheme assets with the group's pension scheme's external asset managers; and » assessing whether the recognition of the pension scheme surplus is appropriate in accordance with the requirements of IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The group's accounting policy on the defined benefit pension scheme is shown on page 65 to the financial statements and related disclosures are included in note 24. **Key observations** Based on our audit work, we found the valuation methodologies to be balanced and consistent with the expectation of our internal actuarial expert and the recognition of the asset to be appropriate in line with IFRIC 14. We consider that the group's disclosures in note 24 are in accordance with IAS 19. We found no significant errors in the calculations we tested.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Contract costs and provisioning Given the materiality of the amounts involved, and a degree of estimation involved there is a risk that contract costs and provisioning are not complete or valued properly. The Directors are required to make an assessment to determine whether onerous contract provisions are required for loss making contracts. There are a number of contracts which have historically not met expectations and there is a risk that the provisions recognised may not be sufficient. We therefore identified contract costs and provisioning as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » agreeing costs incurred to date to supporting documentation and assess the forecast costs to complete for a sample of contracts. » comparing gross margin as at the statement of financial position date to gross margin in the month following the year end to consider whether the cost accruals for the contract were sufficient for a sample of contracts. » where losses are being incurred, assessing whether the loss provision is adequate by challenging project managers, obtaining evidence from outside of the finance function and assessing management's historic ability to forecast loss-making positions for a sample of contracts. The group's accounting policy on contract costs and provisioning is shown on page 64 to the financial statements. **Key observations** Based on our audit work, we did not identify any material misstatement in the contract costs recognised in the year to 31 December 2018.

Independent Auditor's report to the members of Mpac Group plc continued

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Hedge accounting The Group applies cash flow hedge accounting to forward foreign exchange and swap contracts, to help reduce the exposure to movements in the future value of foreign currency receipts and payments. There is a risk that the hedge accounting applied is incorrect and the documentation maintained is insufficient to meet the requirements of IFRS 9. The Directors are required to make an assessment to determine whether the hedge relationship is effective. Derivative liabilities recognised as of 31 December 2018 and 2017 amounted to £0.8m (2017: derivative assets of £0.3m) as per note 26. The effective portion of changes in fair value of cash flow hedges recognised in Other comprehensive income amounts to £1m (2017: £0.4m). Hedging reserve presented within equity totals a negative £0.8m (2017: negative £0.2m). We therefore identified hedge accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: » Obtaining a schedule of forward and swap contracts in place and agreeing a sample through to supporting contracts. » directly confirming the contracts valuation at statement of financial position date to third party bank confirmation » using financial instruments specialist, we have evaluated the documentation maintained and management's assessment of the ineffectiveness/effectiveness of the hedging relationships » testing a sample of contracts to third party confirmation to recalculate the fair value at statement of financial position date; and » evaluating the accounting treatment and disclosure for appropriate treatment in line with IFRS 9, Financial instruments. The group's accounting policy hedge accounting is shown on page 65 of the financial statements and related disclosures are included in note 26. **Key observations** Based on our audit work, we did not identify any material misstatement in the hedge accounting as at 31 December 2018.

Our application of materiality

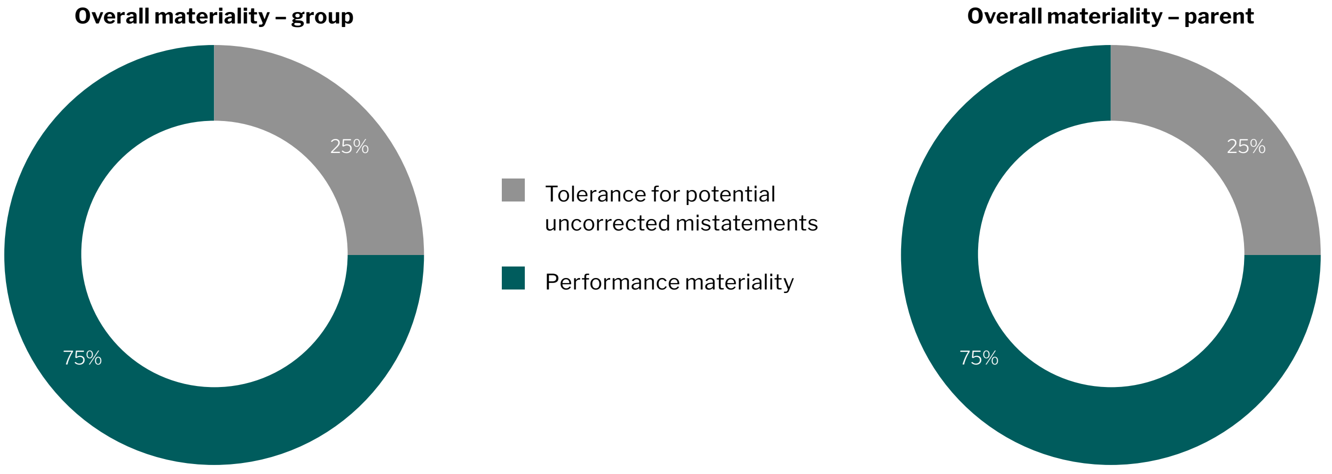
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£150,000 which is represents approximately 10% of group's profit before tax before non underlying items. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group.	£105,000 which represents approximately 8% of profit before tax. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the parent company.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for director's remuneration and related party transactions.	We determined a lower level of materiality for director's remuneration and related party transactions.
Communication of misstatements to the audit committee	£7,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£5,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's report to the members of Mpac Group plc continued

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit
Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. The components of the group were identified by the group audit team based on a measure of materiality, considering each as a percentage of the group's revenues and operating profit, to assess the significance of the component and determine the planned audit response.

An audit of the financial statements for all significant components was determined based on their relative materiality to the group and our assessment of the audit risk.

We performed a full scope audit of the financial statements of the parent company, Mpac Group plc and Mpac Overseas Holdings Limited located in Coventry in the United Kingdom, and of all other significant component entities in the Mississauga in Canada and Wijchen in Netherlands. The significant components represented 97.7 percent of consolidated revenues.

The non-significant component in Singapore was subject to analytical procedures at a group over their financial performance and position after taking into account the risks identified above and the significance of the component to the Group.

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion, based on the work undertaken in the course of the audit:

» the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
» the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

» adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
» the parent company financial statements 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.

Responsibilities of directors for the financial statements
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Rebecca Eagle
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham, UK
4 March 2019

Consolidated income statement

for the year ended 31 December 2018

	Note	2018 Underlying £m	2018 Non-underlying £m	2018 Total £m	2017 Underlying £m	2017 Non-underlying £m	2017 Total £m
Revenue	1	**58.3**	**–**	**58.3**	53.4	–	53.4
Cost of sales		**(44.3)**	**–**	**(44.3)**	(38.9)	–	(38.9)
Gross profit		**14.0**	**–**	**14.0**	14.5	–	14.5
Other income	2	**–**	**–**	**–**	–	4.8	4.8
Distribution expenses		**(5.0)**	**–**	**(5.0)**	(5.4)	–	(5.4)
Administrative expenses		**(7.2)**	**(9.0)**	**(16.2)**	(7.3)	(1.5)	(8.8)
Other operating expenses	3	**(0.4)**	**–**	**(0.4)**	(0.5)	–	(0.5)
Operating profit/(loss)	1,4	**1.4**	**(9.0)**	**(7.6)**	1.3	3.3	4.6
Financial income	8	**0.1**	**0.2**	**0.3**	–	0.2	0.2
Financial expenses	8	**(0.1)**	**–**	**(0.1)**	(0.2)	(0.3)	(0.5)
Net financing (expense)/ income		**–**	**0.2**	**0.2**	(0.2)	(0.1)	(0.3)
Profit/(loss) before tax		**1.4**	**(8.8)**	**(7.4)**	1.1	3.2	4.3
Taxation	9	**(0.5)**	**1.9**	**1.4**	(0.3)	(1.6)	(1.9)
Profit/(loss) for the period from continuing operations		**0.9**	**(6.9)**	**(6.0)**	0.8	1.6	2.4
(Loss)/profit for the period from discontinued operations	30	**–**	**–**	**–**	–	(0.8)	(0.8)
Profit/(loss) for the period		**0.9**	**(6.9)**	**(6.0)**	0.8	0.8	1.6
Earnings/(loss) per ordinary share							
Basic	11			**(30.1)p**			8.4p
Diluted	11			**(30.1)p**			8.4p
Earnings/(loss) per ordinary share from continuing activities							
Basic	11			**(30.1)p**			12.2p
Diluted	11			**(30.1)p**			12.1p

