MOLINS PLC

Annual Report and Accounts 2013

# Competitive advantage through technology and innovation

## Contents



# Molins is an international specialist technology and services group, providing high performance instrumentation, machinery and analytical services to the FMCG, healthcare and pharmaceutical sectors, together with extensive aftermarket support.

# Highlights

Sales

**£105.2m**

(2012: £93.0m)

Underlying profit before tax

**£5.4m**

(2012: £4.9m)

Underlying earnings per share

**23.9p**

(2012: 21.8p)

- Sales increase of 13% to £105.2m (2012: £93.0m)
- Underlying profit before tax increase of 10% to £5.4m (2012: £4.9m)
- Underlying earnings per share increase of 10% to 23.9p (2012: 21.8p)
- Net funds of £5.2m
- Maintained ordinary dividend of 5.5p

## Our businesses

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

The businesses are organised into three divisions, each with a particular market and product focus, which share resources and infrastructure where appropriate to support their international customer base.

MOLINS PLC

| Scientific Services | Packaging Machinery | Tobacco Machinery |
| --- | --- | --- |
| CERULEAN | LANGEN GROUP | MOLINS TOBACCO MACHINERY |
| ARISTA LABORATORIES | MOLINS TECHNOLOGIES | |

## Scientific Services

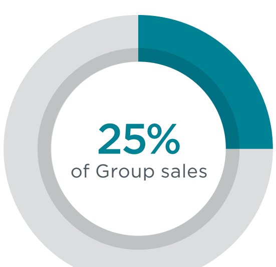
Arista Laboratories, based in Richmond, Virginia, USA is an independent tobacco and smoke constituent analytical laboratory.

Cerulean, based in Milton Keynes, UK, with an international network of sales and service offices, develops, assembles, sells and maintains process and quality control instruments primarily for the tobacco industry.

**Sales**
**£26.5m**

**Operating profit**
**£1.1m**
(before reorganisation costs)

**Employees**
**164**




## Packaging Machinery

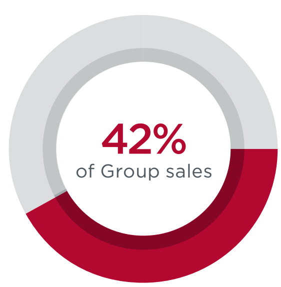
Langen Group, based in Mississauga, Ontario, Canada, in Wijchen, the Netherlands and in Singapore, is a designer and manufacturer of cartoning machinery, case packers, end-of-line and robotic solutions, as well as a provider of complete turnkey projects involving design and integration of packaging systems.

Molins Technologies (formerly ITCM) based in Coventry, UK, is a specialist engineering supplier, developing innovative technology and associated production and packaging machinery.

**Sales**
**£44.3m**

**Operating profit**
**£1.5m**

**Employees**
**257**




## Tobacco Machinery

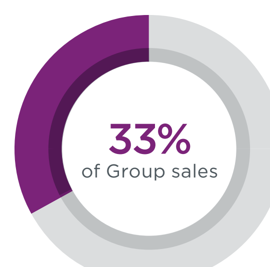
Molins Tobacco Machinery designs, manufactures and services secondary tobacco processing machinery, particularly mid-speed cigarette makers, packing and handling equipment.

The division operates globally from its headquarters in Princes Risborough, UK, where the central engineering, sales and logistics teams are located. Additional sales and service operations are based in the USA, Brazil, Singapore and Russia, with manufacturing facilities in the Czech Republic and Brazil.

**Sales**
**£34.4m**

**Operating profit**
**£2.9m**

**Employees**
**358**

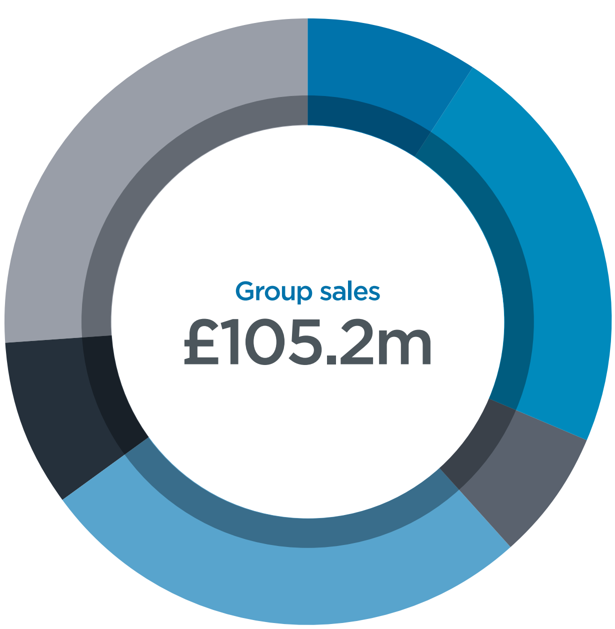



# Molins worldwide

## How we serve our global customer base

The Group has an extensive international customer base and sells goods and services into a majority of countries in the world. Our businesses are based in key strategic locations, supported by sales and services operations in most geographic regions and a network of experienced and industry relevant agents and distributors.

**Sales by destination**




UK
£9.8m

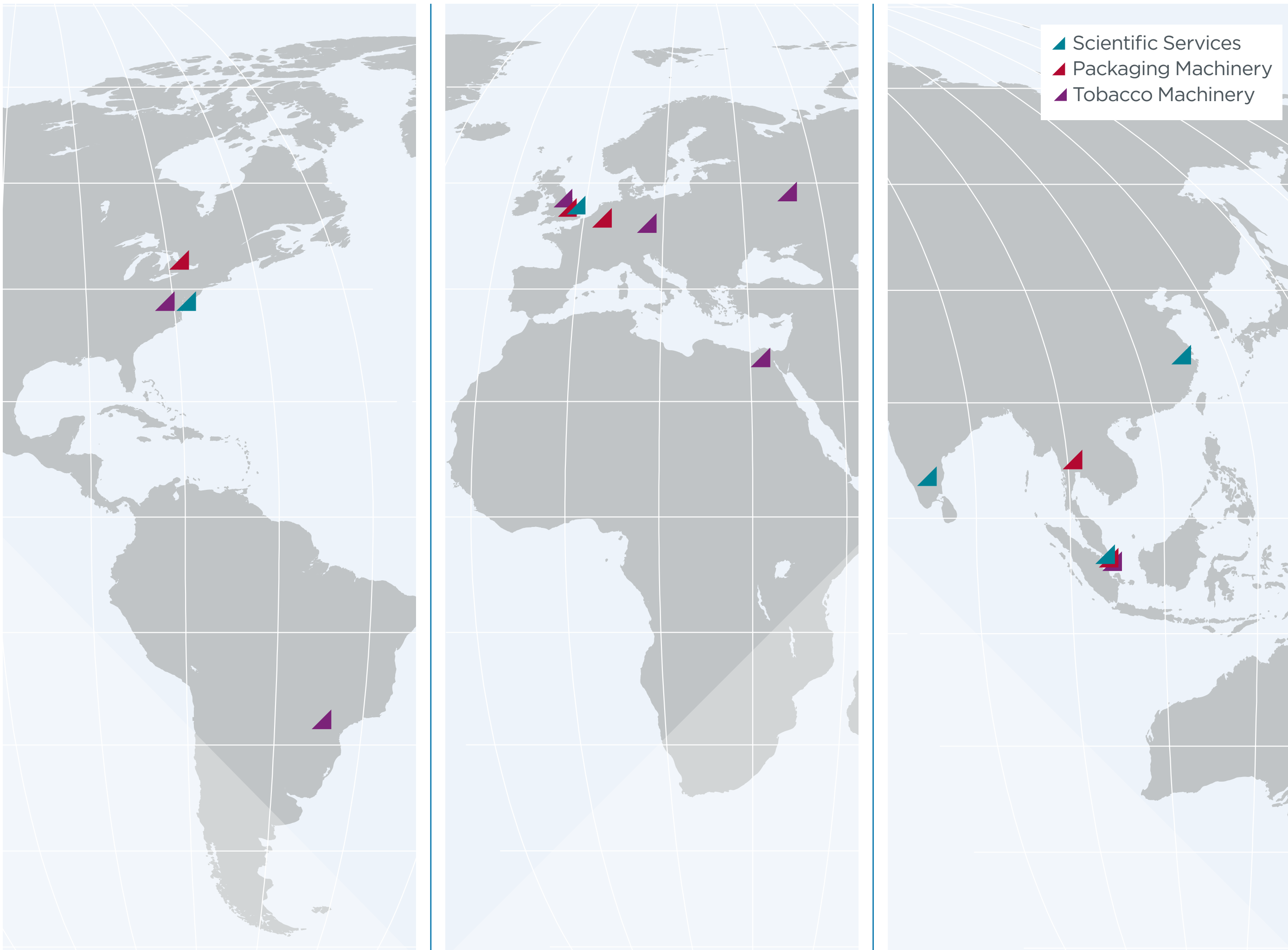
Europe (excl. UK)
£23.5m

Africa
£7.3m

USA
£27.9m

Americas (excl. USA)
£9.5m

Asia
£27.2m




## Americas

Molins businesses were first established in Brazil and in the USA over 50 years ago, and from the bases in Curitiba and Richmond, Virginia the tobacco industry is served through both the Scientific Services and Tobacco Machinery businesses; the Packaging Machinery division services this geographic area from its operation in Ontario, Canada, with support from Brazil for its activities in South America.

**Sales**

**£37.4m**

## Europe & Africa

The Group supports both its multinational and regional customers from its businesses in the UK, Netherlands and Czech Republic; together with the extensive sales, engineering and field support services deployed across the region, including in Russia and Egypt, the divisions are well placed to service their customers in all parts of Europe and Africa.

**Sales**

**£40.6m**

## Asia

The Group has long-standing experience of trading and supporting customers throughout Asia; the centre of the support for all three divisions is based in Singapore, employing product and engineering specialists from this location, with most recently the Packaging Machinery division investing resources to support the growth plans of its customers in the region. The Group is further strengthened through its offices in China, India and Thailand, as well as through its network of field service engineers and agents across Asia.

**Sales**

**£27.2m**

# Business model

We apply our technological know-how to delivering high performance instrumentation and machinery, aftermarket support and analytical services to a range of markets around the world.

## Technological know-how

### Product development
We innovate through investment in focused product development on key market deliverables to provide our customers with competitive advantage.

### Manufacturing
We continuously improve our production and assembly processes to deliver high quality specialist products.

### Support
Our specialist sales support provides long-term value to customers through aftermarket spares sales and service to maximise customer operational efficiencies.

### Logistics
Our extensive global network and long-standing partnerships with customers and suppliers enables delivery of excellent performance on an international scale.

## Revenue streams

### High performance instrumentation and machinery
We offer a range of innovative analytical, processing and product handling equipment to meet the requirements of our diverse international customer base.

### Aftermarket support
Enabling enduring partnerships with customers by providing spares, service and support to meet ongoing customer demand.

### Analytical services
Expertise in the provision of laboratory services to meet constituent testing requirements for tobacco related products worldwide.

## International markets

### Nutrition
Significant areas of opportunity in both developed economies, with new product launches, rebranding and new packaging styles, and developing economies, with increased automation of processing lines and a gradual move towards pre-packaged foods.

### Pharmaceutical
A growing sector across all geographic regions, from the general packaging of products to the high-precision processing of pharmaceuticals.

### Beverages
Innovation in liquid, leaf and powder beverage forms leads to opportunities in a number of areas, such as tea, stick-packs and the packaging of premium liquor.

### Tobacco
A global industry, with continuing innovation in cigarette design, including reduced harm and e-cigarettes, packaging and regulatory compliance requirements, as well as increased demand for quality control and efficiency improvements.

### Healthcare
Growth in most geographic regions in a wide range of applications, including medical devices, personal hygiene products and contact lenses.

# Strategy

The Group's objective is to deliver sustainable profitable growth by building long-term customer relationships through the supply of innovative products and excellence of service.

The Group's strategy to achieve its objective is based on three interlinking Group level strategic priorities.

| Strategic priorities | Progress in 2013 |
|---|---|
| **Increasing exposure to attractive global industry sectors based on regional market drivers**<br>◥ Nutrition<br>◥ Beverages<br>◥ Healthcare<br>◥ Pharmaceutical<br>◥ Tobacco | The Group continued to develop and offer both standardised and bespoke solutions to meet the specific regional requirements of a growing customer base. In order to serve and support existing multinational customers in Asia even more effectively, as well as to develop the customer base to include regional companies, the Packaging Machinery division established both a sales and service operation in Singapore, utilising the existing Group infrastructure, and a sales office in Thailand. The Tobacco Machinery division successfully focused on market developments in the Middle East and Africa in particular and the Scientific Services division continued to develop its products to support particular market requirements in the various parts of the world. The Group's strategy to extend its product ranges and invest in its service centres and sales channels is reflected in the growth across all divisions. |
| **Investing to drive profitable growth**<br>◥ Development of innovative new products and services<br>◥ Development of global infrastructure<br>◥ Acquisitions in adjacent growth markets | The Group is committed to investment in products, infrastructure and in its employees. The Scientific Services division has a strong focus on innovation, with a particular emphasis on ensuring products are configurable to support its customers in the most effective way. Tobacco Machinery has continued to invest in developing its range of new machinery, with the launch of a new filter making machine, as well as completing the development of the Alto making machine, which produces cigarettes at 10,000 per minute. The Alto will begin extended factory trials in 2014. The Packaging Machinery division's portfolio of cartoning and end-of-line robotic systems has continued to be developed, to support both established market places, as well as the development of sales in the Asian market. |
| **Driving operational efficiency**<br>◥ Supply chain and customer service excellence<br>◥ Capitalising on Group synergies<br>◥ Financial discipline | The Group's main European manufacturing operation in the Czech Republic continued with its facility and equipment upgrade with the aim of ensuring the site continues to meet the long-term strategic goals of the Group as a world class manufacturing business. During 2013 the site, which was initially set up to manufacture tobacco machinery, began larger scale manufacturing and assembly of equipment for the other divisions within the Group, taking advantage of the highly skilled employee base and efficient operation. Significant focus is placed on the efficiency of project management within the project driven businesses, starting from inception, all the way through to delivery and ongoing support to the customer. |

# Operating review

Dick Hunter
Chief Executive

**The Group delivered an improved performance in the year, with sales growth of 13% to £105.2m (2012: £93.0m) and underlying profit before tax increasing by 10% to £5.4m (2012: £4.9m). Underlying earnings per share increased by 10% to 23.9p (2012: 21.8p). Basic earnings per share amounted to 18.0p (2012: 20.6p). Net funds at the end of the year were £5.2m (2012: £7.4m).**

Encouragingly, each of the three divisions contributed to the growth. Within Scientific Services, Cerulean continued to perform well and delivered its strongest annual performance, which helped to offset the impact of under utilisation at Arista Laboratories. The Packaging Machinery division experienced growth across its business in most regions. Tobacco Machinery sales increased by greater than 10%, with sales of new machinery more than compensating for a reduction in sales in the aftermarket business.

The Group entered 2014 with the order book at similar levels to the previous year and with each of the divisions well placed to continue to progress.

The Board is recommending a final dividend of 3.0p, resulting in a maintained dividend for the year of 5.5p.

## Scientific Services

The division, which comprises Cerulean and Arista Laboratories, delivered an increase in sales of 15% to £26.5m (2012: £23.1m). Operating profit, before non-underlying items, was £1.1m (2012: £1.2m), with Cerulean's strong performance being offset by reduced activity at Arista.

Cerulean is the market-leading supplier of quality control instruments and analytical smoke constituent capture machinery to the tobacco industry, as well as a supplier of instruments to other industrial sectors. The business is based in Milton Keynes, UK, with sales and service offices in a number of key locations that support the needs of its global customer base. Arista Laboratories, based in Richmond, Virginia, USA, is an independent tobacco and cigarette smoke constituent testing laboratory for regulatory, research and product development purposes.

Sales at Cerulean grew significantly in the year. Demand from Cerulean's largest market, China, continued to be strong. Good progress was also made with the multinational cigarette companies, with Cerulean's ability to supply both standard instruments and machines, as well as to work in partnership with customers to produce customised products to meet their particular production and development needs, helping generate growth. Cerulean uses its experience and skills to advise customers on a range of issues relating to quality control in both production and laboratory environments, and benefited in the year from a large project from an important customer in North Africa to design and fit-out their new laboratories, incorporating both Cerulean's equipment and other laboratory fixtures. Sales of aftermarket products increased and the business is continuing its focus on maintaining growth in this area.

In contrast to the previous year, sales at Arista decreased, with no regulatory testing required in the USA in 2013 as a result of ongoing delays in the confirmation of a testing regime. This resulted in the activity levels continuing to be considerably lower than the business is capable of delivering and for which investment has been made. Consequently, the performance of the business was lower than in the previous year. However, good progress has been made in a number of areas, with the laboratory demonstrating its full range of tobacco products testing capabilities to a wide range of customers, and with orders being secured for a variety of testing requirements, including for cigars and the growing e-cigarette market.

The division has a number of growth initiatives in place. As well as the continued development of its wide range of tobacco related equipment, Cerulean also continues to develop its product range for a variety of industrial applications, with progress in sales for both its carton tester and enzyme sampler. At Arista there is a strong focus on the development of the business in both non-regulatory tobacco testing and in non-tobacco markets, as well as in international markets.

# Operating review continued

Cerulean started 2014 with an order book at a similar level to the previous year, and although the competitive landscape may become more challenging following its two main competitors recently being acquired by the same parent company, the business is well placed to continue to perform strongly. The outlook for Arista continues to be uncertain, with as yet no firm indication when further regulatory testing will be required. In the meantime the business is focused on developing in other areas to utilise its capacity more effectively.

### Packaging Machinery

Sales in the year increased by 14% to £44.3m (2012: £38.8m). Operating profit, before non-underlying items, was maintained at £1.5m (2012: £1.5m), with lower margin projects and increased sales and marketing costs offsetting the profitability from increased sales.

The division comprises the Langen Group, based primarily in Mississauga, Canada, in Wijchen, the Netherlands and in Singapore, which supplies highly automated product handling, cartoning and robotic end-of-line machinery and systems, and Molins Technologies (formerly ITCM), based in Coventry, UK, which provides innovative machinery and engineering solutions to challenging packaging and processing requirements.

Langen's order intake was at similar levels to the previous year, although there was a change in regional mix, with momentum in the European part of the business being offset by weaker demand in North America. Langen Asia was established in the year, with its main sales and service office in Singapore sharing the existing Group infrastructure. This investment will support the growth plans of the business' existing multinational customers in the region, and help facilitate new relationships with regionally based prospective customers. As a consequence of this investment, sales and marketing costs increased in the year ahead of the anticipated increase in sales levels, which is expected to gain traction through 2014 and into the medium-term. Although sales increased, margins reduced owing to the impact of an uneven factory loading and a greater proportion of high-engineering content projects compared with higher margin standardised machines.

Molins Technologies performed well in the year, with order intake increasing significantly compared with recent years. Good progress has been made in its strategy of broadening the customer base, whilst continuing to support its existing customers. Particular progress has been made in the pharmaceutical sector, with orders for both new machinery and engineering solutions, as well as for repeat applications. Sales growth helped the business return to strong levels of profitability, upon which, with a much improved opening order book for 2014, the business is well placed to build.

The division is progressing a number of growth initiatives focused on both the development of the customer base and its range of products and services. The development of the sales and service infrastructure to support global key accounts is at an advanced stage and plans are being evaluated for the development of an Asian engineering and assembly operation. Focus is being applied to key account management across a number of sectors, including nutrition, pharmaceutical and tobacco. The division is continuing the development of its product range, in particular to standardise a number of machine platforms and product handling techniques, which helps provide customers with proven solutions for targeted applications.