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

Statements of comprehensive income

for the year ended 31 December 2018

		Group		Company	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Profit/(loss) for the period		**(6.0)**	1.6	**(5.2)**	(1.6)
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses)	24	**8.3**	9.1	**8.5**	9.2
Tax on items that will not be reclassified to profit or loss	9	**(2.9)**	(3.2)	**(2.9)**	(3.2)
		5.4	5.9	**5.6**	6.0
Items that may be reclassified subsequently to profit or loss					
Currency translation movements arising on foreign currency net investments		**(0.6)**	0.6	**–**	–
Translation reserve recycled on disposal		**–**	(1.1)	**–**	–
Effective portion of changes in fair value of cash flow hedges		**(1.0)**	0.4	**(0.1)**	0.1
Tax on items that may be reclassified to profit or loss		**–**	–	**–**	–
		(1.6)	(0.1)	**(0.1)**	0.1
Other comprehensive income/(expense) for the period		**3.8**	5.8	**5.5**	6.1
Total comprehensive income/(expense) for the period		**(2.2)**	7.4	**0.3**	4.5

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Statements of changes in equity

for the year ended 31 December 2018

	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 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 (expense)/income for the period	–	–	(0.5)	–	0.4	7.5	7.4
Balance at 31 December 2017	**5.0**	**26.0**	**1.7**	**3.9**	**0.2**	**6.0**	**42.8**
Profit for the period	–	–	–	–	–	**(6.0)**	**(6.0)**
Other comprehensive income for the period	–	–	**(0.6)**	–	**(1.0)**	**5.4**	**3.8**
Total comprehensive income/ (expense) for the period	–	–	**(0.6)**	–	**(1.0)**	**(0.6)**	**(2.2)**
Balance at 31 December 2018	**5.0**	**26.0**	**1.1**	**3.9**	**(0.8)**	**5.4**	**40.6**

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

	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 2017	5.0	26.0	–	3.9	(0.1)	24.4	59.2
Loss for the period	–	–	–	–	–	(1.6)	(1.6)
Other comprehensive (expense)/income for the period	–	–	–	–	0.1	6.0	6.1
Total comprehensive (expense)/income for the period	–	–	–	–	0.1	4.4	4.5
Dividends to shareholders	–	–	–	–	–	–	–
Total transactions with owners, recorded directly in equity	–	–	–	–	–	–	–
Balance at 31 December 2017	5.0	26.0	–	3.9	–	28.8	63.7
Loss for the period	–	–	–	–	–	**(5.2)**	**(5.2)**
Other comprehensive income for the period	–	–	–	–	**(0.1)**	**5.6**	**5.5**
Total comprehensive income for the period	–	–	–	–	**(0.1)**	**0.4**	**0.3**
Total transactions with owners, recorded directly in equity	–	–	–	–	–	–	–
Balance at 31 December 2018	**5.0**	**26.0**	**–**	**3.9**	**(0.1)**	**29.2**	**64.0**

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

Statements of financial position

as at 31 December 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Intangible assets	12	**1.0**	0.9	**0.1**	0.2
Property, plant and equipment	13	**4.4**	4.0	**1.9**	1.8
Investment property	14	**0.8**	0.8	**0.8**	0.8
Investments	15	**–**	–	**47.4**	47.4
Other receivables	19	**–**	0.8	**–**	0.8
Employee benefits	24	**20.5**	17.6	**20.5**	17.6
Deferred tax assets	16	**1.7**	1.7	**–**	–
		28.4	25.8	**70.7**	68.6
Current assets					
Inventories	17	**3.3**	2.4	**0.7**	0.2
Trade and other receivables	19	**16.9**	19.9	**5.2**	5.5
Contract Assets	18	**5.5**	–	**0.8**	–
Current tax assets	10	**0.8**	0.1	**0.1**	0.1
Cash and cash equivalents	21	**27.9**	30.3	**17.4**	20.7
		54.4	52.7	**24.2**	26.5
Current liabilities					
Trade and other payables	22	**(14.7)**	(20.9)	**(22.5)**	(24.1)
Contract Liabilities	18	**(11.6)**	–	**–**	–
Current tax liabilities	10	**(0.4)**	(0.4)	**–**	–
Provisions	23	**(1.1)**	(1.0)	**(0.2)**	(0.1)
		(27.8)	(22.3)	**(22.7)**	(24.2)
Net current assets/(liabilities)		**26.6**	30.4	**1.5**	2.3
Total assets less current liabilities		**55.0**	56.2	**72.2**	70.9
Non-current liabilities					
Interest-bearing loans and borrowings	20	**(0.9)**	(0.9)	**(0.9)**	(0.9)
Employee benefits	24	**(6.2)**	(6.2)	**–**	–
Deferred tax liabilities	16	**(7.3)**	(6.3)	**(7.3)**	(6.3)
		(14.4)	(13.4)	**(8.2)**	(7.2)
Net assets	1	**40.6**	42.8	**64.0**	63.7
Equity					
Issued capital	25	**5.0**	5.0	**5.0**	5.0
Share premium		**26.0**	26.0	**26.0**	26.0
Reserves		**4.2**	5.8	**3.8**	3.9
Retained earnings		**5.4**	6.0	**29.2**	28.8
Total equity		**40.6**	42.8	**64.0**	63.7

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60. The parent company has taken the exemption conferred by s.408 of the Companies Act 2006 not to publish the income statement of the parent company with these consolidated accounts. The parent company loss for the year was £5.2m (2017: £1.6m).

These financial statements were approved by the directors on 4 March 2019 and signed on their behalf by:

Tony Steels
Director

William Wilkins
Director

Registered number: 124855

Statements of cash flow
for the year ended 31 December 2018

		Group		Company	
	Note	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Operating activities					
Operating profit/(loss) from continuing operations		**(7.6)**	4.6	**(8.3)**	(2.1)
Non-underlying items included in operating profit		**9.0**	1.5	**8.3**	0.8
Amortisation	12	**0.2**	0.3	–	–
Depreciation	13	**0.6**	0.6	**0.1**	0.3
Profit on sale of property, plant & equipment		**–**	(4.8)	**–**	–
Other non-cash items		**–**	–	**–**	–
Pension payments		**(3.0)**	(4.9)	**(1.9)**	(4.2)
Working capital movements:					
– (increase) / decrease in inventories		**1.7**	0.7	**(0.5)**	0.2
– (increase) / decrease in contract assets	18	**(1.3)**	–	**(0.7)**	–
– (increase) / decrease in trade and other receivables		**(1.3)**	(6.4)	**1.2**	(1.8)
– Increase / (decrease) in trade and other payables		**(1.4)**	3.1	**(1.9)**	9.9
– Increase / (decrease in provisions		**0.1**	(0.1)	**0.1**	(0.2)
– increase / (decrease) in contract liabilities	18	**4.1**	–	**–**	–
Cash flows from continuing operations before reorganisation		**1.1**	(5.4)	**(3.6)**	2.9
Cash flows from discontinued operations	30	**–**	4.4	**(1.0)**	(2.9)
Reorganisation costs paid		**(1.0)**	(0.8)	**(0.4)**	(0.2)
Cash flows from operations		**0.1**	(1.8)	**(5.0)**	(0.2)
Taxation paid		**(1.0)**	(0.3)	**0.1**	–
Cash flows from operating activities		**(0.9)**	(2.1)	**(4.9)**	(0.2)
Interest received		**0.1**	–	**0.1**	–
Proceeds from sale of property, plant and equipment		**0.1**	6.8	**–**	–
Capitalised development expenditure	12	**(0.3)**	(0.1)	**–**	–
Acquisition of property, plant and equipment	13	**(1.1)**	(1.6)	**(0.2)**	(0.1)
Net proceeds on disposal of discontinued operations		**–**	25.9	**–**	25.9
Dividends received from group entities		**–**	–	**1.8**	–
Net cash flow from discontinued operations	30	**–**	(0.3)	**–**	(0.3)
Cash flows from investing activities		**(1.2)**	30.7	**1.7**	25.5
Financing activities					
Interest paid		**(0.1)**	(0.2)	**(0.1)**	(0.2)
Purchase of own shares		**–**	(0.1)	**–**	(0.1)
Net decrease against revolving facilities		**–**	(7.0)	**–**	(7.0)
Dividends paid	25	**–**	–	**–**	–
Cash flows from financing activities		**(0.1)**	(7.3)	**(0.1)**	(7.3)
Net increase/(decrease) in cash and cash equivalents	21	**(2.2)**	21.3	**(3.3)**	18.0
Cash and cash equivalents at 1 January		**30.3**	8.7	**20.7**	2.7
Effect of exchange rate fluctuations on cash held		**(0.2)**	0.3	**–**	–
Cash and cash equivalents at 31 December		**27.9**	30.3	**17.4**	20.7

The Group has initially applied IFRS15 using the cumulative method. Under this method, the comparative information is not restated. See Accounting Policies note on page 60.

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 in the main consistent with those applied in the 2017 financial statements.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The effect of initially applying these standards is mainly attributed to additional disclosures. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application i.e. 1 January 2018. Accordingly, the information presented for 2017 has not been restated and is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Adjustments were required in relation to:

1. Contract Asset / Liability: The difference between the revenue recognised and the contract billings has been reclassified to become a contract asset / liability on the balance sheet whereas previously this was reflected within 'trade and other receivables' / 'trade and other payables' in the balance sheet. This reflects the change in presentation required under IFRS 15.
2. Work in Progress: Where parts have been purchased in advance of being utilised on a machine build, these are no longer held as work in progress and become part of the company's inventory until they are used.

There has been no change in the income statement or cash flow as a result of applying IFRS 15. This is due to contract related revenue being recognised over time under IFRS 15, for which Mpac meet the criteria as the asset being produced does not have an alternative use and Mpac has an enforceable right to payment for the performance completed to date.

Following the adoption of IFRS 15 from 1 January 2018 the following expedients have been or will be used:

- » The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less;
- » The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less;
- » The Group's contract with customers are, in the main, for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

IFRS9 – Financial Instruments

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39. The Group has assessed its balance sheet assets in accordance with the new classification requirements. There has been no change in the classification and measurement for any of the Group's financial assets or liabilities.

In addition, IFRS 9 introduces an 'expected loss' model for the assessment of impairment of financial assets. The 'incurred loss' model under IAS 39 required the Group to recognise impairment losses when there was objective evidence that an asset was impaired. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. However, as permitted by IFRS 9, the Group applies the 'simplified approach' to trade receivable balances. Due to the general quality and short-term nature of the trade receivables, there is no significant impact on the introduction of the 'simplified approach'.

The Group applies the hedge accounting requirements under IFRS 9 and its hedging activities are discussed in Note 26 of these 2018 annual report and accounts, with movements on hedging reserves disclosed on consolidated statement of changes in equity. The Group's existing hedging arrangements have been assessed as compliant with IFRS 9.

The adoption of IFRS 9 from 1 January 2018 does not have a material impact on the Group's reported results.

Derivative Financial Instruments
The Group's derivative financial instruments are measured at fair value and are summarised below:

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast rade receivables in currencies other than the functional currency of the operating entity.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the foreign currency forwards entered into exactly match the terms of the terms of the hedged item.

Hedge ineffectiveness may arise if the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast transactions from what was initially estimated.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one. All forward exchange contracts had been designated as hedging instruments in cash flow hedges under IAS 39. All hedging relationships that were hedging relationships under IAS 39 at the 31 December 2017 reporting date meet the IFRS 9's criteria for hedge accounting at 1 January 2018 and are therefore regarded as continuing hedging relationships.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

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 only standard relevant to the Group and Company, which has not been applied in this report, was in issue but not yet effective:

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.

Accounting policies continued

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 5 to 9, Financial review on pages 17 to 19 and in the Principal risks and uncertainties on pages 20 and 21.

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 17 to 19 and in note 20 to the accounts on page 80 , 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 81 to 87. 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 identified, 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 its estimated useful life.

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.

IFRS 15 – New accounting policies
Revenue

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

» the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
» the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
» the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over time criteria, as performance does not generally create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on labour costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of the total labour hours and labour hours to be incurred, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

Accounting policies continued

Contract modifications
The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. Prospectively as an additional, separate contract;
2. Prospectively as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

Costs to obtain a contract
The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded.

The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract
Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Where assets have been recognised in respect of costs to fulfil a contract, these are tested for impairment under IFRS15.

Inventories
Inventories includes raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories in relation to parts which have not been utilised as part of a contract to date but are expected to be used in this manner in the future. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

Contract assets
A contract asset is a right to consideration conditional on something other than the passage of time.

Contract liabilities
The contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Performance obligations
A small proportion of the Group's contracts recognised over time comprise a variety of performance obligations, including but not limited to machinery, elements of design and customisation, installation and after-sales services. Under IFRS15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

» the customer benefits from the item either on its own or together with other readily available resources; and
» It is separately identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it.

Construction contracts – Applicable to 2017 comparative figures only
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

IFRS9 *Financial instruments* 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;
- trade and other receivables are held at amortised cost;
- trade and other payables are held at amortised cost;
- borrowings are classified as other liabilities held at amortised cost; and
- derivatives, comprising forward foreign exchange contracts, are classified as instruments with fair value through profit or loss.

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.

Trade & other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade & other receivables as well as contract assets, recording the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating the lifetime credit losses, the Group uses its historical experience, external indicators and forward looking information to calculate the expected losses. Refer to Note 26 for further details.

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.

Accounting policies continued

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. Revenue and Operating Segments

The Group has applied IFRS15 using the cumulative effect method and therefore the comparative information for 2017 has not been restated and continues to be reported under IAS18 and IAS 11. All revenue information is prepared in accordance with the Group accounting policies shown on pages 60 to 66.

The following is a description of the principle activities- separated by reportable segments- from which the Group generates its revenue.

Original Equipment (OE)

The OE segments of the Group principally generate revenue from the make, pack, and test of high speed packaging solutions, first of a kind machinery and high specification automation, secondary packaging equipment and at line instrumentation solutions. The typical length of a contract for OE Equipment is four to twelve months. The contracts are accounted for over time unless the installation and commissioning consideration of the contact is a distinct performance obligation which could be undertaken by a third party in which case the contract is disaggregated with the equipment consideration recognised over time and the installation consideration is recognised at a point in time. Where contracts are recognised over time the consideration recognised is 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.

Service

The service segment of the Group generates revenue from sales of spare parts and providing service engineers and support staff customers enabling them to maximise the benefits of their high speed packaging solutions, first- of -a -kind machinery and high specification automation, secondary packaging equipment, end of line robotics and at line instrumentation solutions. Service contracts are usually short term contracts and either have a fixed price or are based on time and materials.

The Group's revenue reflects 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 5 to 9.

In the following table revenue is disaggregated by primary geographical market, major product lines, market sector and timing of revenue recognition.

Disaggregation of Revenue from continuing operations

	2018 Total £m	2017 Total £m
Market sector		
Pharmaceutical	**5.6**	7.4
Healthcare	**13.1**	13.0
Food and Beverage	**32.5**	28.2
Other	**7.1**	4.8
Total	**58.3**	53.4
Timing of revenue recognition		
Products and services transferred at a point in time	**14.0**	9.6
Products and services transferred over time	**44.3**	43.8
Total	**58.3**	53.4

The Group disaggregates revenue of Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia Pacific.

Information regarding the results of each operating segment is included below. Performance is measured based on underlying segment gross profit. Unallocated items comprise distribution and administrative expenditure. The unallocated items are excluded from segment profit or loss as they are not region specific.

Notes to the accounts continued

1. Revenue and Operating Segments continued

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

	2018			2017		
	OE £m	**Service £m**	**Total £m**	OE £m	Service £m	Total £m
Revenue[1]						
Americas	**20.5**	**6.4**	**26.9**	16.4	6.8	23.2
EMEA	**20.1**	**4.6**	**24.7**	15.8	4.6	20.4
Asia Pacific	**5.6**	**1.1**	**6.7**	8.2	1.6	9.8
Total	**46.2**	**12.1**	**58.3**	40.4	13.0	53.4
Gross profit[1]	**9.3**	**4.7**	**14.0**	9.2	5.3	14.5
Selling, distribution and administration[1]			**(12.6)**			(13.2)
Underlying operating profit/(loss)[1]			**1.4**			1.3
Unallocated non-underlying items included in operating profit/(loss)			**(9.0)**			3.3
Operating profit/(loss)			**(7.6)**			4.6
Net financing expense			**0.2**			(0.3)
Profit/(loss) before tax from continuing operations			**(7.4)**			4.3

	2018			2017		
	Segment assets	**Segment liabilities**	**Segment net assets**	Segment assets	Segment liabilities	Segment net assets
Americas	**19.7**	**(18.0)**	**1.7**	13.5	(8.6)	4.9
EMEA	**9.7**	**(7.0)**	**2.7**	11.1	(10.9)	0.2
Asia	**0.5**	**(0.2)**	**0.3**	0.3	(0.1)	0.2
Total[1]	**29.9**	**(25.2)**	**4.7**	24.9	(19.6)	5.3
Unallocated net assets/(liabilities			**35.9**			37.2
Net assets – discontinued operations			**–**			0.3
Total net assets			**40.6**			42.8

[1] From continuing operations

Geographical information

Revenue

	By location of customer			
Continuing operations	**2018 £m**	**2018 %**	2017 £m	2017 %
UK	**11.6**	**20**	7.3	14
Europe (excl. UK)	**12.0**	**21**	12.7	24
Africa and Middle East	**1.1**	**2**	0.4	1
USA	**22.7**	**38**	18.5	35
Americas (excl. USA)	**4.2**	**7**	4.7	9
Asia Pacific	**6.7**	**12**	9.8	17
	58.3	**100**	53.4	100

Non-current assets (excluding taxation balances)

	By location of assets	
	2018 £m	2017 £m
UK	**23.4**	21.2
Canada	**1.9**	1.9
Rest of the world	**1.3**	1.0
	26.6	24.1

Major customers

In 2018 the Group generated 21% (2017: 22%) of revenue from two customers. The most significant customer accounted for 12% (2017: 12%) of Group revenue. The sales constituted both equipment and service and were spread across a number of different geographic regions.