The division has established a growth platform and has strong customer relationships with many large, multinational customers. Although market demand remains changeable, the division's strategy of providing excellent service across all global markets has positioned it well as an important and reliable supplier of high quality machinery and systems. The division entered 2014 with an order book 10% higher than twelve months previously, although order prospects over the first part of the year are not as strong as last year the division is expected to progress in the year as a result of an anticipated improvement in margins.

### Tobacco Machinery

Sales in the year increased by 11% to £34.4m (2012: £31.1m). Operating profit increased to £2.9m (2012: £2.2m).

The division designs, manufactures, markets and services specialist machinery for the tobacco industry and provides extensive aftermarket support to its customers. The business is headquartered in Princes Risborough, UK, where the division's central engineering and logistics teams are located, along with the main distribution centre for spare parts. It is also the base for the sales and service teams for Europe, Middle East and Africa (EMEA). South American markets are served from the facility in Curitiba, Brazil, which includes a full manufacturing capability. Sales, service and distribution operations are located in Richmond, Virginia, USA and in Singapore, from where the North American and Asia Pacific regions are supported. Additionally the division is supported by a sales office in Moscow, Russia. The division's main machining and assembly operation is in Plzen, Czech Republic, which also supports the other divisions in the Group, as well as servicing a number of non-tobacco industry customers.

Order intake overall was slightly higher than the previous year, with increased orders for new and rebuilt machinery compensating for a reduction in aftermarket orders. The increase in orders for machinery was experienced across most regions, most significantly in Asia, North America and South America. With a relatively strong opening order book together with the additional orders received in the year, sales of machinery also increased significantly across the division. The division benefited from being able to respond quickly to the specific product demands and challenging service requirements of its customers, with relatively short order lead times owing to the flexibility and efficiency of its logistics and manufacturing operations. Sales of spare parts, having increased by 10% in each of the previous two years, fell back by 15%, reflecting mainly softer demand in Asia and some customer specific inventory management timing issues. The division continues to focus on serving its global customer base efficiently, with over 600,000 part designs available to be supplied to the industry.

The division's manufacturing facilities experienced a strong and level loading through the year, which helped contribute to the efficiency of the operations. With the increase in sales, and despite a reduction in higher margin aftermarket business, the division improved its profitability and return on sales.

The division continues to focus on new product development, with the first order received for its new filter making machine and the delivery of the first Alto making machine, which produces cigarettes at a rate of 10,000 per minute, to a customer for production trials. These developments, together with the ongoing commercial success of the Octave making machine and the current development, in collaboration with Molins Technologies, of a new cigarette packing machine that will be available for production trials in 2015, will help to reinforce Molins' established position within the tobacco industry.

The division entered 2014 with a slightly reduced order book than the previous year but with good prospects for machinery orders and an active aftermarket requirement. The business continues to focus on the efficiency of its operations and logistics, product development and the service and support of its customers.

### Summary and outlook

The Group progressed well in the year and has established a platform for further development, both organically and through acquisition. We remain mindful of the uncertain economic and regulatory environment, but are cautiously optimistic the Group will continue to demonstrate progress.

**Dick Hunter**
Chief Executive
26 February 2014

# Financial review

Underlying profit before tax increased by 10% to £5.4m (2012: £4.9m) and underlying earnings per share also increased by 10% to 23.9p (2012: 21.8p), both measures being before non-underlying items. Profit for the period was £3.5m (2012: £3.8m) and basic earnings per share amounted to 18.0p (2012: 20.6p). Net funds at the end of the year were £5.2m (2012: £7.4m).

### Operating results

The trading performance of the Group is discussed in the Operating review.

Group revenue increased by 13% to £105.2m (2012: £93.0m), with all three divisions delivering sales growth in excess of 10%. Sales in the Scientific Services division were £26.5m (2012: £23.1m) and underlying operating profit was £1.1m (2012: £1.2m). Packaging Machinery division sales were £44.3m (2012: £38.8m) and underlying operating profit was £1.5m (2012: £1.5m). Tobacco Machinery division sales were £34.4m (2012: £31.1m) and underlying operating profit was £2.9m (2012: £2.2m).

### Non-underlying items

The Group has reported a non-underlying operating charge in the year of £0.9m (2012: £0.3m), which comprises charges of £0.8m (2012: £0.8m) in respect of administration costs relating to the Group's defined benefit pension schemes (see Pension schemes section for more detail) and £0.1m (2012: £1.0m) of reorganisation costs relating in 2013 to the Scientific Services division. Additionally in the 12 months to 31 December 2012 was a credit of £1.5m in respect of actions taken in the Group's UK defined benefit pension scheme. Financing expense on pension scheme balances (see Interest and taxation below) is also considered to be a non-underlying item.

### Interest and taxation

Net financing expense was £0.8m (2012: £0.1m), which includes a charge of £0.7m (2012: £0.1m) in respect of financing expense on pension scheme balances, which is explained in the Pension schemes section. The tax charge on underlying profit before tax was £0.8m (2012: £0.8m), an effective rate of 14% (2012: 16%). The total taxation charge on the Group's profit before tax was £0.3m (2012: £0.7m), an effective rate of 8% (2012: 16%).

**David Cowen**
Group Finance Director

### Dividends

The Board is recommending a final dividend of 3.0p per ordinary share which, together with the interim dividend of 2.5p paid in October 2013, results in a total dividend of 5.5p per ordinary share in respect of 2013 (2012: 5.5p per ordinary share). The dividend, if approved, will be paid on 9 May 2014 to shareholders registered at the close of business on 22 April 2014.

### Cash, treasury and funding activities

Group net funds were £5.2m (2012: £7.4m) at the end of the year. Net cash inflow from operating activities was £4.1m (2012: £6.6m), which was after an increase in working capital of £1.6m (2012: £0.5m decrease), reorganisation payments of £0.7m (2012: £0.5m), defined benefit pension payments of £1.5m (2012: £1.6m) and net taxation payments of £1.0m (2012: £0.8m). Capital expenditure on plant and equipment was £1.9m (2012: £3.9m), expenditure on an investment property was £0.7m and capitalised product development expenditure was £2.2m (2012: £1.2m). Proceeds from the sale of plant and equipment were £0.2m (2012: £0.1m). Dividends of £1.1m (2012: £1.0m) were paid in the year.

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

The Group maintains bank facilities appropriate to its expected needs. These were renegotiated in the year and comprise secured, committed borrowing facilities with Lloyds Bank plc of £13.0m in aggregate. These facilities are committed until September 2018 and are subject to covenants covering leverage, interest cover, tangible net worth and capital expenditure and are both sterling and multi-currency denominated. Additionally, ancillary facilities are in place, covering bonds, indemnities and guarantees. The Group is operating well within its covenant levels. Short-term overdrafts and borrowings are utilised in certain parts of the Group to meet local cash requirements and these are typically denominated in local currencies. Foreign currency borrowings are used to hedge investments in overseas subsidiaries where appropriate.

### Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members, which it accounts for in accordance with IAS 19 *Employee benefits*. Changes to IAS 19 have taken effect for 2013 reporting, with the prior year comparative figures being restated. Financing income/expense is now calculated by applying the discount rate used for valuing the schemes' liabilities to the value of the net pension asset/liability at the beginning of the year, rather than calculating financing income by applying the expected return on assets to the value of the schemes' assets at the beginning of the year and financing expense by applying the discount rate to the value of the schemes' liabilities at the beginning of the year. As the discount rate is lower than the expected return on assets, financing income/expense is lower than would have been reported under IAS 19 before its requirements changed. Additionally for 2013 reporting, the expense of administering the pension schemes can no longer be accounted for as a reduction in the expected return on schemes' assets and is instead charged separately to operating profit within the income statement.

The IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2013 based on the funding valuation work carried out as at 30 June 2012, updated to reflect conditions existing at the 2013 year end and to reflect the specific requirements of IAS 19. The smaller USA defined benefit schemes were valued as at 31 December 2013, using actuarial data as of 1 January 2013, 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 deficit at the end of the year of £2.5m (2012: £13.9m), before tax. The value of the scheme's assets at 31 December 2013 was £337.9m (2012: £322.5m) and the value of the scheme's liabilities was £340.4m (2012: £336.4m). The main cause of the positive movement in the valuation in the year was that the investment returns on assets were more favourable than expected, partially offset by an increase in liabilities resulting from an increase in expected long-term inflation rates.

The accounting valuations of the USA pension schemes showed an aggregated net deficit of £3.1m (2012: £5.3m), all amounts being before tax, with total assets of £14.3m (2012: £14.7m).

# Financial review continued

The last completed scheme specific funding valuation of the Group's UK defined benefit scheme, which was carried out as at 30 June 2012, showed a funding level of 86% of liabilities, which represented a deficit of £53.0m. The solvency position of the scheme at that date, which reflects the scheme's position if it was wound up, showed a funding level of 56%. Valuations are extremely sensitive to a number of factors outside the control of the Group, including discount rates. The trustee of the scheme and the Company agreed a deficit recovery plan, which commits the Company to paying to the scheme £1.7m per annum, in monthly instalments from July 2013, with a then estimated recovery period of 17 years from 30 June 2012. The annual deficit recovery payment will increase by 2.1% per annum, except in respect of the payments for the year to 30 June 2015 and for the year to 30 June 2016 which will increase by the percentage increase in ordinary dividends in respect of the Company's 2013 and 2014 financial years if higher than 2.1%. The deficit recovery plan will be formally reassessed following the next scheme specific funding valuation, which will be carried out as at 30 June 2015.

The aggregate pension service cost relating to the defined benefit schemes charged to operating profit was £nil (2012: £0.9m). In 2012 an aggregate credit of £1.5m was reported, arising as a result of all UK employees ceasing to accrue benefits in the Group's UK scheme from November 2012. Net financing expense in respect of the schemes was £0.7m (2012: £0.1m).

During the year the Company made payments to the UK defined benefit scheme of £1.4m in respect of the deficit recovery plan and £0.2m in respect of curtailment costs arising from actions in 2010. Payments of £0.1m (2012: £nil) were made to the USA schemes in the year.

### Equity

Group equity at 31 December 2013 was £40.5m (2012: £30.5m). The movement arises mainly from profit for the period of £3.5m and net acturial gains in respect of the Group's defined benefit pension schemes of £9.9m less currency translation losses on foreign currency net investments of £1.5m and dividend payments of £1.1m, all figures net of tax where applicable.

**David Cowen**
Group Finance Director
26 February 2014

# Key performance indicators

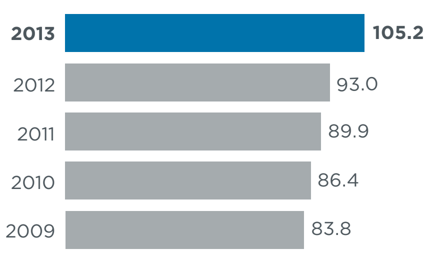
The Group monitors the performance of each of its divisions through detailed monthly operational and financial reporting, with comparisons to budgets and updated forecasts being routinely made. In addition the Group maintains regular reviews and dialogue with management of each of the Group's divisions. At Board level, the most important key performance measures are:

- sales, defined as sales to external customers;
- underlying profit before tax, calculated before non-underlying items;
- underlying operating profit as a percentage of sales (underlying operating return on sales);
- underlying earnings per share, calculated before non-underlying items; and
- operating cash flow, defined as cash generated from operations before reorganisation less payments in respect of investing activities (excluding interest received).

## Sales (£m)

**£105.2m**

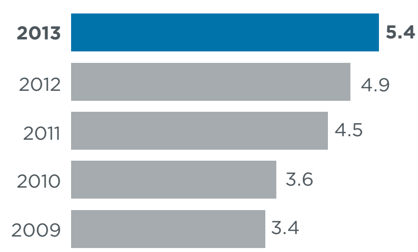
(2012: £93.0m)




## Underlying profit before tax (£m)

**£5.4m**

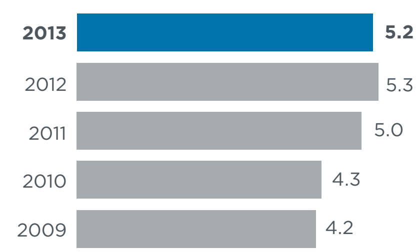
(2012: £4.9m)




## Underlying operating return on sales (%)

**5.2%**

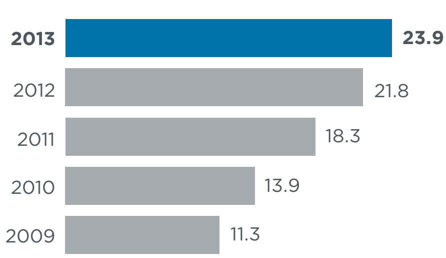
(2012: 5.3%)




## Underlying EPS (pence)

**23.9p**

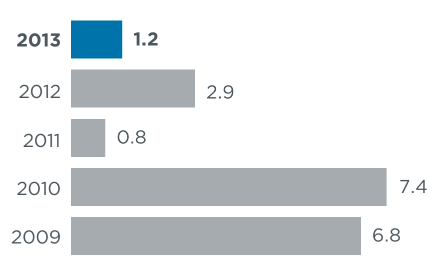
(2012: 21.8p)




## Operating cash flow (£m)

**£1.2m**

(2012: £2.9m)



# 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.

| Risks | Mitigation |
|---|---|
| **Economic and market cycles** | |
| The Group is potentially affected by global and local economic cycles and changes in a number of industrial sectors, including the tobacco industry from which a significant proportion of the Group's turnover is derived. Such potential changes include those arising as a consequence of governmental activities, such as regulation and taxation. | The customer base is geographically diverse and the Group sells a range of products and services to a number of industries, including within the tobacco industry those that relate to the regulation and quality control of tobacco products, as well as those that relate directly to the manufacture of such products. |
| **Loss of trading partners** | |
| The Group faces the general risk of trading partners, including both customers and suppliers, ceasing to operate; the loss of any such partner could have an adverse effect on the Group's operating results and financial condition, including potentially affecting the viability of a subsidiary company. A number of customers operate in countries which may face a higher degree of political risk than others. | The Group has a diversified base of customers and the customer that accounts for the largest proportion of sales, excluding one-off projects, is routinely responsible for no more than 5% of total sales in any year. In certain years sales to a customer may be more than 5%, although the sales would typically be to a number of different geographic regions. The Group businesses regularly review their trading relationships with suppliers with the aim of ensuring that alternative sources of supply are available. |
| **Large one-off projects** | |
| The Group undertakes a number of large, one-off projects for its customers each year. Several risks follow from the nature of this type of business, including the potential for cost over-runs and delays in performing the contract, with a consequent impact on cash flows and profits. Also, the Group is prone to potentially large fluctuations in business levels, as demand can be quite volatile. | The Group utilises good project management practices, including regular technical and commercial reviews of its major projects. Resource capacity is regularly reviewed, alongside reviews of order prospects lists. |
| **Loss of a key facility** | |
| The Group operates a number of businesses around the world and the loss of any one of them would interrupt a revenue stream and could potentially have an adverse effect on the Group's operating results and financial condition. | Disaster recovery plans are in place for each business. IT infrastructures are designed to have minimal inter-dependence across the Group, thereby not exposing a number of facilities to the failure of one central system. |

| Risks | Mitigation |
|---|---|
| **Exchange rate movements**<br>The majority of the Group's trading is conducted outside of the UK and in currencies other than sterling. Consequently, its financial performance is affected by fluctuations in foreign exchange rates, particularly as a result of changes in the relative values of the US dollar, Canadian dollar, euro, Czech koruna, Brazilian real and sterling. | The Group has a wide supply base in different countries and monitors the relative values of currencies in making purchasing decisions. The Group enters into forward foreign exchange contracts to minimise currency exposures on sales and purchases in other than the functional currencies of its operations. |
| **Availability of funding**<br>The Group has access from its principal UK bank to borrowing facilities of £13.0m, which are committed until September 2018, as long as the Group continues to meet the agreed covenants. In addition, these facilities provide the Group with access to other financial instruments for carrying out its activities, including bank guarantees and forward foreign exchange contracts. If a breach of agreed covenants was to occur and funding was withdrawn, it may result in the Group experiencing difficulty in financing its activities. | Reviews of actual and forecast trading performance are regularly undertaken and assessed against the bank covenants, thereby allowing mitigating actions to be put in place if there were concerns that covenants might be breached. Regular reviews are held with the principal UK bank so that they are informed of the Group's strategy and prospects and are able to comment as appropriate. |
| **Liabilities of the Group sponsored defined benefit pension schemes**<br>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 £357.8m at 31 December 2013 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 £352.2m at 31 December 2013, are largely outside the control of the Group. The Group has responsibility for the adequate funding of the pension schemes and is currently paying to the UK scheme £1.7m per annum in respect of deficit funding following an actuarial funding valuation as at 30 June 2012. | The Group and the pension schemes implement liability reduction strategies where such opportunities exist and 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 of the pension schemes are outside the control of the Group. |
| **Ability to pay dividends**<br>The ability of the Company to pay dividends to shareholders is a function of its profitability (incorporating reductions in the carrying values of capital employed in the Group, including the pension schemes' valuations) and the extent to which, as a matter of law, it has available to it sufficient distributable profits out of which any proposed dividend may be paid. Whilst the Company has historically paid dividends to shareholders, there is no assurance that it will continue to pay a dividend going forward. | The Group has a rigorous planning process which is aimed at securing future profitable business opportunities and supporting the value of capital employed in the Group. |
| **Litigation**<br>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. |

# Board of directors

**Avril Palmer-Baunack[§]**
**Chairman**

Avril Palmer-Baunack joined the Molins Board as a non-executive director and Chairman of the Board on 25 October 2010 and is also Chairman of the Nomination Committee. She is the non-executive Chairman of Helphire Group plc and was formerly executive Chairman of Stobart Group Limited, Chief Executive Officer of Autologic Holdings plc, Chief Executive Officer of Universal Salvage plc and a non-executive director of Alexon Group plc.

**Dick Hunter MBA**
**Chief Executive**

Dick Hunter joined the Company in January 2003, was appointed to the Board on 28 June 2004 and was appointed Chief Executive on 25 January 2008. He previously held a number of general management positions within Coats Viyella plc and Dynacast International Ltd in Europe, the USA and the Far East.

**David Cowen FCA**
**Group Finance Director**

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

**John Davies[§]**
**Non-Executive Director**

John Davies joined the Molins Board on 27 January 2011 as a non-executive director and is Chairman of the Remuneration Committee. He is a non-executive director of Helphire Group 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.

**Phil Moorhouse FCCA[§]**
**Non-Executive Director**

Phil Moorhouse joined the Molins Board on 1 March 2011 as a non-executive director. He is Chairman of the Audit Committee and is the Senior Independent Director. He is also the non-executive Chairman of Newcastle Building Society. He was formerly Finance Director and Managing Director UK of Northgate plc.

§ Member of the Audit, Remuneration and Nomination Committees.

# Chairman's report

I am pleased to have this opportunity to report to you on the responsibilities and activities of the Board. Earlier in this document we have explained how the Group has performed in the year, how it is structured and what its strategic objectives are. I explain below how the Board goes about ensuring it performs its duties effectively.

I would also like to take this opportunity to thank all employees for their commitment and their contribution to the performance of the Group during the year.

### The Board's activities

The Board met seven times during 2013. The directors consider that the Company complied throughout 2013 with the provisions of the UK Corporate Governance Code and those contained in the rules of the UK Listing Authority and the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and with effect from 1 October 2013 the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Board is responsible for:

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

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

The director recognised as the Senior Independent Director for the purposes of the UK Corporate Governance Code is currently Mr Moorhouse. The Board also considers Mr Davies to be an independent director. The non-executive directors met with me as Chairman on a number of occasions during the year without the executive directors being present.