2. Other income

	2018 £m	2017 £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

	2018 £m	2017 £m
Research and development costs (expensed as incurred)	**0.4**	0.5

Notes to the accounts continued

4. Operating profit

Continuing operations	2018 £m	2017 £m
Operating profit is arrived at after charging:		
Amortisation of capitalised development costs	**0.2**	0.3
Depreciation of owned assets	**0.6**	0.6
Cost of inventories recognised as an expense	**26.2**	25.6
Operating leases		
– land and buildings	**0.6**	0.4
– other	**0.2**	0.2
Audit fees paid to the former auditor[2] (Company £nil; 2017: £0.1m)[1]	**0.1**	0.2
Audit fees paid to the current auditor[2] (Company £0.1m; 2017: £nil)	**0.2**	–
Other fees paid to the former auditor[2]		
– tax compliance (Company £nil; 2017: £0.1m)	**–**	0.1
– tax advisory (Company £nil; 2017: £0.2m)	**–**	0.2
Other fees paid to the current auditor[2]		
– tax compliance (Company £0.1m; 2017: £0.1m)	**0.1**	–
– tax advisory (Company £nil; 2017: £0.2m)	**–**	–

1 From continuing operations and discontinued operations

2 The auditor changed from KPMG to Grant Thornton during the year; the fees disclosed relate to the relevant company during their tenure as auditor.

5. Non-underlying items

	2018 £m	2017 £m
Non-underlying items		
Defined benefit pension scheme – Past service cost from GMP equalisation	**(7.3)**	–
Defined benefit pension schemes administration costs	**(0.9)**	(0.8)
Reorganisation costs	**(0.7)**	(0.7)
Abortive Acquisition costs	**(0.1)**	–
Profit on sale of surplus property	–	4.8
Net financing (expense)/income on pension scheme balances	**0.2**	(0.1)
Total non-underlying income/(expenditure) before tax	**(8.8)**	3.2

The group uses alternative performance measures (APM's), in addition to those reported under IFRS, as management believe these measures enable the users of financial statements to assess the underlying trading performance of the business. The APM's used include underlying operating profit, underlying profit before tax and underlying earnings per share. These measures are calculated using the relevant IFRS measure as adjusted for non-underlying income/(expenditure) listed above.

The profit before tax in 2017 is stated before the loss from discontinued operations. Cash payments of £0.1m were made in 2017 in respect of reorganisations in earlier periods.

6. Employee information

Continuing operations	Period end 2018	Period end 2017	Average 2018	Average 2017
The number of persons employed by the Group was:				
Americas	**72**	81	**84**	85
EMEA	**194**	200	**193**	192
Asia Pacific	**12**	18	**11**	16
Head Office (including non-executive directors and pension scheme administrators)	**15**	15	**16**	17
Total continuing operations	**293**	314	**304**	310
Discontinued operations	–	–	–	208
Total	**293**	314	**304**	518

	Note	2018 Continuing £m	2018 Discontinued £m	2018 Total £m	2017 Continuing £m	2017 Discontinued £m	2017 Total £m
Employment costs for the Group were:							
Wages and salaries		**15.1**	–	**15.1**	14.8	4.4	19.2
Social security costs		**2.1**	–	**2.1**	2.2	1.2	3.4
Employee benefits							
– defined contribution schemes		**1.0**	–	**1.0**	1.0	0.2	1.2
– equity-settled share-based transactions	24	**0.1**	–	**0.1**	–	–	–
		18.3	–	**18.3**	18.0	5.8	23.8

7. Emoluments of directors and interests in shares

Information on the emoluments of the directors (page 34), 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 34 and 35.

8. Net financing expense

	2018 Continuing £m	2018 Discontinued £m	2018 Total £m	2017 Continuing £m	2017 Discontinued £m	2017 Total £m
Financial income:						
Amounts receivable on cash and cash equivalents	**0.1**	–	**0.1**	–	0.1	0.1
Net interest received on pension scheme balances	**0.2**	–	**0.2**	0.2	–	0.2
	0.3	–	**0.3**	0.2	0.1	0.3
Financial expenses:						
Amounts payable on bank loans and overdrafts	–	–	–	(0.1)	–	(0.1)
Preference dividends paid	**(0.1)**	–	**(0.1)**	(0.1)	–	(0.1)
Interest cost on pension scheme balances	–	–	–	(0.3)	–	(0.3)
	(0.1)	–	**(0.1)**	(0.5)	–	(0.5)
Net financing (expense)/income	**0.2**	–	**0.2**	(0.3)	0.1	(0.2)

Net interest received on pension scheme balances is included in non-underlying items.

Notes to the accounts continued

9. Taxation

Continuing operations	2018 £m	2017 £m
Tax expense/(credit):		
Current tax	**0.5**	0.3
Deferred tax	**(1.9)**	1.6
Total continuing operations	**(1.4)**	1.9
Discontinued operations	**–**	0.2
Total	**(1.4)**	2.1

Included within the total taxation is a tax charge of £1.9m (2017: £1.7m) attributable to the non-underlying items set out in note 5.

Reconciliation of effective tax rate

Continuing operations	2018 £m	2017 £m
Profit/(loss) before tax	**(7.4)**	4.3
Income tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	**(1.4)**	0.8
Tax effect of expenses not deductible for tax purposes	**–**	(0.1)
Deferred tax movement on pension past service costs	**(1.1)**	–
Deferred tax movements on pension payments	**0.7**	1.6
Change in unrecognised deferred tax assets	**0.3**	(0.5)
Foreign tax charged at higher rates than UK corporation tax rate	**0.1**	0.1
Total (credit) / expense	**(1.4)**	1.9

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

	2018 £m	2017 £m
Arising from actuarial gains/losses	**2.9**	3.2

10. Current tax assets and liabilities

Current tax assets of £0.8m (2017: £0.1m) and current tax liabilities of £0.4m (2017: £0.4m) for the Group, and current tax assets of £0.1m (2017: £0.1m) for the Company, represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share

Basic earnings/(loss) per share

The calculation of basic earnings/loss per ordinary share is based upon the loss for the year of £6.0m (2017: £1.6m profit) 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 loss for the period from continuing activities of £6.0m (2017: £2.5m profit). 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 loss for the year of £6.0m (2017: £1.6m profit) 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 loss for the period from continuing activities of £ 6.0m (2017: £2.5m profit). 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.

	2018	2017
Weighted average number of ordinary shares (non-diluted) at 31 December	**19,932,786**	19,828,601
Effect of own shares	**151,008**	78,390
Weighted average number of ordinary shares (diluted) at 31 December	**20,083,794**	19,906,991

In the 12 months to 31 December 2018 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 4.5p (2017: 4.2p) in respect of underlying earnings per share and 4.5p (2017: 4.1p) 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 £0.9m (2017: £0.8m) which is calculated as follows:

	2018 £m	2017 £m
Profit/(loss) for the period	**(6.0)**	1.6
Loss/(profit) for the period from discontinued operations	**–**	0.8
Non-underlying items (net of tax)	**6.9**	(1.6)
Underlying profit/(loss) for the period	**0.9**	0.8

Notes to the accounts continued

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 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**
Additions	–	0.3	–	0.3	–	–	–	–
Balance at 31 December 2018	–	**4.0**	–	**4.0**	–	**0.5**	–	**0.5**
Amortisation and impairment losses:								
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**
Amortisation for the period	–	0.2	–	0.2	–	0.1	–	0.1
Balance at 31 December 2018	**–**	**3.0**	**–**	**3.0**	**–**	**0.4**	**–**	**0.4**
Carrying amounts:								
At 31 December 2017	–	0.9	–	0.9	–	0.2	–	0.2
At 31 December 2018	**–**	**1.0**	**–**	**1.0**	**–**	**0.1**	**–**	**0.1**

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 and 2018 was nil.

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 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
Additions	–	**0.5**	**0.6**	**1.1**	–	–	**0.2**	**0.2**
Disposals	–	**(0.3)**	–	**(0.3)**	–	–	–	–
Retranslation	–	–	–	–	–	–	–	–
Balance at 31 December 2018	**3.1**	**3.0**	**5.1**	**11.2**	**2.6**	**0.3**	**1.2**	**4.1**
Depreciation:								
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
Depreciation charge for the period	**0.1**	**0.2**	**0.3**	**0.6**	**–**	–	**0.1**	**0.1**
Disposals	–	**(0.2)**	–	**(0.2)**	–	–	–	–
Retranslation	–	–	–	–	–	–	–	–
Balance at 31 December 2018	**1.3**	**1.5**	**4.0**	**6.8**	**0.9**	**0.3**	**1.0**	**2.2**
Carrying amounts:								
At 31 December 2017	1.9	1.3	0.8	4.0	1.7	–	0.1	1.8
At 31 December 2018	**1.8**	**1.5**	**1.1**	**4.4**	**1.7**	**–**	**0.2**	**1.9**

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). No security is currently held.

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

Notes to the accounts continued

14. Investment property

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Balance at 1 January 2017 and 31 December 2017	**0.8**	0.8	**0.8**	0.8
Balance at 31 December 2018	**0.8**	0.8	**0.8**	0.8

Investment property is shown at cost. The fair value of the investment property at 31 December 2018 is £1.0m (2017: £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

	2018 £m	2017 £m
Balance at 1 January	**47.4**	50.6
Disposal of investment	**–**	(3.2)
Balance at 31 December	**47.4**	47.4

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 10% (2017: 11%).

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:

	Assets		Liabilities		Net	
Group	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Employee benefits	**–**	–	**(7.3)**	(6.3)	**(7.3)**	(6.3)
Tax losses	**1.7**	1.7	**–**	–	**1.7**	1.7
Deferred tax (liabilities)/assets	**1.7**	1.7	**(7.3)**	(6.3)	**(5.6)**	(4.6)
Offset of tax	**–**	–	**–**	–	**–**	–
Net deferred tax (liabilities)/ assets	**1.7**	1.7	**(7.3)**	(6.3)	**(5.6)**	(4.6)

	Assets		Liabilities		Net	
Company	**2018 £m**	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Employee benefits	**–**	–	**(7.3)**	(6.3)	**(7.3)**	(6.3)
Other	**–**	–	**–**	–	**–**	–
Deferred tax (liabilities)/assets	**–**	–	**(7.3)**	(6.3)	**(7.3)**	(6.3)
Offset of tax	**–**	–	**–**	–	**–**	–
Net deferred tax liabilities	**–**	–	**(7.3)**	(6.3)	**(7.3)**	(6.3)

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

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

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 £9.6m of unrecognised deferred tax assets (2017: £9.3m) which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation these tax assets expire as follows:

	Group	
Expiry	**2018 £m**	2017 £m
10 to 20 years	**5.0**	4.9
No expiry date	**4.3**	4.4
	9.3	9.3

Movement in temporary differences during the year

Group	Balance at 1 January 2018 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Retranslation £m	Balance at 31 December 2018 £m
Employee benefits	**(6.3)**	**1.9**	**(2.9)**	**–**	**–**	**(7.3)**
Tax losses	**1.7**	**–**	**–**	**–**	**–**	**1.7**
	(4.6)	**1.9**	**(2.9)**	**–**	**–**	**(5.6)**

16. Deferred tax assets and liabilities continued

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	–	–	–	–
Own shares (employee trust)	–	–	–	–	–	–
Tax losses	0.6	1.1	–	–	–	1.7
	(2.6)	(4.2)	(3.2)	–	0.2	(4.6)

Company	Balance at 1 January 2018 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Balance at 31 December 2018 £m
Employee benefits	(6.3)	1.9	(2.9)	–	(7.3)
Other	–	–	–	–	–
	(6.3)	1.9	(2.9)	–	(7.3)

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)
Provisions	0.2	(0.2)	–	–	–
Own shares (employee trust)	–	–	–	–	–
Tax losses	0.6	(0.6)	–	–	–
	(2.0)	(1.1)	(3.2)	–	(6.3)

17. Inventories

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Work in progress	**1.7**	1.0	**0.5**	–
Finished goods	**1.6**	1.4	**0.2**	0.2
	3.3	2.4	**0.7**	0.2

An amount of £nil (2017: £nil) has been charged in the year in respect of inventory write-downs.

18. Contract Assets & Liabilities

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

	Group		Company	
	31 December 2018 £m	**1 January 2018 £m**	**31 December 2018 £m**	**1 January 2018 £m**
Receivables, which are included in 'Trade and other receivables'	**10.2**	**10.1**	**–**	**–**
Contract assets	**5.5**	**4.2**	**0.8**	**–**
Contract liabilities	**(11.6)**	**(7.5)**	**–**	**(3.6)**

In 2017, the contract assets were included within trade and other receivables (Note 19), whilst contract liabilities were included within trade and other payables (Note 22).

	Group		Company	
	Contract Assets	Contract Liabilities	Contract Assets	Contract Liabilities
Revenue recognised which is included in the contract liability balance at the beginning of the period	–	7.4	–	3.6
Increases due to cash received, excluding amounts recognised as revenue during the period	–	(11.6)	–	–
Transfers from contract assets recognised at the beginning of the period to receivables	(4.2)	–	–	–
Increases as a result of changes recognised in the measure of progress	5.5	–	0.8	–

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

The Group's contracts with customers are predominantly for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

19. Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Non-current assets:				
Other receivables	**–**	0.8	**–**	0.8
	–	0.8	**–**	0.8
Current assets:				
Trade receivables	**12.2**	11.7	**1.0**	3.1
Amounts owed by Group undertakings	**–**	–	**2.0**	0.1
Amounts recoverable on contracts	**–**	5.0	**–**	0.2
Other receivables	**0.8**	1.3	**0.1**	0.8
Prepayments and accrued income	**3.9**	1.4	**1.5**	1.0
Foreign currency derivatives	**–**	0.5	**0.6**	0.3
	16.9	19.9	**5.2**	5.5

20. Interest-bearing loans and borrowings

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Non-current liabilities:				
Repayable between one and two years	**–**	–	**–**	–
More than five years	**0.9**	0.9	**0.9**	0.9
	0.9	0.9	**0.9**	0.9

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 (2017: £0.1m).

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Net increase/(decrease) in cash and cash equivalents	**(2.2)**	21.3	**(3.3)**	18.0
Cash movement in borrowings	**–**	7.0	**–**	7.0
Change in net funds/(debt) resulting from cash flows	**(2.2)**	28.3	**(3.3)**	25.0
Translation movements	**(0.2)**	0.3	**–**	–
Movement in net funds/(debt) in the period	**(2.4)**	28.6	**(3.3)**	25.0
Opening net funds/(debt)	**29.4**	0.8	**19.8**	(5.2)
Closing net funds/(debt)	**27.0**	29.4	**16.5**	19.8
Analysis of net funds/(debt):				
Cash and cash equivalents – current assets	**27.9**	30.3	**17.4**	20.7
Interest-bearing loans and borrowings – non-current liabilities	**(0.9)**	(0.9)	**(0.9)**	(0.9)
Closing net funds/(debt)	**27.0**	29.4	**16.5**	19.8

22. Trade and other payables

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current liabilities:				
Deposits received on account	**–**	1.3	**–**	0.1
Trade payables	**5.1**	5.1	**0.7**	1.1
Amounts owed to Group undertakings	**–**	–	**19.0**	16.5
Amounts due to customers on contracts	**–**	4.6	**–**	2.3
Other taxes and social security	**0.4**	0.7	**–**	0.2
Other payables	**1.9**	2.6	**0.7**	1.0
Accruals and deferred income	**6.5**	6.6	**1.3**	2.6
Foreign currency derivatives	**0.8**	–	**0.8**	0.3
	14.7	20.9	**22.5**	24.1

23. Provisions

	2018			2017		
Group	**Continued £m**	**Discontinued £m**	**Total £m**	Continued £m	Discontinued £m	Total £m
Balance at 1 January	**1.0**	**–**	**1.0**	1.4	0.3	1.7
Provisions created in the year	**1.3**	**–**	**1.3**	1.0	0.3	1.3
Utilised during the year	**(1.0)**	**–**	**(1.0)**	(1.1)	(0.6)	(1.7)
Unused amounts reversed	**(0.2)**	**–**	**(0.2)**	(0.2)	–	(0.2)
Retranslation	**–**	**–**	**–**	(0.1)	–	(0.1)
Balance at 31 December	**1.1**	**–**	**1.1**	1.0	–	1.0

	2018			2017		
Company	**Continued £m**	**Discontinued £m**	**Total £m**	Continued £m	Discontinued £m	Total £m
Balance at 1 January	**0.1**	**–**	**0.1**	0.2	0.3	0.5
Provisions created in the year	**0.2**	**–**	**0.2**	0.1	0.1	0.2
Utilised during the year	**(0.1)**	**–**	**(0.1)**	(0.2)	(0.4)	(0.6)
Unused amounts reversed	**–**	**–**	**–**	–	–	–
Balance at 31 December	**0.2**	**–**	**0.2**	0.1	–	0.1

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.

24. Employee benefits continued

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

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

UK pension scheme

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

The most recent formal actuarial valuation of the scheme was carried out as at 30 June 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 £1.9m per annum to the Scheme (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 Scheme 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 below certain levels; and
» payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Scheme in any one year.

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 £1.9m (2017: £1.8m). A contribution of £0.1m (2017: £2.4m) following the receipt of proceeds from the disposal of the I&TM business, being 10% of net proceeds, was also paid.

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 2018. Scheme assets are stated at their market value at 31 December 2018.