In furtherance of the principles of good corporate governance, the Board has appointed Audit, Remuneration and Nomination Committees, each with formal terms of reference, which can be read on the Company's website at www.molins.com. The current memberships of the Committees are shown on page 18. All members of the Board and its Committees attended all meetings held in 2013.

The Chairmen of the Audit Committee and of the Remuneration Committee report on their activities on pages 21 and 23 respectively. The Nomination Committee, which I chair, is responsible for formulating and reviewing proposals for the appointment of directors and making recommendations thereon to the Board. It met once during 2013 and intends to meet at least once a year to review the structure, size, diversity and composition of the Board and its Committees (including the balance of skills, knowledge and experience and the need for succession planning or membership of the Board).

The directors attend seminars from time to time as appropriate to assist with training in their awareness of compliance issues facing boards of quoted companies. Directors have ensured they maintain awareness of current issues and skills development, through membership of professional associations where appropriate.

**Avril Palmer-Baunack**
Chairman

# Chairman's report continued

Details of the service contracts of the executive directors are set out in the Remuneration report. The non-executive directors' terms of engagement are set out in their letters of appointment. In each case, compensation for loss of office of a non-executive director is specifically excluded by the letter of appointment.

Mr Davies and I are both non-executive directors of Helphire Group plc. The Board has reviewed this and believes that no conflict arises as a result.

## Board performance evaluation

The Board carries out a formal review each year in respect of its performance over the previous year. The evaluation is informed by detailed questionnaires completed by each director. In addition, as part of the annual process of performance evaluation undertaken by the Board, the Senior Independent Director leads a review of the performance of the Chairman of the Board.

## Relationships with shareholders

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

## Internal controls

The Board is responsible for the Group's system of internal controls and has established a framework of financial and other material controls that is periodically reviewed in accordance with the Turnbull guidance for its effectiveness. The Board has reviewed the effectiveness of the system of internal controls during the year ended 31 December 2013 and intends to review controls annually, having ensured that appropriate control mechanisms and review processes are in place.

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

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

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

**Avril Palmer-Baunack**
Chairman
26 February 2014

# Audit Committee report

I am pleased to report on the responsibilities of the Audit Committee and its activities during the year, in my capacity as Chairman of the Audit Committee. With my background as a chartered certified accountant and former finance director the Board regards me as having the relevant experience to be able to perform my duties as the Committee's Chairman effectively.

The Committee's members are the non-executive directors, whose biographies are set out on page 18, all of whom attended all four of the Committee meetings held in the year. The Chief Executive, Group Finance Director, Secretary, senior member of the internal audit function and representatives of the external auditor (when half-year accounts, year end accounts or external audit plan proposals are to be considered) are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

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

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

### Relationship with the Auditor

During the year under review KPMG provided tax advice to the Company and some of its principal subsidiaries. The Board has considered the effect on independence of the auditor and the objective criteria on which any decisions to appoint KPMG should be made. It was concluded that in the circumstances its appointment as tax advisor was the most cost-effective means of securing appropriate advice without a serious risk of affecting the independence of the auditor. KPMG has confirmed that it does not consider its independence to be affected. The predecessor firm of KPMG Audit Plc has been in tenure as auditor for more than 40 years, during which time the lead audit partner at Group level has changed regularly. The Board has developed policies to safeguard the independence of the auditor based upon:

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

**Phil Moorhouse FCCA**
Chairman of the
Audit Committee

# Audit Committee report continued

### Auditors' appointment

The external auditor, KPMG Audit Plc, has instigated an orderly wind down of its business. The Committee evaluated and was satisfied with the work of the auditor and so decided to recommend to the Board that KPMG LLP, as intermediate parent of KPMG Audit Plc, be put forward for appointment as auditors for the 2014 audit. A resolution for the appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting to be held on 24 April 2014.

### Activities of the Audit Committee during the year

A summary of the Committee's principal activities in 2013 is set out below.

| Month | Principal activities |
|---|---|
| **February** | Review of financial reporting, including material judgements and estimates, going concern assumptions, draft Annual Report & Accounts 2012, governance reports, draft preliminary results announcement, representation letter to the external auditor and the audit report.<br>Review of internal controls and risk management processes and environment.<br>Consideration of the external auditor's activities, effectiveness, objectivity and independence, and consideration of whether to recommend the reappointment of the external auditor. |
| **April** | Approval of the internal audit work plan for the year.<br>Consideration of the effectiveness of the external audit process. |
| **August** | Review of financial reporting, including consideration of the going concern assumptions and the draft half-year announcement, and the external auditor's review report of the half-year condensed set of financial statements. |
| **November** | Review of financial controls and accounting policies.<br>Review and approval of the external audit plan for 2013 financial reporting.<br>Review of internal controls and risk management processes and environment.<br>Consideration of accounting and corporate governance developments.<br>Review of the assumptions to be applied to the impairment review of goodwill and investments for 2013 reporting. |

Areas of particular focus that the Committee considered and evaluated as part of its principal activities in the year included:

- defined benefit pension schemes – reflecting the scale of the assets and obligations for which the Group is ultimately responsible, the impact of the accounting for these schemes on the financial statements and the sensitivity of the valuations of these schemes to the key assumptions used; and
- impairment reviews of goodwill and investments – reflecting the sensitivities of the outcome of these reviews to the assumptions made in respect of the future trading performance of the subsidiary businesses, with a particular emphasis in respect of Arista Laboratories given its reliance on prospective regulatory requirements, the timing of which is uncertain.

In evaluating these focus areas the Committee assessed the judgements and key assumptions provided by executive directors and external advisors.

By order of the Board

**Phil Moorhouse**
Chairman of the Audit Committee
26 February 2014

# Remuneration Committee report

On behalf of the Board I am pleased to present the Remuneration Committee's report for the year ended 31 December 2013. This report reflects the new regulations introduced by the Government in August 2013 for quoted companies with a financial year ending on or after 30 September 2013.

To reflect these changes the report is presented in three sections; my introductory statement, the Remuneration report and the forward-looking Remuneration policy. The Remuneration report, on pages 24 to 26, details the amounts earned by the directors in respect of the period to 31 December 2013 and how the current remuneration policy will continue to operate until the Annual General Meeting on 24 April 2014, when it will be subject to an advisory shareholder vote. The Remuneration policy, on pages 26 to 30, sets out the policy which it is proposed will take effect from the close of the Annual General Meeting for a period of up to three years and will be subject to a binding vote at the Annual General Meeting.

The Remuneration Committee, which consists of the non-executive directors, deals with all aspects of the executive directors' remuneration. The Chief Executive, Group Finance Director and Secretary are invited to attend all or parts of each committee meeting but are not in attendance when the subject matter covers topics pertaining to their remuneration. The Committee meets on a regular basis, usually three times a year and additionally if required. It met four times in 2013.

During the year, the Committee has undertaken a review of the Remuneration policy to satisfy itself that the policy supports the strategic objectives of the Company. Since the beginning of the financial year there have been no substantial changes to the remuneration received by the directors or to the policy.

In February 2013 the Committee approved conditional grants of Molins ordinary shares under the Company's Deferred share plan to the executive directors, details of which are provided in the Remuneration report on page 25.

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

**John Davies**
Chairman of the
Remuneration Committee

## Remuneration report

The information provided in this Remuneration report, on pages 24 to 26, is subject to audit, except where indicated.
The following report sets out the directors' remuneration for the year ending 31 December 2013 in line with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

### Directors' total remuneration

The remuneration of the executive directors for the years 2013 and 2012 is made up as follows:

**Executive directors' remuneration as a single figure**

| 2013 | Salary £000 | All taxable benefits[a] £000 | Short-term incentive scheme[b] £000 | Deferred share plan[c] £000 | Pension[d] £000 | Total £000 |
|---|---|---|---|---|---|---|
| D J Cowen | 210 | 23 | 100 | 78 | 57 | 468 |
| R C Hunter | 237 | 26 | 113 | 88 | 36 | 500 |

| 2012 | Salary £000 | All taxable benefits[a] £000 | Short-term incentive scheme[b] £000 | Deferred share plan[c] £000 | Pension[d] £000 | Total £000 |
|---|---|---|---|---|---|---|
| D J Cowen | 206 | 23 | 133 | 71 | 47 | 480 |
| R C Hunter | 232 | 26 | 151 | 80 | 26 | 515 |

a Taxable benefits include: Mr Cowen - car allowance payments, private medical cover, income replacement insurance and life assurance premiums; Mr Hunter - the provision of a company car, private fuel, private medical cover, income replacement insurance and life assurance premiums.
b The performance criteria for the Short-term incentive scheme is described in the Remuneration policy on page 29.
c The performance criteria for the Deferred share plan is described in the Remuneration policy on page 29. 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 2013 was 167.00p and in 2012 was 115.50p.
d The values are the amounts paid in lieu of membership of a pension scheme; and additionally for 2012 the change in transfer value of the benefit accrued in the Group's UK defined benefit pension scheme in the period from January 2012 to March 2012 when membership ceased, and in the case of Mr Cowen a pension related payment in lieu of his contractual entitlement of payments into his funded unapproved retirement benefit scheme in respect of the period from January 2012 to March 2012.

The remuneration of the non-executive directors for the years 2013 and 2012 is made up as follows:

**Non-executive directors' remuneration as a single figure**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Fees £000 | All taxable benefits £000 | Total £000 | Fees £000 | All taxable benefits £000 | Total £000 |
| J L Davies | 50 | – | 50 | 50 | – | 50 |
| P J Moorhouse | 50 | – | 50 | 50 | – | 50 |
| A Palmer-Baunack - Chairman | 75 | – | 75 | 75 | – | 75 |

### Chief Executive's remuneration

The information in the table below is not subject to audit.

The table below sets out details for the director undertaking the role of Chief Executive for the last five years.

| Year | Single figure of total remuneration £000 | Short-term incentive scheme (% of maximum opportunity) | Deferred share plan (% of maximum opportunity) | LTIP (% of maximum opportunity) |
|---|---|---|---|---|
| 2013 | 500 | 68% | 75% | n/a |
| 2012 | 515 | 93% | 70% | n/a |
| 2011 | 548 | 93% | 60% | 40% |
| 2010 | 487 | 64% | 70% | n/a |
| 2009 | 422 | 64% | n/a | n/a |

### Percentage change in remuneration of director undertaking the role of Chief Executive

The information in the table below is not subject to audit.

The table below shows the percentage change in remuneration (excluding remuneration in respect of the Deferred share plan and pension) of the director undertaking the role of Chief Executive and the Group's employees as a whole between the year 2013 and 2012. In Brazil and the Netherlands salary increases are mainly determined by collective bargaining, or are mandatory.

**Percentage increase/(decrease) in 2013 compared with 2012**

| | Chief Executive | All Group employees |
|---|---|---|
| Salary | 2.0% | 2.2% |
| All taxable benefits | 0.0% | 0.0% |
| Short-term incentive scheme | (25.2)% | n/a |
| Total | (8.1)% | n/a |

### Defined benefit pension scheme

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

| | Accrued pension at 31 December 2013 £ pa |
|---|---|
| D J Cowen | 47,200 |
| R C Hunter | 32,225 |

### Directors' interests in shares

The beneficial interests of directors holding office at 31 December 2013 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

| | Held at 1 January 2013 | Acquired on 8 March 2013[a] | Sold on 8 March 2013 | Held at 31 December 2013 |
|---|---|---|---|---|
| D J Cowen | 102,219 | 113,400 | (113,400) | 102,219 |
| R C Hunter | 50,000 | 128,000 | (103,000) | 75,000 |

a Exercise of a conditional grant of Molins ordinary shares awarded in 2010 as part of the Deferred share plan.

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 2013 and 26 February 2014.

### Incentive scheme – Deferred share plan

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

| | Date of award | Basis of award (% of salary) | Number of shares | Face value at grant (£000) |
|---|---|---|---|---|
| D J Cowen | 27 February 2013 | 37.5% | 46,600 | 78 |
| | 28 February 2012 | 35.0% | 61,600 | 71 |
| | 1 March 2011 | 30.0% | 81,600 | 59 |
| R C Hunter | 27 February 2013 | 37.5% | 52,600 | 88 |
| | 28 February 2012 | 35.0% | 69,600 | 80 |
| | 1 March 2011 | 30.0% | 92,200 | 66 |

The awards are made subject to 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.

In 2013 each of the executive directors exercised a conditional grant awarded in 2010. The aggregate gains made on exercise were:

i. By D J Cowen £184,842
ii. By R C Hunter £208,640

## Remuneration report continued

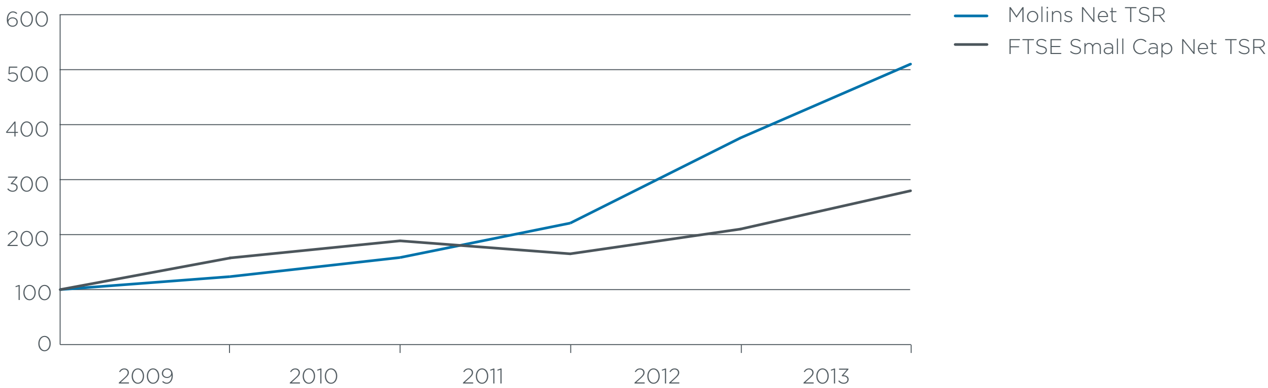
### Payments to past directors

There were no payments made to past directors during the period in respect of services provided to the Company.

### Total shareholder return information

The information in the table below is not subject to audit.

The Company's TSR performance is shown in the following line graph over the last five years, compared with the FTSE Small Cap Total Return Index. The Board believes this is the most appropriate broad equity market index with which to compare the Company's performance.




### Relative importance of spend on pay

The information in the table below is not subject to audit.

The table below sets out the relative importance of spend on pay in the Group in the 2013 and 2012 financial years compared with distribution to shareholders by way of dividends and retained profits (after the payment of dividends).

| | 2013 £m | 2012 £m | Change |
|---|---|---|---|
| Spend on pay | 33.0 | 30.9 | 7% |
| Dividends | 1.1 | 1.0 | 5% |
| Retained profits (after dividends) | 2.4 | 2.8 | (14)% |

## Remuneration policy

This part of the Remuneration Committee's report sets out the proposed Remuneration policy which will be subject to a binding vote at the 2014 Annual General Meeting. It is not subject to audit. The Remuneration policy will take effect from the close of the Annual General Meeting on 24 April 2014. The policy is determined by the Company's Remuneration Committee.

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

### Remuneration packages

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

**i. Basic salary**

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

### ii. Incentive schemes

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

The main terms of the Deferred share plan are that an award is made 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 subject to the achievement of personal objectives, the stated number of shares will be granted to the director at any time requested by the director from the third anniversary to 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 at or after normal retirement age, the director may exercise a proportion of an award before the third year anniversary of the conditional grant.

### iii. Pensions

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

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

Pensionable salary is the member's basic salary, subject to the earnings cap introduced by the Finance Act 1989, limiting the calculation of remuneration for the purposes of pensions and death benefits under approved schemes to a level of, at present, £141,000. In the case of Mr Cowen, the Company paid increased pension benefits through the payment of additional emoluments and death benefit through top up life assurance. Membership of the Fund ceased in April 2012 for the executive directors.

The Fund's main features as they affect executive directors are:

- a normal pensionable age of 60 in respect of Mr Cowen and 65 in respect of Mr Hunter;
- in respect of the career average salary pension (i.e. accruing from 1 September 2006) Mr Cowen accrued pension at the rate of 1/37th of each year's pensionable salary from 1 September 2006, and Mr Hunter at the rate of 1/38th. Pensions accrued each year for Mr Cowen and Mr Hunter on a final salary basis (i.e. up to and including 31 August 2006) shall be paid on their final pensionable salaries as at the date of their leaving membership of the Fund or retirement from the Company;
- pension payable in the event of ill health and incapacity; and
- spouse's pension on death.

## Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled employees who are incentivised to deliver the Company's strategy. The current service contracts were concluded with Mr Cowen on 18 October 2002 and with Mr Hunter on 10 February 2005 as amended on 25 January 2008. 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 twelve months' salary and benefits, or the balance of the period to the date of expiry if less, or of negotiating appropriate compensation reflecting the principle of mitigation. In the event of a change of control in the Company, if the Company terminates any of these contracts within 24 months of the change of control, or if the director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of twelve months' salary and benefits (including bonus at the rate of the average of the two previous years). The purpose of the change of control clause, which is reviewed regularly, is that the contracts should provide reasonable and appropriate security to the directors concerned and to the Company.

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

## Remuneration policy continued

### Letter of appointment

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

### Recruitment

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

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

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

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

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

### Termination

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

### Non-executive directors

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

### Future Remuneration policy table

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

| Salary | |
|---|---|
| Purpose and link to strategy | This is a fixed element of the executive directors' remuneration and is intended to be competitive and attract, retain and motivate them. |
| Operation | Takes into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and technology industries. |
| Opportunity | Salary is normally reviewed annually. Ordinarily, salary increases will be in line with increases awarded to other employees within the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as:<br>• increase in scope and responsibility;<br>• to reflect the individual's development and performance in the role; and<br>• alignment to market level. |
| Performance metrics | Not applicable, although individual performance is one of the considerations in determining the level of salary. |

### Benefits

| | |
|---|---|
| Purpose and link to strategy | The benefits provided to the executive directors are intended to be competitive and attract and retain the right calibre of candidate. |
| Operation | Benefits are paid to the executive directors in line with market practice. |
| Opportunity | Benefits are set at a level which the Remuneration Committee considers:<br>• are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and<br>• provide a sufficient level of benefit based upon the role and individual circumstances. |
| Performance metrics | Not applicable. |

### Short-term incentive scheme

| | |
|---|---|
| Purpose and link to strategy | The Short-term incentive scheme is intended to reward executive directors for the performance of the Group in the financial year. |
| Operation | The Remuneration Committee reviews the financial performance of the Group following the end of each financial year and determines the payments to be made. |
| Opportunity | Maximum of 70% of salary. |
| Performance metrics | The targets against which performance is judged are primarily the Group's underlying earnings per share in each financial year set annually by the Remuneration Committee. In some years the targets for the Short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration Committee. The Remuneration Committee retains the ability to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition/divestment of a Group business, a change in prevailing market conditions, or a change in regulation which affects one or other of the Group businesses) which cause the Remuneration Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose. |

### Deferred share plan

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

### Pensions

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

### Fees

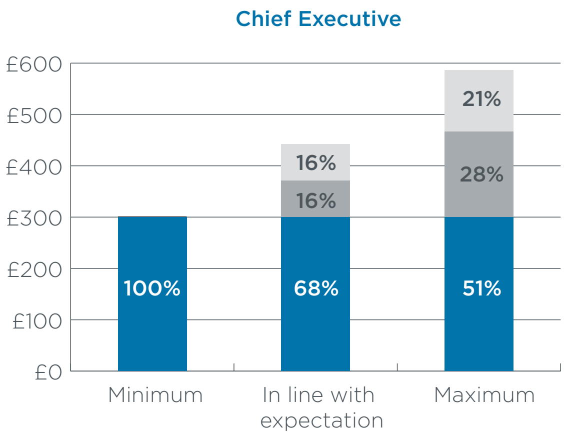
| | |
|---|---|
| Purpose and link to strategy | To attract and retain non-executive directors of the right calibre. |
| Operation | The fees of non-executive directors are determined by the Board based upon comparable market levels. The non-executive directors do not participate in the Company's incentive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

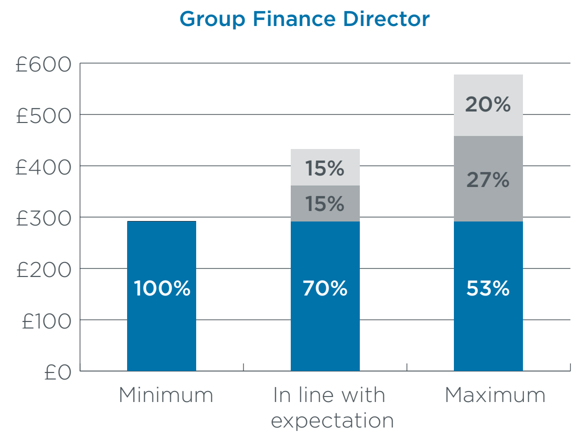
# Remuneration Committee report continued

## Remuneration policy continued

### Illustration of the applicability of the Remuneration policy

The charts below show the split of remuneration between fixed pay (salary, benefits and pension) and variable remuneration (Short-term incentive scheme and Deferred share plan) for each of the executive directors on the basis of the minimum remuneration payable, remuneration receivable for performance in line with the Company's expectations and the maximum remuneration payable for excellent performance.