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 2018 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £1.0m (2017: £0.7m), including £0.7m (2017: £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	
	2018	2017	**2018**	2017
Discount rate	**2.7%**	2.3%	**4.0%**	3.5%
Inflation rate				
– CPI	**2.1%**	2.1%	**n/a**	n/a
– RPI	**3.2%**	3.2%	**n/a**	n/a
Increases to pensions in payment				
– final salary benefits	**2.1%**	2.1%	**n/a**	n/a
– career average benefits	**1.9%**	1.9%	**n/a**	n/a

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

	UK scheme	USA schemes
Current pensioner aged 65 – male	21.4 years	20.6 years
Current pensioner aged 65 – female	23.7 years	22.6 years
Future retiree currently aged 45 upon reaching age 65 – male	22.8 years	20.5 years
Future retiree currently aged 45 upon reaching age 65 – female	25.2 years	23.1 years

At 31 December 2018 the weighted average duration of the defined benefit obligation in the UK scheme was 15 years (2017: 15 years) and in the USA schemes was 10 years (2017: 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 2018	UK scheme	USA schemes
0.1% change in discount rate	£5.2m	£0.2m
0.1% change in inflation rate	£3.7m	n/a
Change in life expectancy by one year on average	£15.2m	£0.8m

24. Employee benefits continued

Categories of assets and funded status

The fair values of scheme assets were as follows:

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
UK equities	**1.3**	1.5	**–**	–	**1.3**	1.5
Overseas equities	**69.0**	80.0	**5.3**	6.2	**74.3**	86.2
Bonds – index linked gilts	**98.4**	102.3	**–**	–	**98.4**	102.3
Bonds – other	**61.7**	63.1	**9.9**	9.5	**71.6**	72.6
Properties – funds	**41.1**	38.9	**1.1**	1.0	**42.2**	39.9
Properties – directly owned	**2.2**	1.8	**–**	–	**2.2**	1.8
Absolute return funds	**119.2**	124.8	**–**	–	**119.2**	124.8
Other	**5.3**	2.2	**–**	–	**5.3**	2.2
Total fair (bid) value of scheme assets	**398.2**	414.6	**16.3**	16.7	**414.5**	431.3
Present value of defined benefit obligations	**(377.7)**	(397.0)	**(22.5)**	(22.9)	**(400.2)**	(419.9)
Defined benefit asset/(liability)	**20.5**	17.6	**(6.2)**	(6.2)	**14.3**	11.4

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

Disclosed defined benefit pension income/expense for financial year

A) Components of defined benefit pension income/expense

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

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Past service costs	**7.3**	–	**–**	–	**7.3**	–
Interest expense/(income)	**(0.4)**	(0.2)	**0.2**	0.3	**(0.2)**	0.1
Administration costs	**0.7**	0.6	**0.2**	0.2	**0.9**	0.8
Expense recognised in income statement	**7.6**	0.4	**0.4**	0.5	**8.0**	0.9

Following the decision in Lloyds Banking Group Pension Trustees Limited vs Lloyds Bank plc (and others), the company has recognised an estimated cost of £7.3m in respect of increased future liabilities relating to GMP equalisation for past service within the scheme. The precise method to be used to equalise the benefits (and determination of the consequent increase in liabilities) will be discussed between the trustee and the company in due course.

B) Statements of comprehensive income (SOCI)

The actuarial gains recognised in the SOCI in respect of pensions were £8.3m (2017: gains of £9.1m), comprising actuarial gains of £8.5m (2017: gains of £9.2m) for the UK defined benefit pension scheme and actuarial losses of £0.2m (2017: losses of £0.1m) for the USA schemes, all figures before tax.

Actual return on scheme assets

The actual return on scheme assets were gains of £2.2m (2017: £30.4m), comprising gains of £3.2m (2017: £28.4m) for the UK defined benefit pension scheme and losses of £1.0m (2017: gains of £2.0m) for the USA schemes, all figures before tax.

Reconciliation of the present value of defined benefit obligations

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Present value of defined benefit obligations at 1 January	**397.0**	397.3	**22.9**	23.9	**419.9**	421.2
Past service cost	**7.3**	–	**–**	–	**7.3**	–
Interest cost	**8.9**	9.7	**0.8**	0.9	**9.7**	10.6
Actuarial losses/(gains)						
– Changes in demographic assumptions	**(21.8)**	–	**(0.1)**	(0.2)	**(21.9)**	(0.2)
– Changes in financial assumptions	**1.2**	11.5	**(1.4)**	1.3	**(0.2)**	12.8
– Experience	**6.0**	(2.2)	**0.1**	0.4	**6.1**	(1.8)
Benefit payments	**(20.9)**	(19.3)	**(1.5)**	(1.4)	**(22.4)**	(20.7)
Retranslation	**–**	–	**1.7**	(2.0)	**1.7**	(2.0)
Present value of defined benefit obligations at 31 December	**377.7**	397.0	**22.5**	22.9	**400.2**	419.9

At 31 December 2018 the pensioner population accounted for 61% (2017: 64%) of the UK scheme's obligations and 70% (2017: 70%) of the USA schemes' obligations.

Reconciliation of the fair value of scheme assets

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Fair value of scheme assets at 1 January	**414.6**	401.9	**16.7**	17.1	**431.3**	419.0
Interest income	**9.3**	9.9	**0.6**	0.6	**9.3**	10.5
Actuarial gains/(losses)						
– Return on scheme assets	**(6.1)**	18.5	**(1.6)**	1.4	**(7.1)**	19.9
Company contributions	**2.0**	4.2	**1.0**	0.7	**3.0**	4.9
Administration expenses	**(0.7)**	(0.6)	**(0.2)**	(0.2)	**(0.9)**	(0.8)
Benefit payments	**(20.9)**	(19.3)	**(1.5)**	(1.4)	**(22.4)**	(20.7)
Retranslation	**–**	–	**1.3**	(1.5)	**1.3**	(1.5)
Fair value of scheme assets at 31 December	**398.2**	414.6	**16.3**	16.7	**414.5**	431.3

Experience gains and losses for the year

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Fair value of scheme assets	**398.2**	414.6	**16.3**	16.7	**414.5**	431.3
Defined benefit obligations	**(377.7)**	(397.0)	**(22.5)**	(22.9)	**(400.2)**	(419.9)
Net asset/(liability)	**20.5**	17.6	**(6.2)**	(6.2)	**14.3**	11.4
Actuarial gains/(losses) on scheme assets	**(6.0)**	18.5	**(1.6)**	1.4	**(7.6)**	19.9
Actuarial (losses)/gains on defined benefit obligations	**14.5**	(9.3)	**1.4**	(1.5)	**15.9**	(10.8)
Net gain/(loss) recognised in the SOCI during the year	**8.5**	9.2	**(0.2)**	(0.1)	**(8.3)**	9.1

24. Employee benefits continued

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

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Net asset/(liability) for employee benefits at 1 January	**17.6**	4.6	**(6.2)**	(6.8)	**11.4**	(2.2)
Expense recognised in the income statement (see below)	**(7.6)**	(0.4)	**(0.4)**	(0.5)	**(8.0)**	(0.9)
Company contributions	**2.0**	4.2	**1.0**	0.7	**3.0**	4.9
Actuarial (losses)/gains recognised in the SOCI	**8.5**	9.2	**(0.2)**	(0.1)	**8.3**	9.1
Retranslation	**–**	–	**(0.4)**	0.5	**(0.4)**	0.5
Net asset/(liability) for employee benefits at 31 December	**20.5**	17.6	**(6.2)**	(6.2)	**14.3**	11.4

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

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

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

	UK (Company)		USA		Group	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Administrative expenses	**8.0**	0.6	**0.2**	0.2	**8.2**	0.8
Financial expense/(income)	**(0.4)**	(0.2)	**0.2**	0.3	**(0.2)**	0.1
Net pension expense	**7.6**	0.4	**0.4**	0.5	**8.0**	0.9

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 and Nomination Committee report on page 35 and in this note.

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

	At 1 January 2018	Granted	Lapsed	Exercised	**At 31 December 2018**
1 April 2016	**52,400**	–	–	–	**52,400**
8 June 2017	**132,600**	–	–	–	**132,600**
13 March 2018	**–**	95,152	(10,025)	–	**85,127**
	185,000	95,152	(10,025)	–	**270,127**

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 £0.1m (2017: £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
13 March 2018	178.9p

25. Capital and reserves

Share capital

Allotted, called up and fully paid	**2018 £m**	2017 £m
Ordinary shares of 25p each	**5.0**	5.0

There were 20,171,540 (2017: 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 and Nomination Committee report on pages 34 to 35 and on page 86 in note 24.

At 31 December 2018 the employee trust held 347,016 (2017: 347,016) ordinary shares of 25p each, representing 1.7% of the issued shares (2017: 1.7%), 270,127 of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £0.5m (2017: £0.5m). The trust purchased no additional shares in the year (2017: 71,600 at a cost of £0.1m).

The market value of the shares held by the trust at 31 December 2018 was £0.4m (2017: £0.5m).

Dividends

	2018 £m	2017 £m
Dividends to shareholders paid in the period:	**–**	–

Having considered the trading results for 2018, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay a dividend. No 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 2019 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 29 to 31.

Categories of financial instruments

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Financial assets:				
Derivative instruments in designated hedge accounting relationships	**–**	0.5	**0.6**	0.3
Loans and receivables (including cash and cash equivalents)	**40.9**	43.5	**19.0**	25.4
	40.9	44.0	**19.6**	25.7
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	**–**	–	**0.8**	0.3
Amortised cost	**15.5**	21.8	**22.6**	24.7
	15.5	21.8	**23.4**	25.0

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 2018 and 31 December 2018 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.

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Trade receivables	**12.2**	11.7	**1.0**	3.1
Amounts owed by Group undertakings	**–**	–	**0.5**	0.1
Other receivables	**0.8**	1.5	**0.1**	1.5
Foreign currency derivatives	**–**	0.5	**0.6**	0.3
Cash and cash equivalents	**27.9**	30.3	**17.4**	20.7
	40.9	44.0	**19.6**	25.7

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on an individual basis as the risk depends upon the circumstances of the receivable, including the financial strength of the counterparty and the terms of the contract. They have been grouped based on the days past due.

Trade receivables are written off (ie derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Group on alternative payment arrangements, amongst others, are considered indicators of no reasonable expectation of recovery.

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

	2018			2017		
Group	**Gross £m**	**Impairment loss provisions £m**	**Total £m**	Gross £m	Impairment loss provisions £m	Total £m
Not past due	**7.3**	**–**	**7.3**	7.5	–	7.5
Past due up to 30 days	**1.7**	**–**	**1.7**	3.4	–	3.4
Past due 31–60 days	**1.8**	**–**	**1.8**	0.2	–	0.2
Past due 61–90 days	**0.5**	**–**	**0.5**	0.1	–	0.1
Past due more than 91 days	**1.1**	**(0.2)**	**0.9**	0.5	–	0.5
	12.4	**(0.2)**	**12.2**	11.7	–	11.7

	2018			2017		
Company	**Company Gross £m**	**Impairment loss provisions £m**	**Total £m**	Gross £m	Impairment loss provisions £m	Total £m
Not past due	**0.9**	**–**	**0.9**	3.1	–	3.1
Past due up to 30 days	**0.1**	**–**	**0.1**	–	–	–
Past due 31–60 days	**–**	**–**	**–**	–	–	–
Past due 61–90 days	**–**	**–**	**–**	–	–	–
Past due more than 91 days	**–**	**–**	**–**	–	–	–
	1.0	**–**	**1.0**	3.1	–	3.1

26. Financial risk management continued

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 17 to 19.

Contractual maturities of non-derivative financial liabilities

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

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Current liabilities:				
Trade and other payables (excluding derivatives)	**13.9**	20.9	**22.5**	23.8
Non-current liabilities:				
Interest-bearing loans and borrowings	**0.9**	0.9	**0.9**	0.9

The maturities of the interest-bearing loans and borrowings are disclosed in note 20.

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 17 to 19.

Interest rate risk

Cash and cash equivalents

The cash profile at 31 December was:

	2018			2017		
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	**17.4**	**–**	**17.4**	16.5	–	16.5
Canadian dollar	**2.5**	**–**	**2.5**	5.6	–	5.6
US dollar	**3.7**	**–**	**3.7**	2.4	1.1	3.5
Euro	**4.3**	**–**	**4.3**	4.6	–	4.6
Other	**–**	**–**	**–**	0.1	–	0.1
	27.9	**–**	**27.9**	29.2	1.1	30.3

Company	2018 Cash at floating rates £m	2018 Cash on which no interest received £m	2018 Total £m	2017 Cash at floating rates £m	2017 Cash on which no interest received £m	2017 Total £m
Currency:						
Sterling	**17.0**	**–**	**17.0**	16.3	–	16.3
Canadian dollar	**0.2**	**–**	**0.2**	0.5	–	0.5
US dollar	**0.1**	**–**	**0.1**	1.1	–	1.1
Euro	**0.1**	**–**	**0.1**	2.8	–	2.8
	17.4	**–**	**17.4**	20.7	–	20.7

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	2018 Borrowings at floating rates £m	2018 Borrowings at fixed rates £m	2018 Total £m	2017 Borrowings at floating rates £m	2017 Borrowings at fixed rates £m	2017 Total £m
Currency:						
Sterling	**–**	**0.9**	**0.9**	–	0.9	0.9
	–	**0.9**	**0.9**	–	0.9	0.9

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

Sensitivity to interest rate risk
If interest rates had been 100 basis points higher/lower throughout the period, net financial income (excluding on pension scheme balances) for the Group would have increased/decreased by £0.2m (2017: £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 2017.

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 20, 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	
	2018	2017	**2018**	2017
US dollar	**1.33**	1.30	**1.26**	1.35
Canadian dollar	**1.72**	1.69	**1.71**	1.69
Euro	**1.13**	1.15	**1.11**	1.13
Czech koruna	**28.99**	30.17	**28.60**	28.76
Brazilian real	**4.84**	4.16	**4.81**	4.49

The Czech koruna and Brazilian real ceased to be significant to the Group following the disposal of the I&TM business in 2017.

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	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Gain	**–**	0.3	**–**	–
Loss	**(0.8)**	–	**–**	–
	(0.8)	0.3	**–**	–

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 IFRS9 Financial instruments: recognition and measurement.

There were no open forward foreign exchange contracts, as at either 31 December 2018 or 2017, that had been designated as fair value hedges under IFRS9 Financial instruments: recognition and measurement.

During the period a debit of £1.0m for the Group (2017: £0.4m credit) and £nil for the Company (2017: £0.1m) 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:

Group	2018 Less than six months £m	2018 Between six and twelve months £m	2018 Between twelve and twenty-four months £m	2018 Total £m	2017 Less than six months £m	2017 Between six and twelve months £m	2017 Between twelve and twenty-four months £m	2017 Total £m
Outflow	**(0.5)**	**–**	**–**	**(0.5)**	(1.9)	(0.3)	–	(2.2)
Inflow	**11.3**	**9.5**	**0.3**	**21.1**	11.8	0.8	0.2	12.8
	10.8	**9.5**	**0.3**	**20.6**	9.9	0.5	0.2	10.6

Company	2018 Less than six months £m	2018 Between six and twelve months £m	2018 Between twelve and twenty-four months £m	2018 Total £m	2017 Less than six months £m	2017 Between six and twelve months £m	2017 Between twelve and twenty-four months £m	2017 Total £m
Outflow	**–**	**–**	**–**	**–**	(12.9)	(1.1)	(0.2)	(14.2)
Inflow	**0.4**	**–**	**–**	**0.4**	15.9	1.4	0.2	17.5
	0.4	**–**	**–**	**0.4**	3.0	0.3	–	3.3

The following movements in the cash flow hedge reserve relate to the hedges relating to cash flows from foreign currency trade receivables.

Group	2018 £m
Opening balance 1 January 2018	**0.2**
Change in fair value of hedging instrument recognised in other comprehensive income (OCI)	**(0.8)**
Reclassified from OCI to profit or loss	**(0.2)**
Closing balance at 31 December 2018	**(0.8)**

No ineffectiveness arose during 2018. The hedging instrument refers to the forward contracts in their entirety, with hedging on a forward to forward basis.

26. Financial risk management continued

The effect of hedge accounting on the Group's financial position and performance is as follows, including the outline timing and profile of the hedging instruments:

Group	2018
Carrying amount	GBP£0.8m
Notional amount	
US$ to Canadian $	CA$35.9m
Canadian $ to Euro	€0.6m
Hedge ratio	1:1
Average forward rates	
US$ to Canadian $	1US$:1.3117CA$
Canadian $ to Euro	1CA$:0.645€
Change in the fair value of the currency forward (excluding amounts reclassified)	£0.8m
Change in the fair value of the hedged item used to determine hedge effectiveness	£0.8m
Amounts in the cash flow hedge reserve	£0.8m

No other currency pairs at 31 December 2018 or during the year had a material value to the Group.

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.

	2018			2017		
Group	US dollar £m	Euro £m	Total £m	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	0.1	0.1	0.2	–	0.1	0.1
Canadian dollar	3.6	0.4	4.0	2.0	0.7	2.7
Euro	–	–	–	–	(0.1)	(0.1)
	3.7	0.5	4.2	2.0	0.7	2.7

	2018			2017		
Company	US dollar £m	Euro £m	Total £m	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	0.1	0.1	0.2	–	–	–

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 £0.2m (2017: £0.6m). 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 £0.2m (2017: £0.5m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2017, Group equity would have reduced by £0.5m (2017: £0.4m). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 2018, Group equity would have increased by £0.6m (2017: £0.3m). This analysis assumes that all other variables remain constant.

Fair values
The fair value of borrowings at fixed rates for both the Group and the Company at 31 December 2018 is £0.8m (2017: £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	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Less than one year	**0.8**	0.7	**–**	–
Between one and five years	**2.7**	3.0	**0.1**	0.1
More than five years	**0.7**	1.0	**–**	–
	4.2	4.7	**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 (2017: £0.6m). In addition, £nil (2017: £0.4m) was recognised as an expense in the consolidated income statement in respect of operating leases of the discontinued operations.

28. Capital commitments

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Capital investment contracted but not provided for	**–**	–	**–**	–

29. Contingent liabilities

	Group		Company	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts	**1.0**	2.1	**1.0**	3.4

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
Revenue from trading activities	21.1
Costs from trading activities	(19.1)
Operating profit from trading activities	2.0
Financial income from trading activities	0.1
Profit before tax from trading activities	2.1
Income tax expense from trading activities	(0.2)
Profit after tax from trading activities	1.9
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)

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

In 2017 the loss per ordinary share from discontinued operations was 3.8p and the diluted loss per ordinary share from discontinued operations was 3.8p.