- Fixed pay (£000)
- Short-term incentive schemes (£000)
- Deferred share plan (£000)

### Statement of consideration of shareholders' views

This is the first year in which the Company will be seeking binding shareholder approval for its Remuneration policy. The Company has not received any representations from shareholders in respect of the current policy. As there has not been any significant change to the policy from previous years there has been no specific consultation with shareholders. The shareholders voted (this was an advisory vote) at the 2013 Annual General Meeting in favour of the Remuneration report in the Company's Annual Report and Accounts 2012, which includes the Company's current Remuneration policy, as follows:

| To approve the Remuneration report (Resolution 5) | For | Against | Withheld | Total |
|---|---|---|---|---|
| Shareholder votes | 8,467,628 | 12,887 | 300 | 8,480,815 |

### Statement of consideration of employment conditions elsewhere in the Company

The Company applies the same key principles to setting remuneration for its employees as those applied to the directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key employees and the impact such policy has on the continued success of the Company. Employees of the Company were not consulted in setting the Remuneration policy.

By order of the Board

**John Davies**
Chairman of the Remuneration Committee
26 February 2014

# Directors' report

## Business review
The directors are required to provide a business review that complies with European Union legislation. The information the review is required to contain is set out as part of the Strategic report. The results of the Group are set out in the Consolidated income statement on page 37 and in its related notes.

## Going concern
The Group's activities together with the factors likely to affect its future development, performance and position are described within the Strategic Report on pages 1 to 17. The directors have considered the trading outlook of the Group, its financial position, including its cash resources and access to borrowings, as set out in note 20 to the accounts on page 56, 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 58 to 61. Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Dividends
An interim dividend of 2.5p was paid on 10 October 2013. The Board is recommending a final dividend of 3.0p, resulting in a maintained dividend for the full year of 5.5p (2012: 5.5p). Subject to approval at the Annual General Meeting on 24 April 2014 the final dividend will be paid on 9 May 2014 to ordinary shareholders registered at the close of business on 22 April 2014, at a cost of 0.6m.

Dividends on the 6% preference shares are due for payment on 30 June and 31 December in each year and in 2013 amounted to £54,000 (2012: £54,000).

## Research and development
Group policy is to retain and enhance its market position through the design and development of specialist machinery, instrumentation and services. To achieve this objective, engineering and product development facilities are maintained in the UK and overseas. Research and development expenditure incurred in 2013, net of third-party income, amounted to £3.0m (2012: £1.9m), of which £0.8m (2012: £0.7m) was charged to the Consolidated income statement and £2.2m (2012: £1.2m) was capitalised and included in development costs.

## Directors and directors' interests
The names of the directors of the Company at the date of this report are shown on page 18. All held office throughout 2013.

Directors' interests in the Company's shares as at 31 December 2013 are shown on page 25 in the Remuneration report. There are no shareholding requirements for directors.

## Substantial shareholdings
At 26 February 2014, the Company had been notified, in accordance with the Disclosure Rules and Transparency Rules, 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 | 5,261,007 | 26.1 |
| River and Mercantile Asset Management LLP | 1,165,000 | 5.8 |
| Mr G V L Oury | 890,000 | 4.4 |
| EES Trustees International Limited | 681,716 | 3.4 |

## Share capital
Authority for the purchase of up to 3,000,000 own ordinary shares for cancellation was granted at the 2013 Annual General Meeting and this authority expires on 24 April 2014. 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 11 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 twelve months from the date of the meeting, upon the terms set out in the resolution, up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the notice convening the Annual General Meeting.

EES Trustees International Limited holds shares as trustee in connection with the Company's long-term incentive arrangements for the benefit of the Group's employees. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 3.4% of the issued share capital.

Information about the Company's share capital is given in note 25 to the accounts on page 62.

## Annual General Meeting
The Annual General Meeting will take place on 24 April 2014. Notice of the meeting can be found on pages 73 to 80.

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

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

| | Men (%) | Women (%) |
|---|---|---|
| Directors | 80 | 20 |
| Senior managers | 67 | 33 |
| Total employees | 78 | 22 |

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

### Ethics policy
The Group's Ethics policy was reviewed, updated and reissued in April 2009. The Ethics policy, which is distributed to every Group employee, sets out the values which Molins PLC seeks to encourage and certain principles governing the way it does business.

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

### Annual quantity of emissions
The information is provided below consequent to the requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulation 2008 (No. 410) and is provided on a Group basis. In accordance with this Regulation, 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. The Regulation also requires an intensity ratio to be disclosed.

| | Emissions (tonnes of $CO_2$ equivalent) | Intensity ratio (tonnes of $CO_2$ equivalent per employee[a]) |
|---|---|---|
| Purchased electricity | 2,573 | |
| Combustion of fuel | 1,401 | |
| Total | 3,974 | 5.1 |

a Calculated using average number of employees in the year.

By order of the Board

**S P Cannon**
Secretary
26 February 2014

# Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRS, as adopted by the European Union and have elected to prepare the 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 Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a strategic report, directors' report, remuneration report and corporate governance statement in accordance with applicable law and 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Responsibilities statement

Each of the directors, whose names and functions are listed on page 18 confirm that to the best of their knowledge:

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

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

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

By order of the Board

**R C Hunter**
Chief Executive
26 February 2014

**D J Cowen**
Group Finance Director

# Independent Auditor's Report to the Members of Molins PLC only

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Molins PLC for the year ended 31 December 2013 set out on pages 37 to 70.

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 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

**Valuation of the UK net defined benefit pension liability (net liability – £2.5m; gross obligation – £340.4m)**

***Refer to page 22 (Audit Committee report), page 44 (accounting policy) and pages 58 to 61 (financial disclosures)***

- *The risk* – The Group is responsible for a UK defined benefit pension scheme. The Group has used an external, independent actuary to value the obligation by projecting the results of the latest triennial valuation to 31 December 2013. Due to the size of the obligation of the pension scheme compared to the Group, small changes in the key assumptions, being the discount, inflation and mortality rates, can have a significant effect on the Group's results and financial position.
- *Our response* – Our audit procedures included, amongst others, assessing the key assumptions, used in the Group's valuation of the pension scheme with the support of our own actuarial specialists. This included benchmarking the key assumptions used against other comparable companies and externally derived market data, and critically assessing the Group's assumptions if they appeared to be out of line with these benchmarks. We also considered whether the Group's disclosures appropriately reflect the sensitivity of the obligation to changes in these assumptions and are in compliance with the requirements of relevant accounting standards.

**Impairment review of Arista Laboratories (carrying value of net assets and goodwill – £5.6m)**

***Refer to page 22 (Audit Committee report), page 43 (accounting policy) and pages 51 and 52 (financial disclosures)***

- *The risk* – The Arista cash generating unit including associated goodwill is reviewed for impairment using a value in use model. This is performed annually and when there is any indication of impairment. The cash flow forecasts on which the impairment assessment is based anticipate additional revenue resulting from increased tobacco product testing requirements in the USA. These were expected to be announced by the US Food and Drug Administration (FDA) in 2013, but the announcement was not made as expected and no new date has been set. This is a significant risk due to the uncertainty of the timing and content of an FDA announcement which could significantly affect the cash flow forecasts used in the impairment review.
- *Our response* – Our audit procedures included, amongst others, testing the principles and integrity of the model used, comparison of the input assumptions to external data in relation to key inputs, in particular those relating to the value of future sales, the timing of the FDA's announcement and discount rates. We also critically assessed these assumptions if they appeared overly optimistic or cautious in comparison to external data or our judgement, which is based on our experience and knowledge of this business. We assessed the sensitivities of the inputs and the potential risk of management bias. We also assessed whether the Group's disclosures about the sensitivity of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

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

The materiality for the Group financial statements as a whole was set at £800,000. This has been determined with reference to a benchmark of Group revenue (of which it represents 0.8%) which we considered to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £40,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed at the key reporting components in the following countries: the UK (four components), the USA (two components), Canada (one component), the Netherlands (one component) and the Czech Republic (one component).

Specified procedures for group reporting purposes which covered revenue, trade receivables, inventory and deposits received on account were performed at other reporting components in the following countries: the USA (two components), Brazil (one component) and Singapore (one component).

The group reporting procedures covered over 95% of total Group revenue; over 95% of Group profit before taxation; and over 95% of total Group assets. The segmental disclosures in note 1 set out the individual significance of a specific country.

The majority of audits were performed by the group audit team, except for those of the components in the Netherlands and the Czech Republic which were performed by component auditors. The audits undertaken for group reporting purposes were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £285,000 to £675,000.

Detailed audit instructions were issued to and planning discussions were held with the component auditors. These instructions covered the significant audit areas that should be covered by these audits and set out the information required to be reported back to the group audit team. The group audit team attended in person or via conference call all of the audited components' final audit meetings.

### 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 information given in the Chairman's report set out on pages 19 and 20 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### 5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 31, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 19 and 20 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

# Independent Auditor's Report to the Members of Molins PLC only continued

### Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Peter Selvey (Senior Statutory Auditor)**
**For and on behalf of KPMG Audit Plc**
**Statutory Auditor**
Chartered Accountants
Altius House
One North Fourth Street
Milton Keynes MK9 1NE
26 February 2014

# Consolidated income statement
## for the year ended 31 December

| | | 2013 | | | 2012 (restated) | | |
|---|---|---|---|---|---|---|---|
| | Notes | Underlying £m | Non-underlying (note 5) £m | Total £m | Underlying £m | Non-underlying (note 5) £m | Total £m |
| **Revenue** | 1 | **105.2** | **–** | **105.2** | 93.0 | – | 93.0 |
| Cost of sales | | **(76.6)** | **–** | **(76.6)** | (65.7) | – | (65.7) |
| **Gross profit** | | **28.6** | **–** | **28.6** | 27.3 | – | 27.3 |
| Other operating income | 2 | **–** | **–** | **–** | – | 1.5 | 1.5 |
| Distribution expenses | | **(8.5)** | **–** | **(8.5)** | (8.0) | – | (8.0) |
| Administrative expenses | | **(13.8)** | **(0.9)** | **(14.7)** | (13.7) | (1.8) | (15.5) |
| Other operating expenses | 3 | **(0.8)** | **–** | **(0.8)** | (0.7) | – | (0.7) |
| **Operating profit** | 1, 4 | **5.5** | **(0.9)** | **4.6** | 4.9 | (0.3) | 4.6 |
| Financial income | 8 | **0.2** | **–** | **0.2** | 0.2 | – | 0.2 |
| Financial expenses | 8 | **(0.3)** | **(0.7)** | **(1.0)** | (0.2) | (0.1) | (0.3) |
| **Net financing expense** | | **(0.1)** | **(0.7)** | **(0.8)** | – | (0.1) | (0.1) |
| **Profit before tax** | | **5.4** | **(1.6)** | **3.8** | 4.9 | (0.4) | 4.5 |
| Taxation | 9 | **(0.8)** | **0.5** | **(0.3)** | (0.8) | 0.1 | (0.7) |
| **Profit for the period** | | **4.6** | **(1.1)** | **3.5** | 4.1 | (0.3) | 3.8 |
| Basic earnings per ordinary share | 11 | | | **18.0p** | | | 20.6p |
| Diluted earnings per ordinary share | 11 | | | **17.6p** | | | 19.9p |

# Statements of comprehensive income
## for the year ended 31 December

| | Note | Group 2013 £m | Group 2012 (restated) £m | Company 2013 £m | Company 2012 (restated) £m |
|---|---|---|---|---|---|
| Profit for the period | | **3.5** | 3.8 | **3.2** | 2.1 |
| **Other comprehensive income/(expense)** | | | | | |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Actuarial gains/(losses) | 24 | **13.5** | (17.6) | **11.0** | (17.4) |
| Tax on items that will not be reclassified to profit or loss | 9 | **(3.6)** | 4.4 | **(2.6)** | 4.2 |
| | | **9.9** | (13.2) | **8.4** | (13.2) |
| **Items that may be reclassified subsequently to profit or loss** | | | | | |
| Currency translation movements arising on foreign currency net investments | | **(1.5)** | (0.7) | **–** | – |
| Effective portion of changes in fair value of cash flow hedges | | **(0.8)** | 0.3 | **(0.6)** | – |
| Tax on items that will not be reclassified to profit or loss | 9 | **0.1** | – | **0.1** | – |
| | | **(2.2)** | (0.4) | **(0.5)** | – |
| **Other comprehensive income/(expense) for the period** | | **7.7** | (13.6) | **7.9** | (13.2) |
| **Total comprehensive income/(expense) for the period** | | **11.2** | (9.8) | **11.1** | (11.1) |

# Statements of changes in equity
## for the year ended 31 December

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Translation reserve £m | Capital redemption reserve £m | Hedging reserve £m | Retained earnings £m | Total equity £m |
| Balance at 1 January 2012 | 5.0 | 26.0 | 4.2 | 3.9 | (0.1) | 2.0 | 41.0 |
| Profit for the period, as restated | – | – | – | – | – | 3.8 | 3.8 |
| Other comprehensive income/(expense) for the period, as restated | – | – | (0.7) | – | 0.3 | (13.2) | (13.6) |
| Total comprehensive income/(expense) for the period | – | – | (0.7) | – | 0.3 | (9.4) | (9.8) |
| Dividends to shareholders | – | – | – | – | – | (1.0) | (1.0) |
| Equity-settled share-based transactions | – | – | – | – | – | 0.2 | 0.2 |
| Tax on items taken directly to equity | – | – | – | – | – | 0.1 | 0.1 |
| Total transactions with owners, recorded directly in equity | – | – | – | – | – | (0.7) | (0.7) |
| Balance at 31 December 2012 | 5.0 | 26.0 | 3.5 | 3.9 | 0.2 | (8.1) | 30.5 |
| **Balance at 1 January 2013** | **5.0** | **26.0** | **3.5** | **3.9** | **0.2** | **(8.1)** | **30.5** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **3.5** | **3.5** |
| Other comprehensive income/(expense) for the period | **–** | **–** | **(1.5)** | **–** | **(0.7)** | **9.9** | **7.7** |
| **Total comprehensive income/(expense) for the period** | **–** | **–** | **(1.5)** | **–** | **(0.7)** | **13.4** | **11.2** |
| Dividends to shareholders | **–** | **–** | **–** | **–** | **–** | **(1.1)** | **(1.1)** |
| Equity-settled share-based transactions | **–** | **–** | **–** | **–** | **–** | **0.2** | **0.2** |
| Purchase of own shares | **–** | **–** | **–** | **–** | **–** | **(0.2)** | **(0.2)** |
| Tax on items recorded directly in equity | **–** | **–** | **–** | **–** | **–** | **(0.1)** | **(0.1)** |
| **Total transactions with owners, recorded directly in equity** | **–** | **–** | **–** | **–** | **–** | **(1.2)** | **(1.2)** |
| **Balance at 31 December 2013** | **5.0** | **26.0** | **2.0** | **3.9** | **(0.5)** | **4.1** | **40.5** |

| | 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 2012 | 5.0 | 26.0 | – | 3.9 | (0.2) | 33.1 | 67.8 |
| Profit for the period, as restated | – | – | – | – | – | 2.1 | 2.1 |
| Other comprehensive expense for the period, as restated | – | – | – | – | – | (13.2) | (13.2) |
| Total comprehensive expense for the period | – | – | – | – | – | (11.1) | (11.1) |
| Dividends to shareholders | – | – | – | – | – | (1.0) | (1.0) |
| Equity-settled share-based transactions | – | – | – | – | – | 0.2 | 0.2 |
| Tax on items taken directly to equity | – | – | – | – | – | 0.1 | 0.1 |
| Total transactions with owners, recorded directly in equity | – | – | – | – | – | (0.7) | (0.7) |
| Balance at 31 December 2012 | 5.0 | 26.0 | – | 3.9 | (0.2) | 21.3 | 56.0 |
| **Balance at 1 January 2013** | **5.0** | **26.0** | **–** | **3.9** | **(0.2)** | **21.3** | **56.0** |
| Profit for the period | **–** | **–** | **–** | **–** | **–** | **3.2** | **3.2** |
| Other comprehensive income/(expense) for the period | **–** | **–** | **–** | **–** | **(0.5)** | **8.4** | **7.9** |
| **Total comprehensive income/(expense) for the period** | **–** | **–** | **–** | **–** | **(0.5)** | **11.6** | **11.1** |
| Dividends to shareholders | **–** | **–** | **–** | **–** | **–** | **(1.1)** | **(1.1)** |
| Equity-settled share-based transactions | **–** | **–** | **–** | **–** | **–** | **0.2** | **0.2** |
| Purchase of own shares | **–** | **–** | **–** | **–** | **–** | **(0.2)** | **(0.2)** |
| Tax on items recorded directly in equity | **–** | **–** | **–** | **–** | **–** | **(0.1)** | **(0.1)** |
| **Total transactions with owners, recorded directly in equity** | **–** | **–** | **–** | **–** | **–** | **(1.2)** | **(1.2)** |
| **Balance at 31 December 2013** | **5.0** | **26.0** | **–** | **3.9** | **(0.7)** | **31.7** | **65.9** |