31. Related parties

Transactions with key management personnel

The compensation of key management personnel is disclosed in the Remuneration report on pages 34 to 35

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 34 to 35.

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 2018 was £0.4m (2017: £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 108. 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 Group 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)
	928142 Ontario Inc (Canada)
	Mpac Corporation (USA)
	ITCM North America Inc (USA)
	Mpac Delaware, Inc (USA)
	Mpac Laboratories, Inc (USA)
	SASIB Corporation of America (USA)
	Mpac Machine Company, Inc (USA)
	Mpac Richmond, Inc (USA)

32. Group entities continued

During the year ended 31 December 2018 the Company received interest income from subsidiary undertakings of £nil (2017: £nil), management fees of £0.7m (2017: £0.7m).and brand fees of £1.6m (2017:£nil)

At 31 December 2018 amounts owed by subsidiary undertakings to the Company were £0.5m (2017: £0.1m) and amounts owed by the Company to subsidiary undertakings were £19.0m (2017: £16.5m). The amounts owed by subsidiary undertakings to the Company are stated after a provision of £12.0m (2017: £10.2m) representing amounts owed to the Company which are no longer considered recoverable.

At 31 December 2018 investments in subsidiaries by the Company were £47.4m (2017: £47.4m).

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 and judgements

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.

Deferred tax

Management have recognised a deferred tax asset of £1.7m based on historic losses which is expected to be utilised over the next five year period. The assessment of this utilisation is based on the Group's latest budget, which is adjusted for significant non taxable income and expenses, along with specific limits to the utilisation of the tax credits. Further details of the asset is in note 16.

Revenue recognition

The group recognises revenue and gross margin on long term contracts over time, in accordance with IFRS15, based upon the total number of hours expected to be used on the contract and the number of hours required to complete the contract. Total expected revenue, the number of hours and cost of materials to complete the contract reflect management's best estimate of the probable future benefits and obligations associated with the contract. Obligations on contracts may result in penalties due to late completion of contractual milestones or unanticipated costs due to project modifications, unexpected conditions or events. Further detail in respect of revenue recognition is shown in the accounting policies note and note 1.

Five year record

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue[1]	**58.3**	53.4	41.5	51.0	40.5
Underlying operating profit/(loss)[2]	**1.4**	1.3	(1.2)	2.5	(0.1)
Non-underlying items	**(9.0)**	3.3	(1.7)	(0.8)	(0.7)
Operating (loss)/profit	**(7.6)**	4.6	(2.9)	1.7	(0.8)
Net financing expense	**0.2**	(0.3)	(0.2)	(0.8)	(0.4)
(Loss)/profit before tax	**(7.4)**	4.3	(3.1)	0.9	(1.2)
Taxation	**1.4**	(1.9)	0.7	0.1	0.2
(Loss)/profit for the period from continuing operations	**(6.0)**	2.4	(2.4)	1.0	(1.0)
Loss for the period from discontinued operations	**–**	(0.8)	1.8	(5.1)	0.7
(Loss)/profit for the period	**(6.0)**	1.6	(0.6)	(4.1)	(0.3)
Underlying operating return on sales[2]	**2.4%**	2.4%	(3.1)%	5.0%	(0.3)%
Underlying earnings/(loss) per ordinary share[2]	**4.5p**	4.2p	(6.0)p	10.8p	(2.1)p
Basic (loss)/earnings per ordinary share	**(30.1p)**	20.6p	(3.3)p	(20.9)p	(1.3)p
Dividends per ordinary share in respect of the year	**–**	–	1.25p	4.0p	5.5p
Intangible assets	**1.0**	0.9	15.2	14.9	15.7
Property, plant and equipment and investment property	**5.2**	4.8	9.3	8.8	12.1
Inventories	**3.3**	2.4	13.0	15.1	18.5
Trade and other receivables (including taxation)	**24.9**	22.7	29.3	22.1	32.6
Employee benefits	**14.3**	11.4	(2.2)	4.0	(20.6)
Trade and other payables (including taxation and provisions)	**(35.1)**	(28.8)	(30.0)	(25.1)	(30.3)
		13.4	34.6	39.8	28.0
Net funds/(debt)	**27.0**	29.4	0.8	(3.2)	(2.1)
Net assets	**40.6**	42.8	35.4	36.6	25.9
Net assets per ordinary share	**201p**	212p	176p	181p	128p
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.

Americas

Langen Packaging Inc.
6500 Kitimat Road, Unit 1
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Canada

Tel: +1 905 670 7200
E-mail: info.americas@mpac-group.com

Europe, Middle East & Africa

Langenpac BV
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6604 BV Wijchen
The Netherlands

Tel: +31 24 648 6655
E-mail: info.emea@mpac-group.com

Mpac Langen
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CV4 8HS
United Kingdom

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

Asia Pacific

Langen Pte. Ltd.
8 Burn Road,
#09–01 Trivex,
Singapore 369977

Tel: +65 63 39 96 66
E-mail: info.asia@mpac-group.com

Notice of Annual General Meeting

Notice is hereby given that the one hundred and seventh Annual General Meeting (the Meeting) of Mpac Group plc (the Company) will be held at the Company's nominated advisers offices at Panmure Gordon & Co, One New Change, London, EC4M 9AF on Thursday 2 May 2019 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 2018 together with the directors' report and the auditors' report on those annual accounts.

Directors

2. To elect Mr W C Wilkins as a director.
3. To elect Mr D G Robertson as a director.
4. To re-elect Mr J L Davies as a director.
5. To re-elect Mr A J Kitchingman as a director.
6. To re-elect Dr A Steels as a director.
7. To approve the Remuneration report set out on pages 32 to 40 of the Annual Report and Accounts 2018.

Auditors

8. To appoint Grant Thornton UK 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 29 March 2019, 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 2020 AGM or if earlier, at close of business on 2 August 2020, 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.

Notice of Annual General meeting continued

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 conclusion of the 2020 AGM of the Company (or, if earlier, at close of business on 2 August 2020) 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 close of business on 2 August 2020) 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 2020 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

Duncan Tyler
Secretary
1 April 2019

Registered in England and Wales
No. 00124855

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

Notes relating to the notice

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

Entitlement to attend and vote

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on Tuesday 30 April 2019, 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 the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

Appointment of proxies

2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 12 noon (UK time) on 2 May 2019 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
6. You can vote either:
   - by logging on to www.signalshares.com and following the instructions;
   - You may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: +44 (0)371 664 0391. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales. Alternatively, email Link at shareholderenquiries@linkgroup.co.uk
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
   - In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 12 noon on 30 April 2019.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
9. 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 of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.

Notes relating to the notice continued

10. In order for a proxy appointment or instruction made by means of CREST 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. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified above. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent 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.
11. 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 message. 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 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 the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. 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.

Corporate representatives

12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

Issued shares and total voting rights

13. As at 29 March 2019 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 20,171,540 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 29 March 2019 are 20,171,540.

Questions at the meeting

14. Any shareholder 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.

Documents on display

15. Copies of the executive Directors' service contracts and letters of appointment of the Non-Executive Directors may be inspected during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 11.45am on the day of the Meeting until the conclusion of the Meeting.

Communication

16. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Website giving information regarding the meeting

17. A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.mpac-group.com.

After the meeting

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

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 2018

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 2018, 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 W C Wilkins, who was appointed as Group Finance Director on 22 June 2018.

Resolution 3 seeks approval for the election of Mr D G Robertson, who was appointed as an independent Non-Executive Director on 1 November 2018.

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 24 of the Annual Report and Accounts 2018.

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 36 to 40 of the Annual Report and Accounts 2018, for the year ended 31 December 2018. The vote is advisory only.

Appointment of auditors

The auditors of a company must be appointed or re-appointed at each general meeting at which the accounts are laid.

In our 2017 Annual report, the Audit Committee stated its intention to hold a competitive tender for external audit services during the year, due to the long tenure of KPMG LLP as auditors of the Group and as the Senior Statutory Auditor was due to change under KPMG's internal policy of rotating audit partners every five years. A competitive tender process was conducted in the summer of 2018, resulting in the appointment of Grant Thornton UK LLP as the Group's external auditor with effect from 3 September 2018.

Resolution 8 seeks approval to appoint Grant Thornton UK 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 seeks consent for 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 29 March 2019, 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 2 August 2020. 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 29 March 2019.

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 that are 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 29 March 2019, 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 at close of business on 2 August 2020, 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 29 March 2019. The authority requested would replace a similar authority granted last year and would expire at the end of the 2020 AGM, or if earlier, at close of business on 2 August 2020.

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 2020 AGM, at which it is intended that a similar resolution will be proposed.

Corporate information

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Certain national newspapers

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

Timetable
Annual General Meeting
2 May 2019

Payment dates for preference dividend
30 June 2019 and 31 December 2019

Half-year announcement
September 2019

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