# Statements of financial position
## as at 31 December

| | Notes | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 12 | **15.2** | 14.5 | **10.6** | 9.9 |
| Property, plant and equipment | 13 | **11.2** | 11.7 | **3.2** | 3.5 |
| Investment property | 14 | **0.8** | – | **0.8** | – |
| Investments | 15 | **–** | – | **50.6** | 50.6 |
| Deferred tax assets | 16 | **3.2** | 7.8 | **0.1** | 3.7 |
| | | **30.4** | 34.0 | **65.3** | 67.7 |
| **Current assets** | | | | | |
| Inventories | 17 | **18.5** | 18.1 | **8.7** | 6.7 |
| Trade and other receivables | 19 | **24.3** | 21.5 | **22.3** | 15.6 |
| Cash and cash equivalents | | **15.0** | 13.3 | **8.5** | 9.0 |
| | | **57.8** | 52.9 | **39.5** | 31.3 |
| **Current liabilities** | | | | | |
| Trade and other payables | 22 | **(29.5)** | (26.9) | **(25.2)** | (20.9) |
| Current tax liabilities | 10 | **(1.2)** | (1.0) | **(0.4)** | (0.1) |
| Provisions | 23 | **(1.6)** | (1.7) | **(1.0)** | (1.2) |
| | | **(32.3)** | (29.6) | **(26.6)** | (22.2) |
| **Net current assets** | | **25.5** | 23.3 | **12.9** | 9.1 |
| **Total assets less current liabilities** | | **55.9** | 57.3 | **78.2** | 76.8 |
| **Non-current liabilities** | | | | | |
| Interest-bearing loans and borrowings | 20 | **(9.8)** | (5.9) | **(9.8)** | (5.9) |
| Employee benefits | 24 | **(5.6)** | (19.2) | **(2.5)** | (13.9) |
| Deferred tax liabilities | 16 | **–** | (1.7) | **–** | (1.0) |
| | | **(15.4)** | (26.8) | **(12.3)** | (20.8) |
| **Net assets** | 1 | **40.5** | 30.5 | **65.9** | 56.0 |
| **Equity** | | | | | |
| Issued capital | 25 | **5.0** | 5.0 | **5.0** | 5.0 |
| Share premium | | **26.0** | 26.0 | **26.0** | 26.0 |
| Reserves | | **5.4** | 7.6 | **3.2** | 3.7 |
| Retained earnings | | **4.1** | (8.1) | **31.7** | 21.3 |
| **Total equity** | | **40.5** | 30.5 | **65.9** | 56.0 |

These financial statements were approved by the directors on 26 February 2014 and signed on their behalf by:

**R C Hunter**
Director

**D J Cowen**
Director

**Registered number**
124855

# Statements of cash flows
## for the year ended 31 December

| | Notes | Group 2013 £m | Group 2012 (restated) £m | Company 2013 £m | Company 2012 (restated) £m |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Operating profit | | **4.6** | 4.6 | **4.2** | 2.5 |
| Non-underlying items included in operating profit | | **0.9** | 0.3 | **0.7** | 0.2 |
| Amortisation | | **1.4** | 1.4 | **1.1** | 1.2 |
| Depreciation | | **1.8** | 2.1 | **0.4** | 0.5 |
| Defined benefit pension service costs | | **–** | 0.9 | **–** | 0.9 |
| Other non-cash items | | **0.2** | (0.3) | **0.2** | (0.3) |
| Pension payments | | **(1.5)** | (1.6) | **(1.4)** | (1.6) |
| Working capital movements: | | | | | |
| – increase in inventories | | **(1.0)** | (2.6) | **(2.0)** | (1.4) |
| – increase in trade and other receivables | | **(3.4)** | (0.7) | **(7.1)** | – |
| – increase in trade and other payables | | **2.4** | 3.5 | **3.9** | 1.9 |
| – increase in provisions | | **0.4** | 0.3 | **0.2** | 0.3 |
| **Cash generated from operations before reorganisation** | | **5.8** | 7.9 | **0.2** | 4.2 |
| Reorganisation costs paid | 5 | **(0.7)** | (0.5) | **(0.6)** | (0.4) |
| **Cash generated from operations** | | **5.1** | 7.4 | **(0.4)** | 3.8 |
| Taxation paid | | **(1.0)** | (0.8) | **(0.3)** | (0.4) |
| **Net cash from operating activities** | | **4.1** | 6.6 | **(0.7)** | 3.4 |
| **Investing activities** | | | | | |
| Interest received | | **0.2** | 0.2 | **0.3** | 0.2 |
| Proceeds from sale of property, plant and equipment | | **0.2** | 0.1 | **0.1** | – |
| Acquisition of property, plant and equipment | | **(1.9)** | (3.9) | **(0.3)** | (0.4) |
| Acquisition of investment property | | **(0.7)** | – | **(0.7)** | – |
| Capitalised development expenditure | | **(2.2)** | (1.2) | **(1.8)** | (1.0) |
| **Net cash from investing activities** | | **(4.4)** | (4.8) | **(2.4)** | (1.2) |
| **Financing activities** | | | | | |
| Interest paid | | **(0.3)** | (0.2) | **(0.3)** | (0.2) |
| Purchase of own shares | | **(0.2)** | – | **(0.2)** | – |
| Net increase against revolving facilities | | **4.2** | 0.7 | **4.2** | 0.7 |
| Dividends paid | 25 | **(1.1)** | (1.0) | **(1.1)** | (1.0) |
| **Net cash from financing activities** | | **2.6** | (0.5) | **2.6** | (0.5) |
| **Net increase/(decrease) in cash and cash equivalents** | 21 | **2.3** | 1.3 | **(0.5)** | 1.7 |
| Cash and cash equivalents at 1 January | | **13.3** | 12.3 | **9.0** | 7.3 |
| Effect of exchange rate fluctuations on cash held | | **(0.6)** | (0.3) | **–** | – |
| **Cash and cash equivalents at 31 December** | | **15.0** | 13.3 | **8.5** | 9.0 |

# Accounting policies

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

## Basis of accounting

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

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

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

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

Except as described below, the accounting policies, presentation and methods of computation applied by the Group and Company in these financial statements are the same as those applied in the 2012 financial statements.

### Changes in accounting policies

The following amendments effective for periods beginning on or after 1 January 2013, have been applied for both the Group and Company financial statements, as appropriate and unless stated otherwise have not resulted in any material impact on either the Group or Company financial statements.

IAS 19 *Employee Benefits* – the Group has adopted amendments to IAS 19 Employee Benefits, including consequential amendments to other standards, with a date of initial application of 1 January 2013, and restated the prior year's result accordingly. The Group has changed its accounting policies with respect to the basis for accounting for financing income/expense on the value of the defined benefit pension schemes' assets/liabilities and with respect to the costs of administering the defined benefit pension schemes.

The Group determines financing income/expense for the period by applying the discount rate used for valuing the schemes' liabilities to the value of the net pension asset/liability at the beginning of the year. Previously, the Group calculated financing income by applying the expected return on assets to the value of the schemes' assets at the beginning of the year and financing expense by applying the discount rate to the value of the schemes' liabilities at the beginning of the year (taking into account any changes during the period as a result of contributions and benefit payments). Additionally, the expense of administering the pension schemes is now charged separately to operating profit within the income statement. Previously it was accounted for as a reduction in the expected return on schemes' assets.

For the year to 31 December 2012, the restatement has reduced Group profit for the period as previously reported by £3.8m (Company £3.3m) and increased Group other comprehensive income by £3.8m (Company £3.3m).

### Going concern

The Group's activities together with the factors likely to affect its future development, performance and position are described within the Operating review on pages 9 to 11, Financial review on pages 12 to 14 and in the Principal risks and uncertainties on pages 16 and 17. The directors have considered the trading outlook of the Group, its financial position, including its cash resources and access to borrowings, as set out in the Financial review on pages 12 and 13 and in note 20 to the accounts on page 56, 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 58 to 61. Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Basis of consolidation

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

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

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

### Foreign currency
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

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

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

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

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

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

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

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

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

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

The annual depreciation rates used are as follows:

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

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

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

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

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

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

# Accounting policies continued

### Construction contracts

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

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

### Cash and cash equivalents

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

### Share capital

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

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

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

### Financial instruments

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

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

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

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

### Hedge accounting

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

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

### Post-retirement and other employee benefits

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

For defined benefit schemes, the net obligation is calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of the schemes' assets (at bid price) is deducted. The liability discount rate is the yield at the statement of financial position date on AA credit rated bonds that have maturity rates approximating to the terms of the obligations. 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. Current service costs are spread systematically over the lives of employees and are recognised in the periods in which they arise. 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 payment*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested by 1 January 2005.

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

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

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

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

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

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

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

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

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

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

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill; the initial recognition of other assets and liabilities that affect neither the taxable profit nor the accounting profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

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

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

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

# Notes to the accounts

### 1. Operating segments

The Group has three operating segments which are the Group's three divisions. The three divisions comprise Scientific Services, Packaging Machinery and Tobacco Machinery. The divisions offer different products and services and form the basis of the Group's management and internal reporting structure. Further details in respect of the products and services offered by each of the three divisions can be found on page 3. A commentary on the performance of the three operating segments during the year is provided in the Operating review on pages 9 to 11.

All segment information is prepared in accordance with the Group accounting policies shown on pages 42 to 45. There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2012. Information regarding the results of each operating segment is included below. Performance is measured based on underlying segment operating profit as included in the internal management reports provided to the Group's chief operating decision maker. Segment profit or loss includes those central items that are allocated to segment results in the internal management accounts. Unallocated items comprise pension scheme curtailment and past service credits, net financing income/expense and taxation. The unallocated items are excluded from segment profit or loss as they are managed centrally by employees at the Group's head office as corporate activities.

The measurement of segment assets and liabilities excludes central items that are not allocated to the three divisions in the Group's internal management accounts. Unallocated items comprise mainly goodwill, net 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**

| | Scientific Services | | Packaging Machinery | | Tobacco Machinery | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 (restated) |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m |
| **Revenue** | **26.5** | 23.1 | **44.3** | 38.8 | **34.4** | 31.1 | **105.2** | 93.0 |
| **Underlying segment operating profit** | **1.1** | 1.2 | **1.5** | 1.5 | **2.9** | 2.2 | **5.5** | 4.9 |
| Segment non-underlying items | **(0.1)** | (0.9) | **–** | (0.1) | **–** | – | **(0.1)** | (1.0) |
| **Segment operating profit** | **1.0** | 0.3 | **1.5** | 1.4 | **2.9** | 2.2 | **5.4** | 3.9 |
| Unallocated non-underlying items – defined benefit pension (costs)/credits | | | | | | | **(0.8)** | 0.7 |
| **Operating profit** | | | | | | | **4.6** | 4.6 |
| Net financing expense | | | | | | | **(0.8)** | (0.1) |
| **Profit before tax** | | | | | | | **3.8** | 4.5 |
| Taxation | | | | | | | **(0.3)** | (0.7) |
| **Profit for the period** | | | | | | | **3.5** | 3.8 |
| Segment assets | **14.0** | 13.6 | **25.1** | 19.1 | **23.8** | 26.5 | **62.9** | 59.2 |
| Segment liabilities | **(5.9)** | (5.4) | **(12.9)** | (12.1) | **(10.1)** | (12.4) | **(28.9)** | (29.9) |
| **Segment net assets – continuing operations** | **8.1** | 8.2 | **12.2** | 7.0 | **13.7** | 14.1 | **34.0** | 29.3 |
| Net liabilities – discontinued operations | | | | | | | **(0.1)** | (0.1) |
| Unallocated net assets | | | | | | | **6.6** | 1.3 |
| **Total net assets** | | | | | | | **40.5** | 30.5 |
| Capital expenditure (including development expenditure) | **1.4** | 3.5 | **1.3** | 0.8 | **1.4** | 0.8 | **4.1** | 5.1 |
| Depreciation and amortisation | **1.6** | 1.8 | **0.8** | 0.8 | **0.8** | 0.9 | **3.2** | 3.5 |
| Defined benefit pension service costs | **–** | 0.4 | **–** | 0.2 | **–** | 0.3 | **–** | 0.9 |
| Other non-cash items | **–** | – | **–** | – | **0.2** | (0.3) | **0.2** | (0.3) |

## 1. Operating segments continued

### Geographical information

*Revenue*

| | By location of customer | | | |
|---|---|---|---|---|
| | 2013 £m | 2013 % | 2012 £m | 2012 % |
| UK | **9.8** | **9** | 6.9 | 7 |
| USA | **27.9** | **27** | 24.1 | 26 |
| Europe (excl. UK) | **23.5** | **22** | 21.1 | 23 |
| Americas (excl. USA) | **9.5** | **9** | 9.4 | 10 |
| Africa | **7.3** | **7** | 6.4 | 7 |
| Asia | **27.2** | **26** | 25.1 | 27 |
| | **105.2** | **100** | 93.0 | 100 |

*Non-current assets (excluding taxation balances)*

| | By location of assets | |
|---|---|---|
| | 2013 £m | 2012 £m |
| UK | **14.6** | 13.5 |
| USA | **7.1** | 7.5 |
| Canada | **2.3** | 2.3 |
| Rest of the world | **3.2** | 2.9 |
| | **27.2** | 26.2 |

### Major customers

No single customer accounts for more than 10% of Group revenue in either 2013 or 2012.

### Revenue by type

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

| | 2013 £m | 2012 £m |
|---|---|---|
| Sale of goods | **95.4** | 82.6 |
| Rendering of services | **9.8** | 10.4 |
| **Total revenue** | **105.2** | 93.0 |

## 2. Other operating income

| | 2013 £m | 2012 £m |
|---|---|---|
| Curtailment credit on UK defined benefit pension scheme (included in non-underlying items) | **–** | 1.5 |

## 3. Other operating expenses

| | 2013 £m | 2012 £m |
|---|---|---|
| Research and development costs (expensed as incurred) | **0.8** | 0.7 |

# Notes to the accounts continued

## 4. Operating profit

| | 2013 £m | 2012 £m |
|---|---|---|
| **Operating profit is arrived at after charging:** | | |
| Amortisation of capitalised development costs | **1.4** | 1.4 |
| Depreciation of owned assets | **1.8** | 2.1 |
| Net foreign exchange losses | **–** | 0.2 |
| Cost of inventories recognised as an expense | **66.6** | 56.8 |
| Operating leases | | |
| – land and buildings | **1.7** | 1.5 |
| – other | **0.3** | 0.4 |
| Audit fees (Company £0.1m; 2012: £0.1m) | **0.2** | 0.2 |
| Other fees paid to KPMG | | |
| – tax services (Company £0.1m; 2012: £0.1m) | **0.1** | 0.1 |

## 5. Non-underlying items

Charges classified as non-underlying items were incurred in respect of reorganisation of £0.1m (2012: £1.0m), administration costs of the Group's defined benefit pension schemes of £0.8m (2012: £0.8m), which were paid for out of the assets of those schemes, and the financial expense on pension scheme balances of £0.7m (2012: £0.1m) which are detailed in note 8. In addition, in the year to 31 December 2012 a credit of £1.5m was recorded relating to the cessation of future benefit accruals from December 2012 in the Group's UK defined benefit pension scheme. Cash payments of £0.7m were made in 2013 (2012: £0.5m) in respect of reorganisation in earlier periods, of which £0.2m (2012: £0.3m) was paid to the UK defined benefit pension scheme.

## 6. Employee information

| | Period end | | Average | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **The number of persons employed by the Group was:** | | | | |
| Scientific Services | **164** | 159 | **159** | 152 |
| Packaging Machinery | **257** | 237 | **249** | 233 |
| Tobacco Machinery | **358** | 342 | **350** | 341 |
| Head Office (including non-executive directors and pension scheme administrators) | **14** | 15 | **15** | 15 |
| | **793** | 753 | **773** | 741 |

| | Note | 2013 £m | 2012 £m |
|---|---|---|---|
| **Employment costs for the Group were:** | | | |
| Wages and salaries | | **27.6** | 25.6 |
| Social security costs | | **4.1** | 3.8 |
| Employee benefits | | | |
| – defined benefit schemes | 24 | **–** | 0.9 |
| – defined contribution schemes (Company £0.7m: 2012: £0.1m) | | **1.2** | 0.5 |
| – equity-settled share-based transactions | 24 | **0.1** | 0.1 |
| | | **33.0** | 30.9 |

## 7. Emoluments of directors and interests in shares

Information on the emoluments of the directors, together with information regarding the beneficial interests of the directors and persons connected with them in the ordinary shares of the Company, is included in the Remuneration report on pages 24 to 26.

## 8. Net financing expense

| | 2013 £m | 2012 (restated) £m |
|---|---|---|
| **Financial income:** | | |
| Amounts receivable on cash and cash equivalents | **0.2** | 0.2 |
| | **0.2** | 0.2 |
| **Financial expenses:** | | |
| Amounts payable on bank loans and overdrafts | **(0.2)** | (0.1) |
| Preference dividends paid | **(0.1)** | (0.1) |
| Interest cost on pension scheme balance | **(0.7)** | (0.1) |
| | **(1.0)** | (0.3) |
| **Net financing expense** | **(0.8)** | (0.1) |

## 9. Taxation

| | 2013 £m | 2012 (restated) £m |
|---|---|---|
| **Current tax expense:** | | |
| Current year | **1.1** | 0.8 |
| **Deferred tax** | **(0.8)** | (0.1) |
| **Total taxation** | **0.3** | 0.7 |

Included within the total taxation charge is a tax credit of £0.5m (2012: £0.1m) attributable to the non-underlying items set out in note 5.

### Reconciliation of effective tax rate

| | 2013 | | 2012 (restated) | |
|---|---|---|---|---|
| | % | £m | % | £m |
| **Profit before tax** | | **3.8** | | 4.5 |
| Income tax using the UK corporation tax rate | **23.3** | **0.9** | 24.5 | 1.1 |
| Permanent differences | **5.3** | **0.2** | 4.4 | 0.2 |
| Tax incentives | **(2.5)** | **(0.1)** | (2.2) | (0.1) |
| Tax effect of utilisation of tax losses not previously recognised | **(7.9)** | **(0.3)** | (6.7) | (0.3) |
| Foreign tax charged at higher and lower rates than UK corporation tax rate | **(10.4)** | **(0.4)** | (2.2) | (0.1) |
| Adjustment in respect of prior years | **(5.3)** | **(0.2)** | (2.2) | (0.1) |
| Effect of deferred tax rate change on UK defined benefit pension scheme | **–** | **–** | 2.2 | 0.1 |
| Change in unrecognised deferred tax assets | **7.9** | **0.3** | – | – |
| Reduction in UK rate of tax | **(2.5)** | **(0.1)** | (2.2) | (0.1) |
| | **7.9** | **0.3** | 15.6 | 0.7 |

The UK Finance Bill 2013, which contains legislation for some of the proposals announced by the Chancellor in the 20 March 2013 Budget, was substantively enacted on 2 July 2013. The Bill introduced a further reduction in the rate of UK corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax assets and liabilities are measured at tax rates that are enacted or substantively enacted at the end of the reporting period. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

The effect of the announced further 2% rate reduction would have further reduced the Group's current tax charge by £0.1m and reduced the Group's deferred tax asset accordingly.

In view of probable utilisation of brought forward losses in the short-term, deferred tax assets have not been recognised on tax losses and timing differences in respect of the Group companies in the USA and Brazil. In 2012 deferred tax assets were not recognised in respect of the Group companies in Canada and Brazil.

# Notes to the accounts continued

## 9. Taxation continued

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

| | 2013 £m | 2012 (restated) £m |
|---|---|---|
| Actuarial (gains)/losses | **(3.6)** | 4.4 |
| Foreign currency derivatives | **0.1** | – |
| | **(3.5)** | 4.4 |

A deferred tax credit on own shares of £0.1m (2012: £0.1m) was recorded directly within equity in the period.

## 10. Current tax liabilities

Current tax liabilities of £1.2m (2012: £1.0m) for the Group, and current tax liabilities of £0.4m (2012: £0.1m) for the Company, represent the amount of income taxes payable in respect of current and prior periods.

## 11. Earnings per share

**Basic earnings per share**

The calculation of basic earnings per ordinary share is based upon the profit for the period of £3.5m (2012: £3.8m) and the weighted average number of ordinary shares in issue during the year ended 31 December 2013 of 19,399,424 (2012: 19,067,302). 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 per share**

The calculation of diluted earnings per ordinary share is based upon the profit for the period of £3.5m (2012: £3.8m) and the diluted weighted average number of ordinary shares in issue during the year of 19,847,489 (2012: 19,795,541), calculated as follows:

| | 2013 | 2012 |
|---|---|---|
| **Weighted average number of ordinary shares (non-diluted) at 31 December** | **19,399,424** | 19,067,302 |
| Effect of own shares | **448,065** | 728,239 |
| **Weighted average number of ordinary shares (diluted) at 31 December** | **19,847,489** | 19,795,541 |

The diluted weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

**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 23.9p (2012: 21.8p) in respect of underlying earnings per share and 23.4p (2012: 21.0p) 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 £4.6m (2012: £4.1m) which is calculated as follows:

| | 2013 £m | 2012 £m |
|---|---|---|
| **Profit for the period** | **3.5** | 3.8 |
| Non-underlying items (net of tax) | **1.1** | 0.3 |
| **Underlying profit for the period** | **4.6** | 4.1 |

## 12. Intangible assets

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Goodwill £m | Development costs £m | Total £m | Goodwill £m | Development costs £m | Total £m |
| **Cost:** | | | | | | |
| Balance at 1 January 2012 | 12.0 | 13.7 | 25.7 | 7.2 | 11.4 | 18.6 |
| Additions | – | 1.2 | 1.2 | – | 1.0 | 1.0 |
| Retranslation | (0.2) | (0.1) | (0.3) | – | – | – |
| Balance at 31 December 2012 | 11.8 | 14.8 | 26.6 | 7.2 | 12.4 | 19.6 |
| Balance at 1 January 2013 | **11.8** | **14.8** | **26.6** | **7.2** | **12.4** | **19.6** |
| Additions | **–** | **2.2** | **2.2** | **–** | **1.8** | **1.8** |
| Retranslation | **(0.1)** | **(0.1)** | **(0.2)** | **–** | **–** | **–** |
| **Balance at 31 December 2013** | **11.7** | **16.9** | **28.6** | **7.2** | **14.2** | **21.4** |
| **Amortisation and impairment losses:** | | | | | | |
| Balance at 1 January 2012 | 1.7 | 9.1 | 10.8 | 1.1 | 7.4 | 8.5 |
| Amortisation for the period | – | 1.4 | 1.4 | – | 1.2 | 1.2 |
| Retranslation | – | (0.1) | (0.1) | – | – | – |
| Balance at 31 December 2012 | 1.7 | 10.4 | 12.1 | 1.1 | 8.6 | 9.7 |
| Balance at 1 January 2013 | **1.7** | **10.4** | **12.1** | **1.1** | **8.6** | **9.7** |
| Amortisation for the period | **–** | **1.4** | **1.4** | **–** | **1.1** | **1.1** |
| Retranslation | **–** | **(0.1)** | **(0.1)** | **–** | **–** | **–** |
| **Balance at 31 December 2013** | **1.7** | **11.7** | **13.4** | **1.1** | **9.7** | **10.8** |
| **Carrying amounts:** | | | | | | |
| At 1 January 2012 | 10.3 | 4.6 | 14.9 | 6.1 | 4.0 | 10.1 |
| At 31 December 2012 | 10.1 | 4.4 | 14.5 | 6.1 | 3.8 | 9.9 |
| **At 31 December 2013** | **10.0** | **5.2** | **15.2** | **6.1** | **4.5** | **10.6** |

The amortisation and impairment charge for development costs are included in cost of sales in the Consolidated income statement.

### Goodwill

The carrying amount of goodwill at 31 December 2013 relates to the acquisitions of businesses by the Group and Company and is attributable to the following cash generating units (CGUs) within the Scientific Services division:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Cerulean | **7.2** | 7.3 | **5.3** | 5.3 |
| Arista Laboratories | **2.8** | 2.8 | **0.8** | 0.8 |
| | **10.0** | 10.1 | **6.1** | 6.1 |

#### *Impairment review of goodwill*

An annual impairment review of goodwill is undertaken and is determined from a value in use calculation for each cash generating unit (CGU) using cash flow projections over a five year period which are based on the latest three year plan approved by the Board, modified as appropriate to reflect the latest conditions. 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. No growth rate is applied to cash flows beyond the period of the projections. The discount rates applied to the cash flow forecasts for each CGU are based on a market participant's pre-tax weighted average cost of capital of 10.2% (2012: 10.0%) in respect of Cerulean and 13.8% (2012: 11.4%) in respect of Arista Laboratories.

There have been no impairments of goodwill during the period.

## 12. Intangible assets continued

**Sensitivity to the changes in assumptions**

The directors believe that any reasonably possible change in any of the key assumptions would not cause the carrying value of Cerulean to materially exceed its recoverable amount for either the Group or the Company. In respect of Arista Laboratories changes in the assumptions as to the timing of regulatory tobacco testing requirements in the USA could lead to its carrying value exceeding its recoverable amount in the future. The directors are taking steps to mitigate against this risk.

## 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 2012 | 9.2 | 13.4 | 11.9 | 34.5 | 4.6 | 2.1 | 3.8 | 10.5 |
| Additions | 1.7 | 0.7 | 1.5 | 3.9 | – | 0.1 | 0.3 | 0.4 |
| Disposals | (0.7) | (0.5) | (0.3) | (1.5) | (0.7) | – | (0.2) | (0.9) |
| Retranslation | (0.2) | (0.6) | (0.5) | (1.3) | – | – | – | – |
| Balance at 31 December 2012 | 10.0 | 13.0 | 12.6 | 35.6 | 3.9 | 2.2 | 3.9 | 10.0 |
| Balance at 1 January 2013 | **10.0** | **13.0** | **12.6** | **35.6** | **3.9** | **2.2** | **3.9** | **10.0** |
| Additions | **0.1** | **1.0** | **0.8** | **1.9** | **–** | **0.1** | **0.2** | **0.3** |
| Transfer to investment property | **(0.1)** | **–** | **–** | **(0.1)** | **(0.1)** | **–** | **–** | **(0.1)** |
| Disposals | **(1.1)** | **(2.4)** | **(1.1)** | **(4.6)** | **(0.4)** | **(1.9)** | **(1.0)** | **(3.3)** |
| Retranslation | **(0.3)** | **(0.7)** | **(0.3)** | **(1.3)** | **–** | **–** | **–** | **–** |
| **Balance at 31 December 2013** | **8.6** | **10.9** | **12.0** | **31.5** | **3.4** | **0.4** | **3.1** | **6.9** |
| **Depreciation**: | | | | | | | | |
| Balance at 1 January 2012 | 2.5 | 11.9 | 9.6 | 24.0 | 1.3 | 1.8 | 3.4 | 6.5 |
| Depreciation charge for the period | 0.7 | 0.5 | 0.9 | 2.1 | 0.2 | 0.1 | 0.2 | 0.5 |
| Disposals | (0.4) | (0.4) | (0.3) | (1.1) | (0.3) | – | (0.2) | (0.5) |
| Retranslation | (0.1) | (0.5) | (0.5) | (1.1) | – | – | – | – |
| Balance at 31 December 2012 | 2.7 | 11.5 | 9.7 | 23.9 | 1.2 | 1.9 | 3.4 | 6.5 |
| Balance at 1 January 2013 | **2.7** | **11.5** | **9.7** | **23.9** | **1.2** | **1.9** | **3.4** | **6.5** |
| Depreciation charge for the period | **0.4** | **0.4** | **1.0** | **1.8** | **0.2** | **0.1** | **0.1** | **0.4** |
| Disposals | **(1.1)** | **(2.4)** | **(1.0)** | **(4.5)** | **(0.4)** | **(1.9)** | **(0.9)** | **(3.2)** |
| Retranslation | **(0.1)** | **(0.6)** | **(0.2)** | **(0.9)** | **–** | **–** | **–** | **–** |
| **Balance at 31 December 2013** | **1.9** | **8.9** | **9.5** | **20.3** | **1.0** | **0.1** | **2.6** | **3.7** |
| **Carrying amounts:** | | | | | | | | |
| At 1 January 2012 | 6.7 | 1.5 | 2.3 | 10.5 | 3.3 | 0.3 | 0.4 | 4.0 |
| At 31 December 2012 | 7.3 | 1.5 | 2.9 | 11.7 | 2.7 | 0.3 | 0.5 | 3.5 |
| **At 31 December 2013** | **6.7** | **2.0** | **2.5** | **11.2** | **2.4** | **0.3** | **0.5** | **3.2** |

At 31 December 2013 assets disclosed as land and buildings with a carrying value of £6.2m were used as security for bank loans (2012: £6.1m).

## 14. Investment property

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Balance at 1 January 2013 | **–** | – | **–** | – |
| Additions | **0.7** | – | **0.7** | – |
| Transfer from property, plant & equipment | **0.1** | – | **0.1** | – |
| **Balance at 31 December 2013** | **0.8** | – | **0.8** | – |

Investment property is shown at cost. The fair value of the investment property at 31 December 2013 is £0.8m and has been arrived at on the basis of a valuation carried out at that date by independent valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

## 15. Investments

| Company | Cost of shares in subsidiaries £m |
|---|---|
| Balance at 1 January 2012 and 31 December 2012 | 50.6 |
| **Balance at 31 December 2013** | **50.6** |

The Company's principal divisions and subsidiaries are listed on page 72.

## 16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| Group | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Intangible assets | **1.6** | – | **(1.0)** | (1.1) | **0.6** | (1.1) |
| Property, plant and equipment | **0.2** | 0.1 | **(0.1)** | (0.4) | **0.1** | (0.3) |
| Employee benefits | **1.7** | 5.3 | **–** | – | **1.7** | 5.3 |
| Inventories | **0.2** | 0.3 | **–** | – | **0.2** | 0.3 |
| Foreign currency derivatives | **0.1** | – | **–** | – | **0.1** | – |
| Provisions | **0.4** | 0.7 | **–** | – | **0.4** | 0.7 |
| Translation movements on foreign currency investments | **–** | – | **(0.2)** | (0.3) | **(0.2)** | (0.3) |
| Own shares (employee trust) | **0.1** | 0.3 | **–** | – | **0.1** | 0.3 |
| Tax losses | **0.2** | 1.2 | **–** | – | **0.2** | 1.2 |
| **Deferred tax assets/(liabilities)** | **4.5** | 7.9 | **(1.3)** | (1.8) | **3.2** | 6.1 |
| Offset of tax | **(1.3)** | (0.1) | **1.3** | 0.1 | **–** | – |
| **Net deferred tax assets/(liabilities)** | **3.2** | 7.8 | **–** | (1.7) | **3.2** | 6.1 |

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| Company | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Intangible assets | **–** | – | **(1.0)** | (1.0) | **(1.0)** | (1.0) |
| Property, plant and equipment | **0.2** | 0.2 | **–** | – | **0.2** | 0.2 |
| Employee benefits | **0.5** | 3.2 | **–** | – | **0.5** | 3.2 |
| Foreign currency derivatives | **0.1** | – | **–** | – | **0.1** | – |
| Provisions | **0.2** | – | **–** | – | **0.2** | – |
| Own shares (employee trust) | **0.1** | 0.3 | **–** | – | **0.1** | 0.3 |
| **Deferred tax assets/(liabilities)** | **1.1** | 3.7 | **(1.0)** | (1.0) | **0.1** | 2.7 |
| Offset of tax | **(1.0)** | – | **1.0** | – | **–** | – |
| **Net deferred tax assets/(liabilities)** | **0.1** | 3.7 | **–** | (1.0) | **0.1** | 2.7 |

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. The reduction in the main rate of UK corporation tax to 20% (from 23%) was substantively enacted on 2 July 2013 and therefore the effect of the rate reduction creates a reduction in the deferred tax liability which has been included in the figures above.

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

## 16. Deferred tax assets and liabilities continued

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of temporary differences arising in certain subsidiary companies. These assets are only recognised to the extent that their recovery is reasonably certain. At the year end the Group had £7.4m of unrecognised deferred tax assets (2012: £7.8m) which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation these tax assets expire as follows:

| Expiry | Group 2013 £m | Group 2012 £m |
|---|---|---|
| Less than 10 years | – | 1.1 |
| 10 to 20 years | 2.2 | 1.0 |
| No expiry date | 5.2 | 5.7 |
| | 7.4 | 7.8 |

### Movement in temporary differences during the year

| Group | Balance at 1 January 2013 £m | Recognised in profit or loss £m | Recognised in other comprehensive income/ (expense) £m | Recorded in equity £m | Retranslation £m | Balance at 31 December 2013 £m |
|---|---|---|---|---|---|---|
| Intangible assets | (1.1) | 1.7 | – | – | – | 0.6 |
| Property, plant and equipment | (0.3) | 0.4 | – | – | (0.1) | – |
| Employee benefits | 5.3 | – | (3.6) | – | – | 1.7 |
| Inventories | 0.3 | (0.1) | – | – | – | 0.2 |
| Foreign currency derivatives | – | – | 0.1 | – | – | 0.1 |
| Provisions | 0.7 | (0.2) | – | – | – | 0.5 |
| Translation movements on foreign currency investments | (0.3) | – | – | – | 0.1 | (0.2) |
| Own shares (employee trust) | 0.3 | (0.1) | – | (0.1) | – | 0.1 |
| Tax losses | 1.2 | (0.9) | – | – | (0.1) | 0.2 |
| | 6.1 | 0.8 | (3.5) | (0.1) | (0.1) | 3.2 |

| Group | Balance at 1 January 2012 £m | Recognised in profit or loss £m | Recognised in other comprehensive income/ (expense) £m | Recorded in equity £m | Retranslation £m | Balance at 31 December 2012 £m |
|---|---|---|---|---|---|---|
| Intangible assets | (1.2) | 0.1 | – | – | – | (1.1) |
| Property, plant and equipment | (0.4) | 0.1 | – | – | – | (0.3) |
| Employee benefits | 1.4 | (0.4) | 4.4 | – | (0.1) | 5.3 |
| Inventories | 0.7 | (0.3) | – | – | (0.1) | 0.3 |
| Foreign currency derivatives | – | – | – | – | – | – |
| Provisions | 0.6 | – | – | – | 0.1 | 0.7 |
| Translation movements on foreign currency investments | (0.3) | – | – | – | – | (0.3) |
| Own shares (employee trust) | 0.2 | – | – | 0.1 | – | 0.3 |
| Tax losses | 0.6 | 0.6 | – | – | – | 1.2 |
| | 1.6 | 0.1 | 4.4 | 0.1 | (0.1) | 6.1 |

| Company | Balance at 1 January 2013 £m | Recognised in profit or loss £m | Recognised in other comprehensive income/ (expense) £m | Recorded in equity £m | Balance at 31 December 2013 £m |
|---|---|---|---|---|---|
| Intangible assets | (1.0) | – | – | – | (1.0) |
| Property, plant and equipment | 0.2 | – | – | – | 0.2 |
| Employee benefits | 3.2 | (0.1) | (2.6) | – | 0.5 |
| Foreign currency derivatives | – | – | 0.1 | – | 0.1 |
| Provisions | – | 0.2 | – | – | 0.2 |
| Own shares (employee trust) | 0.3 | (0.1) | – | (0.1) | 0.1 |
| | 2.7 | – | (2.5) | (0.1) | 0.1 |

## 16. Deferred tax assets and liabilities continued

**Movement in temporary differences during the year** continued

| Company | Balance at 1 January 2012 £m | Recognised in profit or loss £m | Recognised in other comprehensive income/ (expense) £m | Recorded in equity £m | Balance at 31 December 2012 £m |
|---|---|---|---|---|---|
| Intangible assets | (1.1) | 0.1 | – | – | (1.0) |
| Property, plant and equipment | 0.1 | 0.1 | – | – | 0.2 |
| Employee benefits | (0.6) | (0.4) | 4.2 | – | 3.2 |
| Foreign currency derivatives | – | – | – | – | – |
| Provisions | 0.1 | (0.1) | – | – | – |
| Own shares (employee trust) | 0.2 | – | – | 0.1 | 0.3 |
| | (1.3) | (0.3) | 4.2 | 0.1 | 2.7 |

## 17. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Raw materials and consumables | **3.3** | 1.7 | **1.5** | 0.7 |
| Work in progress | **6.5** | 7.1 | **2.2** | 1.8 |
| Finished goods | **8.7** | 9.3 | **5.0** | 4.2 |
| | **18.5** | 18.1 | **8.7** | 6.7 |

An amount of £0.4m (2012: £0.7m) has been charged in the year in respect of inventory write-downs.

## 18. Construction contracts

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Contracts in progress at statement of financial position date:** | | | | |
| Gross amount due from customers for contract work (included in Trade and other receivables) | **1.0** | 0.8 | **–** | 0.1 |
| Gross amount due to customers for contract work (included in Trade and other payables) | **(0.1)** | (0.8) | **–** | (0.3) |

For contracts in progress at the statement of financial position date, the contract costs incurred plus recognised profits less recognised losses to date was £9.5m (2012: £3.2m) for the Group and £4.4m (2012: £2.0m) for the Company. Deposits received on account from customers for contract work amounted to £0.9m (2012: £0.6m) for the Group and £0.6m (2012: £0.1m) for the Company.

Revenue recognised during the year in respect of construction contracts amounted to £8.4m (2012: £4.3m).

## 19. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Current assets:** | | | | |
| Trade receivables | **17.8** | 16.0 | **7.6** | 6.4 |
| Amounts owed by Group undertakings | **–** | – | **12.3** | 7.5 |
| Construction contracts | **1.0** | 0.8 | **–** | 0.1 |
| Other receivables | **1.3** | 1.0 | **0.5** | 0.2 |
| Prepayments and accrued income | **4.1** | 2.7 | **1.8** | 0.6 |
| Foreign currency derivatives | **0.1** | 1.0 | **0.1** | 0.8 |
| | **24.3** | 21.5 | **22.3** | 15.6 |

### 20. Interest-bearing loans and borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Non-current liabilities:** | | | | |
| Bank borrowings | **8.9** | 5.0 | **8.9** | 5.0 |
| Fixed cumulative preference shares | **0.9** | 0.9 | **0.9** | 0.9 |
| | **9.8** | 5.9 | **9.8** | 5.9 |
| **Non-current liabilities:** | | | | |
| Repayable between two and five years | **8.9** | 5.0 | **8.9** | 5.0 |
| More than five years | **0.9** | 0.9 | **0.9** | 0.9 |
| | **9.8** | 5.9 | **9.8** | 5.9 |

**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 £54,000 (2012: £54,000).

### 21. Reconciliation of net cash flow to movement in net funds

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Net increase/(decrease) in cash and cash equivalents** | **2.3** | 1.3 | **(0.5)** | 1.7 |
| Cash inflow from movement in borrowings | **(4.2)** | (0.7) | **(4.2)** | (0.7) |
| **Change in net funds resulting from cash flows** | **(1.9)** | 0.6 | **(4.7)** | 1.0 |
| Translation movements | **(0.3)** | (0.3) | **0.3** | – |
| **Movement in net funds in the period** | **(2.2)** | 0.3 | **(4.4)** | 1.0 |
| Opening net funds | **7.4** | 7.1 | **3.1** | 2.1 |
| **Closing net funds** | **5.2** | 7.4 | **(1.3)** | 3.1 |
| **Analysis of net funds:** | | | | |
| Cash and cash equivalents – current assets | **15.0** | 13.3 | **8.5** | 9.0 |
| Interest-bearing loans and borrowings – non-current liabilities | **(9.8)** | (5.9) | **(9.8)** | (5.9) |
| **Closing net funds** | **5.2** | 7.4 | **(1.3)** | 3.1 |

## 22. Trade and other payables

| | Group 2013 £m | Group 2012 £m | Company 2013 £m | Company 2012 £m |
|---|---|---|---|---|
| **Current liabilities:** | | | | |
| Deposits received on account | **5.1** | 5.9 | **1.8** | 1.7 |
| Trade payables | **8.7** | 6.5 | **4.6** | 3.9 |
| Amounts owed to Group undertakings | **–** | – | **9.8** | 8.5 |
| Construction contracts | **0.1** | 0.8 | **–** | 0.3 |
| Other taxes and social security | **0.8** | 0.6 | **0.4** | 0.3 |
| Other payables | **4.7** | 4.5 | **3.2** | 3.1 |
| Accruals and deferred income | **9.3** | 8.1 | **4.6** | 2.6 |
| Foreign currency derivatives | **0.8** | 0.5 | **0.8** | 0.5 |
| | **29.5** | 26.9 | **25.2** | 20.9 |

Deposits received on account of £5.1m (2012: £5.9m) exclude £1.4m (2012: £3.0m) of deposits billed but not received, which are included in accruals and deferred income.

## 23. Provisions

| Group | Warranty and after-sales service provisions £m | Reorganisation provisions £m | Discontinued operations – business disposal provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 1.1 | 0.5 | 0.1 | 1.7 |
| Provisions created in the year | 1.1 | – | – | 1.1 |
| Utilised during the year | (0.5) | (0.5) | – | (1.0) |
| Unused amounts reversed | (0.2) | – | – | (0.2) |
| **At 31 December 2013** | 1.5 | – | 0.1 | 1.6 |

| Company | Warranty and after-sales service provisions £m | Reorganisation provisions £m | Discontinued operations – business disposal provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 2013 | 0.7 | 0.4 | 0.1 | 1.2 |
| Provisions created in the year | 0.5 | – | – | 0.5 |
| Utilised during the year | (0.3) | (0.4) | – | (0.7) |
| Unused amounts reversed | – | – | – | – |
| **At 31 December 2013** | 0.9 | – | 0.1 | 1.0 |

Warranty and after-sales service provisions are recognised when products or services are sold and are based on historical data and a weighting of all possible outcomes against their associated possibilities. Except for specific identifiable claims, they are generally utilised within one year of the statement of financial position date.

Reorganisation provisions relate to reorganisation carried out within the Scientific Services division, principally resulting from the closure of a laboratory facility in the UK.

Business disposal provisions relate to the remaining liabilities that will be utilised in completing the disposal of discontinued businesses.

All other provisions are generally utilised within one year of the statement of financial position date.

## 24. Employee benefits

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

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

The pension schemes typically expose the Group to certain risks. These include the risk of investment under-performance, interest rates falling, 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. Changes were made to the benefit structure of this scheme in 2006, principally moving the pension accrual link from final salary to career average for future entitlements. In November 2012 all future benefit accruals ceased. 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. None of the assets of the scheme are invested in the Company except for an interest in the cumulative preference shares of the Company with an estimated current market value of £0.1m.

The most recent formal actuarial valuation of the scheme was carried out as at 30 June 2012 using the projected unit credit method. The market value of the scheme assets at that date was £315.8m and the funding level was 86% of liabilities, which represented a deficit of £53.0m. Following agreement between the trustee of the scheme and the Company of a deficit recovery plan, the Company continued to pay £1.2m per annum in monthly instalments from 1 July 2012, and then with effect from 1 July 2013 commenced paying to the scheme £1.7m per annum, in monthly instalments, increasing by 2.1% per annum or, in respect of each of the years from 1 July 2014 and 1 July 2015, by the rate of increase in the ordinary dividend payable by the Company if greater. The deficit recovery period from 30 June 2012 was estimated to be 17 years and 2 months, which is scheduled to be formally reassessed as at 30 June 2015.

The Company paid contributions during the year of £1.6m (2012: £1.9m), including deficit recovery payments of £1.4m (2012: £1.2m) and payments in respect of redundancies in 2011 of £0.2m (2012: £0.3m). Further payments of £0.4m were made in 2012 in respect of the accrual of benefits. The expected contributions in 2014 are £1.7m.

The Company accounts for pension costs under IAS 19 *Employee benefits* and the valuation used has been based on the detailed actuarial valuation work carried out as at 30 June 2012, updated by the Company's actuary to assess the value of the liabilities of the scheme at 31 December 2013. Scheme assets are stated at their market value at 31 December 2013.

### 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 2013 using the projected unit credit method. The valuations under IAS 19 at 31 December 2013 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £0.1m (2012: £nil) were paid during the year.

### Assumptions

The key financial assumptions used to calculate scheme liabilities and the annual net pension charge are as follows:

| | UK (Company) | | USA | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Discount rate | **4.3%** | 4.2% | **4.5%** | 3.6% |
| Inflation rate | | | | |
| – CPI | **2.4%** | 2.0% | **3.0%** | 3.0% |
| – RPI | **3.3%** | 2.9% | **n/a** | n/a |
| Increases to pensions in payment | | | | |
| – final salary benefits | **2.4%** | 2.0% | **n/a** | n/a |
| – career average benefits | **2.0%** | 1.8% | **n/a** | n/a |

## 24. Employee benefits continued

**Assumptions** continued

The assumptions relating to longevity underlying the pension liabilities of the UK defined benefit pension scheme 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 a 65 year-old to live for a number of years as follows:

| | UK scheme | USA schemes |
|---|---|---|
| Current pensioner aged 65 - male | 21.5 years | 18.6 to 19.3 years |
| Current pensioner aged 65 - female | 23.9 years | 20.5 to 21.1 years |
| Future retiree currently aged 45 upon reaching age 65 - male | 22.8 years | 16.3 to 20.7 years |
| Future retiree currently aged 45 upon reaching age 65 - female | 25.4 years | 18.6 to 21.9 years |

At 31 December 2013 the weighted average duration of the defined benefit obligation in the UK scheme was 14 years (2012: 14 years) and in the USA schemes 11 years (2012: 12 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 2013 | UK scheme | USA schemes |
|---|---|---|
| 0.1% change in discount rate | £4.5m | £0.2m |
| 0.1% change in inflation rate | £2.7m | n/a |
| Change in life expectancy by 1 year on average | £11.3m | £0.6m |

**Categories of assets and funded status**

The fair value of scheme assets were as follows:

| | UK (Company) | | USA | | Group | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| UK equities | **34.5** | 81.0 | **–** | – | **34.5** | 81.0 |
| Overseas equities | **111.4** | 114.6 | **4.2** | 5.4 | **115.6** | 120.0 |
| Bonds – index linked gilts | **38.1** | 54.2 | **–** | – | **38.1** | 54.2 |
| Bonds – other | **14.7** | – | **9.1** | 8.0 | **23.8** | 8.0 |
| Properties – funds | **23.6** | 9.4 | **0.5** | 0.7 | **24.1** | 10.1 |
| Properties – directly owned | **9.9** | 8.8 | **–** | – | **9.9** | 8.8 |
| Absolute return funds | **59.8** | – | **–** | – | **59.8** | – |
| Alternative investments | **41.5** | 50.0 | **0.1** | – | **41.6** | 50.0 |
| Other | **4.4** | 4.5 | **0.4** | 0.6 | **4.8** | 5.1 |
| **Total fair (bid) value of scheme assets** | **337.9** | 322.5 | **14.3** | 14.7 | **352.2** | 337.2 |
| Present value of defined benefit obligations | **(340.4)** | (336.4) | **(17.4)** | (20.0) | **(357.8)** | (356.4) |
| **Defined benefit liability** | **(2.5)** | (13.9) | **(3.1)** | (5.3) | **(5.6)** | (19.2) |

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

**Disclosed defined benefit pension income/expense for financial year**

*A) Components of defined benefit pension income/expense*

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

| | UK (Company) | | USA | | Group | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m |
| Current service costs | **–** | 0.9 | **–** | – | **–** | 0.9 |
| Past service credit – curtailment | **–** | (1.5) | **–** | – | **–** | (1.5) |
| **Service credit** | **–** | (0.6) | **–** | – | **–** | (0.6) |
| Interest expense/(income) on net liability/(asset) | **0.5** | (0.1) | **0.2** | 0.2 | **0.7** | 0.1 |
| Administration costs | **0.7** | 0.7 | **0.1** | 0.1 | **0.8** | 0.8 |
| **Expense recognised in income statement** | **1.2** | – | **0.3** | 0.3 | **1.5** | 0.3 |

## 24. Employee benefits continued

**Disclosed defined benefit pension income/expense for financial year** continued

***B) Statements of Comprehensive Income (SOCI)***

The actuarial gains recognised in the SOCI in respect of pensions was £13.5m (2012: £17.6m loss), comprising an actuarial gain of £11.0m (2012: £17.4m loss) for the UK pension scheme and an actuarial gain of £2.5m (2012: £0.2m loss) for the USA schemes, all figures being before tax.

**Actual return on scheme assets**

The actual return on scheme assets in 2013 was a gain of £33.2m (2012: £17.6m), comprising a gain of £32.3m (2012: £16.0m) for the UK pension scheme and a gain of £0.9m (2012: £1.6m) for the USA schemes, all figures being before tax.

**Reconciliation of the present value of defined benefit obligations**

| | UK (Company) | | USA | | Group | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m |
| Present value of defined benefit obligations at 1 January | **336.4** | 320.9 | **20.0** | 20.0 | **356.4** | 340.9 |
| Current service cost | **–** | 0.9 | **–** | – | **–** | 0.9 |
| Interest cost | **13.7** | 14.7 | **0.7** | 0.8 | **14.4** | 15.5 |
| Employee contributions | **–** | 0.4 | **–** | – | **–** | 0.4 |
| Remeasurement (gains)/losses | | | | | | |
| – Actuarial gains and losses arising from changes in demographic assumptions | **–** | (7.7) | **–** | – | **–** | (7.7) |
| – Actuarial gains and losses arising from changes in financial assumptions | **7.0** | 30.2 | **(2.0)** | 1.3 | **5.0** | 31.5 |
| – Experience | **1.8** | (3.2) | **–** | – | **1.8** | (3.2) |
| Benefit payments | **(18.5)** | (18.3) | **(1.1)** | (1.0) | **(19.6)** | (19.3) |
| Curtailment credit | **–** | (1.5) | **–** | – | **–** | (1.5) |
| Retranslation | **–** | – | **(0.2)** | (1.1) | **(0.2)** | (1.1) |
| **Present value of defined benefit obligations at 31 December*** | **340.4** | 336.4 | **17.4** | 20.0 | **357.8** | 356.4 |

* at 31 December 2013 the pensioner population accounted for some 60% of the UK scheme's obligations and some 62% of the USA schemes' obligations.

**Reconciliation of the fair value of scheme assets**

| | UK (Company) | | USA | | Group | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m | **2013 £m** | 2012 (restated) £m |
| Fair value of scheme assets at 1 January | **322.5** | 322.5 | **14.7** | 15.0 | **337.2** | 337.5 |
| Interest income | **13.2** | 14.8 | **0.5** | 0.6 | **13.7** | 15.4 |
| Remeasurement gain | | | | | | |
| – Return on scheme assets (excluding amounts included in net interest expense) | **19.8** | 1.9 | **0.5** | 1.1 | **20.3** | 3.0 |
| Company contributions | **1.6** | 1.9 | **0.1** | – | **1.7** | 1.9 |
| Employee contributions | **–** | 0.4 | **–** | – | **–** | 0.4 |
| Administration expenses | **(0.7)** | (0.7) | **(0.1)** | (0.1) | **(0.8)** | (0.8) |
| Benefit payments | **(18.5)** | (18.3) | **(1.1)** | (1.0) | **(19.6)** | (19.3) |
| Retranslation | **–** | – | **(0.3)** | (0.9) | **(0.3)** | (0.9) |
| **Fair value of scheme assets at 31 December** | **337.9** | 322.5 | **14.3** | 14.7 | **352.2** | 337.2 |

**Experience gains and losses for the year**

| | UK (Company) | | USA | | Group | |
|---|---|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Fair value of scheme assets | **337.9** | 322.5 | **14.3** | 14.7 | **352.2** | 337.2 |
| Defined benefit obligations | **(340.4)** | (336.4) | **(17.4)** | (20.0) | **(357.8)** | (356.4) |
| **Net liability** | **(2.5)** | (13.9) | **(3.1)** | (5.3) | **(5.6)** | (19.2) |
| Experience gain on scheme assets | **19.8** | 1.9 | **0.5** | 1.1 | **20.3** | 3.0 |
| Experience (loss)/gain on defined benefit obligations | **(8.8)** | (19.3) | **2.0** | (1.3) | **(6.8)** | (20.6) |
| **Total gain/(loss) recognised in the SOCI during the year** | **11.0** | (17.4) | **2.5** | (0.2) | **13.5** | (17.6) |

## 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 | |
|---|---|---|---|---|---|---|
| | **2013** **£m** | 2012 (restated) £m | **2013** **£m** | 2012 (restated) £m | **2013** **£m** | 2012 (restated) £m |
| Net (liability)/asset for employee benefits at 1 January | **(13.9)** | 1.6 | **(5.3)** | (5.0) | **(19.2)** | (3.4) |
| Expense recognised in the income statement (see below) | **(1.2)** | – | **(0.3)** | (0.3) | **(1.5)** | (0.3) |
| Company contributions | **1.6** | 1.9 | **0.1** | – | **1.7** | 1.9 |
| Actuarial gains/(losses) recognised in the SOCI | **11.0** | (17.4) | **2.5** | (0.2) | **13.5** | (17.6) |
| Retranslation | **–** | – | **(0.1)** | 0.2 | **(0.1)** | 0.2 |
| **Net liability for employee benefits at 31 December** | **(2.5)** | (13.9) | **(3.1)** | (5.3) | **(5.6)** | (19.2) |

**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 | |
|---|---|---|---|---|---|---|
| | **2013** **£m** | 2012 (restated) £m | **2013** **£m** | 2012 (restated) £m | **2013** **£m** | 2012 (restated) £m |
| Cost of sales | **–** | 0.4 | **–** | – | **–** | 0.4 |
| Distribution expenses | **–** | 0.2 | **–** | – | **–** | 0.2 |
| Administrative expenses | **0.7** | 1.0 | **0.1** | 0.1 | **0.8** | 1.1 |
| Other operating income | **–** | (1.5) | **–** | – | **–** | (1.5) |
| Financial expense/(income) | **0.5** | (0.1) | **0.2** | 0.2 | **0.7** | 0.1 |
| **Net pension expense** | **1.2** | – | **0.3** | 0.3 | **1.5** | 0.3 |

In respect of the Group's defined benefit pension schemes, administration costs of the defined benefit pension schemes and financial expense/income on pension scheme balances are included in non-underlying items. Also in 2012 a curtailment credit of £1.5m was 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 report on pages 24 to 26 and in this note.

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

| Date of award | **At 1 January 2013** | **Granted** | **Exercised** | **At 31 December 2013** |
|---|---|---|---|---|
| 1 March 2010[a] | **360,800** | **–** | **(360,800)** | **–** |
| 1 December 2010[b] | **149,200** | **–** | **(149,200)** | **–** |
| 1 March 2011 | **173,800** | **–** | **–** | **173,800** |
| 1 December 2011 | **99,000** | **–** | **–** | **99,000** |
| 28 February 2012 | **131,200** | **–** | **–** | **131,200** |
| 1 December 2012 | **121,600** | **–** | **–** | **121,600** |
| 27 February 2013 | **–** | **99,200** | **–** | **99,200** |
| 1 December 2013 | **–** | **62,800** | **–** | **62,800** |
| | **1,035,600** | **162,000** | **(510,000)** | **687,600** |

a Exercise under Deferred share plan on 1 March 2013. Mid-market price on that date was 171.00p.

b Exercise under Deferred share plan on 1 December 2013. Mid-market price on that date was 192.50p.

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

As at 31 December 2013 none of the above share awards were exercisable.

The share-based compensation charge for the year amounted to £0.2m (2012: £0.2m).

# Notes to the accounts continued

### 24. Employee benefits continued

**Share-based payments** continued

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 March 2010 | 48.0p |
| 1 December 2010 | 45.0p |
| 1 March 2011 | 59.5p |
| 1 December 2011 | 79.5p |
| 28 February 2012 | 103.0p |
| 1 December 2012 | 124.5p |
| 27 February 2013 | 154.5p |
| 1 December 2013 | 180.0p |

### 25. Capital and reserves

**Share capital**

| Allotted, called up and fully paid | **2013 £m** | 2012 £m |
|---|---|---|
| Ordinary shares of 25p each | **5.0** | 5.0 |

There were 20,171,540 (2012: 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 681,716 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 report on pages 24 to 26 and on page 61 in note 24.

At 31 December 2013 the employee trust held 681,716 (2012: 1,085,216) ordinary shares of 25p each, representing 3.4% of the issued shares (2012: 5.4%), all of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £1.6m (2012: £1.9m), including 106,500 shares purchased in the year at a cost of £0.2m. The market value of the shares at 31 December 2013 was £1.3m (2012: £1.6m).

**Dividends**

| | **2013 £m** | 2012 £m |
|---|---|---|
| **Dividends to shareholders paid in the period:** | | |
| Final dividend for the year ended 31 December 2012 of 3.0p per ordinary share (2012: 2.75p) | **0.6** | 0.5 |
| Interim dividend for the year ended 31 December 2013 of 2.5p per ordinary share (2012: 2.5p) | **0.5** | 0.5 |
| | **1.1** | 1.0 |

## 25. Capital and reserves continued

**Dividends** continued

The Board recommends a final dividend of [3.0]p per share. The proposed final dividend is subject to approval at the Annual General Meeting on 24 April 2014 and has not been included as a liability at 31 December 2013. Subject to approval, the dividend will be paid on 9 May 2014 to ordinary shareholders registered at the close of business on 22 April 2014.

## 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 21 and 22.

### Categories of financial instruments

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Financial assets:** | | | | |
| Derivative instruments in designated hedge accounting relationships | **0.1** | 1.0 | **0.1** | 0.8 |
| Loans and receivables (including cash and cash equivalents) | **32.8** | 29.3 | **28.4** | 22.9 |
| | **32.9** | 30.3 | **28.5** | 23.7 |
| **Financial liabilities:** | | | | |
| Derivative instruments in designated hedge accounting relationships | **0.8** | 0.5 | **0.8** | 0.5 |
| Amortised cost | **38.5** | 32.3 | **34.2** | 26.3 |
| | **39.3** | 32.8 | **35.0** | 26.8 |

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

Effective 1 January 2012, the Group adopted the amendment to IFRS 7 *Financial instruments: disclosures* for financial instruments that are measured in the statement of financial position at fair value. This 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 2013 and 31 December 2013 the Group held all financial instruments at Level 2.

### Credit risk

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

**Trade receivables**

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

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

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

## 26. Financial risk management continued

### Credit risk continued

**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 | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Trade receivables | **17.8** | 16.0 | **7.6** | 6.4 |
| Amounts owed by Group undertakings | **–** | – | **12.3** | 7.5 |
| Foreign currency derivatives | **0.1** | 1.0 | **0.1** | 0.8 |
| Cash and cash equivalents | **15.0** | 13.3 | **8.5** | 9.0 |
| | **32.9** | 30.3 | **28.5** | 23.7 |

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

| | Group | | Company | |
|---|---|---|---|---|
| Operating segments | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Scientific Services | **4.4** | 4.1 | **3.7** | 2.7 |
| Packaging Machinery | **8.3** | 5.9 | **1.9** | 1.0 |
| Tobacco Machinery | **5.1** | 6.0 | **2.0** | 2.7 |
| | **17.8** | 16.0 | **7.6** | 6.4 |

**Impairment loss provisions**

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| Group | **Gross £m** | **Impairment loss provisions £m** | **Total £m** | Gross £m | Impairment loss provisions £m | Total £m |
| Not past due | **14.3** | **–** | **14.3** | 12.6 | – | 12.6 |
| Past due up to 30 days | **1.5** | **–** | **1.5** | 1.9 | – | 1.9 |
| Past due 31–60 days | **1.0** | **–** | **1.0** | 0.6 | – | 0.6 |
| Past due 61–90 days | **0.2** | **–** | **0.2** | 0.3 | – | 0.3 |
| Past due more than 91 days | **0.9** | **(0.1)** | **0.8** | 0.6 | – | 0.6 |
| | **17.9** | **(0.1)** | **17.8** | 16.0 | – | 16.0 |

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| Company | **Gross £m** | **Impairment loss provisions £m** | **Total £m** | Gross £m | Impairment loss provisions £m | Total £m |
| Not past due | **5.2** | **–** | **5.2** | 4.7 | – | 4.7 |
| Past due up to 30 days | **0.9** | **–** | **0.9** | 0.9 | – | 0.9 |
| Past due 31–60 days | **0.7** | **–** | **0.7** | 0.3 | – | 0.3 |
| Past due 61–90 days | **0.2** | **–** | **0.2** | 0.2 | – | 0.2 |
| Past due more than 91 days | **0.6** | **–** | **0.6** | 0.3 | – | 0.3 |
| | **7.6** | **–** | **7.6** | 6.4 | – | 6.4 |

The movement in the impairment loss provisions in respect of trade receivables during the period was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Impairment loss provisions at 1 January | **–** | 0.1 | **–** | – |
| Provisions created in the year | **(0.1)** | – | **–** | – |
| Utilised during the year | **–** | – | **–** | – |
| Unused amounts reversed | **–** | (0.1) | **–** | – |
| **Impairment loss provisions at 31 December** | **(0.1)** | – | **–** | – |

## 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 12 and 13.

**Contractual maturities of non-derivative financial liabilities**

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| **Current liabilities:** | | | | |
| Trade and other payables (excluding derivatives) | **28.7** | 26.4 | **24.4** | 20.4 |
| **Non-current liabilities:** | | | | |
| Interest-bearing loans and borrowings | **9.8** | 5.9 | **9.8** | 5.9 |

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

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

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

### Market risk

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

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

**Interest rate risk**

*Cash and cash equivalents*

The cash profile at 31 December was:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| 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 | **7.6** | **0.6** | **8.2** | 8.2 | 0.1 | 8.3 |
| US dollar | **1.3** | **0.7** | **2.0** | 0.5 | 0.5 | 1.0 |
| Canadian dollar | **–** | **–** | **–** | 0.3 | – | 0.3 |
| Euro | **1.3** | **0.1** | **1.4** | 1.3 | 0.1 | 1.4 |
| Czech koruna | **0.3** | **–** | **0.3** | 0.4 | – | 0.4 |
| Brazilian real | **2.6** | **0.4** | **3.0** | 1.5 | 0.2 | 1.7 |
| Other | **0.1** | **–** | **0.1** | 0.1 | 0.1 | 0.2 |
| | **13.2** | **1.8** | **15.0** | 12.3 | 1.0 | 13.3 |

## 26. Financial risk management continued

### Interest rate risk continued

*Cash and cash equivalents continued*

| Company | 2013 Cash at floating rates £m | 2013 Cash on which no interest received £m | 2013 Total £m | 2012 Cash at floating rates £m | 2012 Cash on which no interest received £m | 2012 Total £m |
|---|---|---|---|---|---|---|
| **Currency:** | | | | | | |
| Sterling | 7.6 | 0.2 | 7.8 | 8.2 | – | 8.2 |
| US dollar | – | – | – | 0.4 | – | 0.4 |
| Canadian dollar | (0.1) | – | (0.1) | 0.1 | – | 0.1 |
| Euro | 0.5 | – | 0.5 | 0.3 | – | 0.3 |
| Czech koruna | 0.3 | – | 0.3 | – | – | – |
| | 8.3 | 0.2 | 8.5 | 9.0 | – | 9.0 |

Interest rates are based on LIBID and relevant national equivalents. 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 | 2013 Borrowings at floating rates £m | 2013 Borrowings at fixed rates £m | 2013 Total £m | 2012 Borrowings at floating rates £m | 2012 Borrowings at fixed rates £m | 2012 Total £m |
|---|---|---|---|---|---|---|
| **Currency:** | | | | | | |
| Sterling | – | 0.9 | 0.9 | – | 0.9 | 0.9 |
| Canadian dollar | 2.0 | – | 2.0 | 0.5 | – | 0.5 |
| US dollar | 6.0 | – | 6.0 | 4.0 | – | 4.0 |
| Czech koruna | 0.4 | – | 0.4 | 0.5 | – | 0.5 |
| Euro | 0.5 | – | 0.5 | – | – | – |
| | 8.9 | 0.9 | 9.8 | 5.0 | 0.9 | 5.9 |

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

The floating rate borrowings are based on interest rates at UK base rate, UK LIBOR and relevant national equivalents.

*Sensitivity to interest rate risk*

If interest rates had been 100 basis points higher/lower throughout the period, financial income (excluding on pension scheme balances) for the Group would have increased/decreased by £0.1m (2012: £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 2012.

### 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 17, 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

**Foreign currency risk** continued

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

| | Average rate | | Closing rate | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| US dollar | **1.57** | 1.59 | **1.66** | 1.63 |
| Canadian dollar | **1.62** | 1.59 | **1.76** | 1.62 |
| Euro | **1.18** | 1.23 | **1.20** | 1.23 |
| Czech koruna | **30.65** | 30.96 | **32.91** | 30.81 |
| Brazilian real | **3.40** | 3.10 | **3.87** | 3.30 |

### *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 value*

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

| | Group | | Company | |
|---|---|---|---|---|
| Cash flow hedges | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Gain | **0.2** | 0.3 | **0.1** | 0.3 |
| Loss | **(0.9)** | (0.4) | **(0.9)** | (0.4) |
| | **(0.7)** | (0.1) | **(0.8)** | (0.1) |

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

There were no open forward foreign exchange contracts, as at either 31 December 2013 or 2012, that had been designated as fair value hedges under IAS 39.

During the period a charge of £0.8m for the Group (2012: £0.3m credit) and £0.6m for the Company (2012: £nil) was recognised in the statement of comprehensive income in respect of cash flow hedges. The amount transferred from equity to profit or loss for the period for the Group was £nil (2012: £nil) and was £nil (2012: £nil) for the Company.

### *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:

| | **2013** | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Group | **Less than six months £m** | **Between six and twelve months £m** | **Between twelve and twenty-four months £m** | **Total £m** | Less than six months £m | Between six and twelve months £m | Between twelve and twenty-four months £m | Total £m |
| Outflow | **(11.9)** | **(0.4)** | **–** | **(12.3)** | (9.5) | (0.5) | (0.1) | (10.1) |
| Inflow | **7.9** | **0.7** | **–** | **8.6** | 10.7 | 3.3 | 0.1 | 14.1 |
| | **(4.0)** | **0.3** | **–** | **(3.7)** | 1.2 | 2.8 | – | 4.0 |

| | **2013** | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| Company | **Less than six months £m** | **Between six and twelve months £m** | **Between twelve and twenty-four months £m** | **Total £m** | Less than six months £m | Between six and twelve months £m | Between twelve and twenty-four months £m | Total £m |
| Outflow | **(20.4)** | **(0.9)** | **–** | **(21.3)** | (10.7) | (1.0) | (0.2) | (11.9) |
| Inflow | **15.9** | **1.2** | **–** | **17.1** | 14.9 | 6.1 | 0.2 | 21.2 |
| | **(4.5)** | **0.3** | **–** | **(4.2)** | 4.2 | 5.1 | – | 9.3 |

## 26. Financial risk management continued

***Contractual maturity date and future cash flows*** continued

***Currency profile***

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

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

The amounts shown represent the transactional exposures that give rise to the net currency gains and losses recognised in the 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.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| Group | US dollar £m | Euro £m | Total £m | US dollar £m | Euro £m | Total £m |
| **Functional currency:** | | | | | | |
| Sterling | – | 0.1 | 0.1 | – | – | – |
| Canadian dollar | 0.5 | 0.3 | 0.8 | 0.4 | 0.1 | 0.5 |
| Brazilian real | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 |
| Czech koruna | – | – | – | – | (0.3) | (0.3) |
| | 0.6 | 0.5 | 1.1 | 0.5 | (0.1) | 0.4 |

| | 2013 | | | 2012 |
|---|---|---|---|---|
| Company | US dollar £m | Euro £m | Total £m | US dollar £m |
| **Functional currency:** | | | | |
| Sterling | 0.1 | 0.1 | 0.2 | 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/weaker against all foreign currencies during the period, the effect of this on the average exchange rates used to translate profits would have increased/decreased Group profit for the period by £nil (2012: £0.2m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2013, Group equity would have reduced by £1.6m (2012: £1.5m). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 2013, Group equity would have increased by £1.9m (2012: £1.9m). 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 2013 is £1.6m (2012: £2.1m) 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 statement 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 | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Less than one year | **1.7** | 1.8 | **0.6** | 0.6 |
| Between one and five years | **6.0** | 6.4 | **2.0** | 2.0 |
| More than five years | **2.5** | 3.6 | **1.2** | 1.7 |
| | **10.2** | 11.8 | **3.8** | 4.3 |

The Group leases a number of manufacturing and service facilities under operating leases. The lease terms vary in length and some have the option to renew at the end of the lease term.

During the year £2.0m was recognised as an expense in the Consolidated income statement in respect of operating leases (2012: £1.9m).

## 28. Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Capital investment contracted but not provided for | **0.1** | 0.2 | **–** | – |

## 29. Contingent liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 £m** | 2012 £m | **2013 £m** | 2012 £m |
| Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts | **5.5** | 3.0 | **5.4** | 2.9 |

## 30. Related parties

### Identity of related parties

The Company has a related party relationship with its subsidiaries (see note 31), 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 (pages 24 to 26).

The Group recharges the UK pension scheme with the costs of administration incurred by the Group. The total amount recharged in the year to 31 December 2013 was £0.2m (2012: £0.2m).

At 31 December 2013 there were no outstanding balances with related parties.

## 31. 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 the principal subsidiary undertakings are shown on page 72.

During the year ended 31 December 2013 the Company made sales of £8.8m (2012: £10.4m) and purchased goods totalling £8.7m (2012: £5.9m) to and from other Group undertakings.

During the year ended 31 December 2013 the Company received interest income from subsidiary undertakings of £0.2m (2012: £0.2m) and management fees of £0.8m (2012: £0.8m).

At 31 December 2013 amounts owed by subsidiary undertakings to the Company were £12.3m (2012: £7.5m) and amounts owed by the Company to subsidiary undertakings were £9.8m (2012: £8.5m).

At 31 December 2013 investments in subsidiaries by the Company were £50.6m (2012: £50.6m).

# Notes to the accounts continued

### 32. Accounting estimates and judgements

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

#### Pension accounting

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

#### Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGUs) to which the goodwill relates. The value in use calculation requires the Group to estimate the future cash flows expected to arise from each CGU and to determine a suitable discount rate to calculate the present value. The carrying value of goodwill at 31 December 2013 was £10.0m and there have been no impairments of goodwill during the period. Further information is contained in note 12.

#### Investment impairment

Determining whether the Company's investments in subsidiaries are impaired requires an estimation of the value in use of the cash generating units (CGUs) to which the investments relate. The value in use calculation requires the Company to estimate the future cash flows expected to arise from each CGU and to determine a suitable discount rate to calculate the present value. The carrying value of investments in subsidiaries by the Company at 31 December 2013 was £50.6m and there have been no impairments of investments in subsidiaries during the period. Further information is contained in note 15.

#### Provisions

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

#### Construction contracts

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

# Five year record

| | 2013 £m | 2012 (restated) £m | 2011 (restated) £m | 2010 (restated) £m | 2009 (restated) £m |
|---|---|---|---|---|---|
| **Revenue** | **105.2** | 93.0 | 89.9 | 86.4 | 83.8 |
| Underlying operating profit[a] | **5.5** | 4.9 | 4.5 | 3.7 | 3.5 |
| Non-underlying items | **(0.9)** | (0.3) | 0.2 | (2.4) | (1.2) |
| **Operating profit** | **4.6** | 4.6 | 4.7 | 1.3 | 2.3 |
| Net financing (expense)/income | **(0.8)** | (0.1) | 0.5 | (0.9) | – |
| **Profit before tax** | **3.8** | 4.5 | 5.2 | 0.4 | 2.3 |
| Taxation | **(0.3)** | (0.7) | (1.9) | 0.1 | (0.9) |
| **Profit from continuing operations** | **3.5** | 3.8 | 3.3 | 0.5 | 1.4 |
| Loss from discontinued operations | **–** | – | – | – | (0.1) |
| **Profit for the period** | **3.5** | 3.8 | 3.3 | 0.5 | 1.3 |
| Underlying operating return on sales[a] | **5.2%** | 5.3% | 5.0% | 4.3% | 4.2% |
| Underlying earnings per ordinary share[a] | **23.9p** | 21.8p | 18.3p | 13.9p | 11.3p |
| Basic earnings per ordinary share | **18.0p** | 20.6p | 17.2p | 2.9p | 6.5p |
| Dividends per ordinary share in respect of the year | **5.5p** | 5.5p | 5.25p | 5.0p | 5.0p |

| | 2013 £m | 2012 £m | 2011 £m | 2010 £m | 2009 £m |
|---|---|---|---|---|---|
| Intangible assets | **15.2** | 14.5 | 14.9 | 13.8 | 14.1 |
| Property, plant and equipment and investment property | **12.0** | 11.7 | 10.5 | 10.5 | 10.2 |
| Inventories | **18.5** | 18.1 | 15.9 | 15.6 | 18.1 |
| Trade and other receivables (including taxation) | **27.5** | 29.3 | 23.8 | 17.5 | 21.7 |
| Employee benefits | **(5.6)** | (19.2) | (3.4) | 6.2 | (14.5) |
| Trade and other payables (including taxation and provisions) | **(32.3)** | (31.3) | (27.8) | (25.5) | (23.3) |
| | **35.3** | 23.1 | 33.9 | 38.1 | 26.3 |
| Net funds | **5.2** | 7.4 | 7.1 | 9.0 | 5.0 |
| **Net assets** | **40.5** | 30.5 | 41.0 | 47.1 | 31.3 |
| Net assets per ordinary share | **201p** | 151p | 203p | 233p | 155p |
| Ordinary shares in issue (000's) | **20,172** | 20,172 | 20,172 | 20,172 | 20,172 |

a Continuing operations before non-underlying items.

# Principal divisions and subsidiaries

The 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, Russian and Czech Republic companies are held directly by Molins PLC and those in the other overseas subsidiaries by intermediate holding companies.

A full list of subsidiaries will be included in the next annual return filed at Companies House.

## Scientific Services

**Arista Laboratories Inc**
1470 East Parham Road, Richmond,
Virginia 23228-2300, USA
Tel: +1 804 887 2100
Fax: +1 804 271 5594
E-mail: info@aristalabs.com
Sherry Duff, President

**Cerulean**
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Milton Keynes MK14 6LY, UK
Tel: +44 (0)1908 233833
Fax: +44 (0)1908 235333
E-mail: info@cerulean.com
Steve Frankham, Managing Director

**Cerulean Inc**
1470 East Parham Road, Richmond,
Virginia 23228-2300, USA
Tel: +1 804 887 2525
Fax: +1 804 887 2527
E-mail: info@cerulean.com
Steve Frankham, Managing Director

**Cerulean Shanghai Co Ltd**
Units 2011 & 2012, Commerce Spirit,
No. 1258 Yu Yuan Road, Shanghai
200050, Peoples Republic of China
Tel: +86 21 6125 3288
Fax: +86 21 6384 2262
E-mail: info@cerulean.com
Mark Liu, General Manager

## Packaging Machinery

**Langen Packaging Inc**
6154 Kestrel Road, Mississauga
Ontario L5T 1Z2, Canada
Tel: +1 905 670 7200
Fax: +1 905 670 5291
E-mail: info@langengroup.com
Jose Cornejo, General Manager

**Langenpac BV**
Edisonstraat 14, 6604 BV Wijchen
The Netherlands
Tel: +31 24 648 6655
Fax: +31 24 648 6657
E-mail: info@langengroup.com
Geert van den Heiligenberg,
Managing Director

**Molins Technologies (formerly ITCM)**
13 Westwood Way, Westwood Business
Park, Coventry CV4 8HS, UK
Tel: +44 (0)2476 421100
Fax: +44 (0)2476 421255
E-mail: info@molinstechnologies.com
John Wheelwright, Managing Director

## Tobacco Machinery

**Molins Tobacco Machinery**
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Tel: +44 (0)1844 276600
Fax: +44 (0)1844 276730
E-mail: mtm@molins.com
Mark Aldridge, Managing Director

**Molins Do Brasil Maquinas Automaticas Ltda**
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Fax: +55 41 3227 8310
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Fabio de Souza, President

**Molins Far East Pte Ltd**
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Kristine Ng, General Manager

**Molins Richmond Inc**
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Mark Aldridge, Managing Director

**Molins sro**
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Fax: +420 378 080 211
E-mail: info@molins.cz
Jiri Honomichl, Managing Director

**Molins Tobacco CIS (69%)**
Rozanova str 10/1
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Tel: +7 495 232 4025
Fax: +7 495 232 4026
E-mail: molins-tobacco-cis@yandex.ru
Olga Agafontseva, General Director

# Notice of meeting

The one hundred and second Annual General Meeting (the Meeting) of Molins PLC will be held at Rockingham Drive, Linford Wood East, Milton Keynes MK14 6LY on Thursday 24 April 2014 at 12 noon for the following purposes:

## As ordinary business

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

1. To receive the Annual Report and Accounts 2013 now laid before the Meeting. (*Resolution 1*)
2. To declare a final dividend for the year ended 31 December 2013 of 3.0p per ordinary share to be paid on 9 May 2014 to the shareholders who were on the Register of Members at the close of business on 22 April 2014. (*Resolution 2*)
3. To re-appoint Mrs A Palmer-Baunack as a director. (*Resolution 3*)
4. To re-appoint Mr J L Davies as a director. (*Resolution 4*)
5. To re-appoint Mr P J Moorhouse as a director. (*Resolution 5*)
6. To appoint KPMG LLP as auditors and to authorise the directors to determine their remuneration. (*Resolution 6)*
7. To approve the Remuneration report set out on pages 24 to 26 in the Annual Report and Accounts 2013. (*Resolution 7*)
8. To approve the Remuneration policy set out on pages 26 to 30 in the Annual Report and Accounts 2013, which shall take effect from the close of the Meeting. (*Resolution 8*)

## As special business

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

9. Power to allot securities
   That, in substitution for all existing authorities, the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 551 of the Companies Act 2006) up to an aggregate nominal value of £1,512,865 (representing 30% of the total ordinary share capital in issue at 26 February 2014) provided that this authority shall expire on the day 15 months following the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. *(Resolution 9)*

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

10. Disapplication of pre-emption rights
    That the directors be and are hereby empowered pursuant to section 571 of the Companies Act 2006 (the Act) to allot equity securities for cash, pursuant to the general authority conferred upon them by the resolution passed under item number 9 in the notice of the Annual General Meeting of the Company, for the period ending on the date of the next Annual General Meeting following the passing of this resolution or at the end of 15 months following the passing of this resolution, whichever is the earlier (unless previously revoked or varied) as if section 561 of the Act did not apply to any such allotment and so that the power conferred by this resolution shall enable the Company to make any offer or agreement before the expiry of this power (unless previously revoked or varied by the Company in general meeting), which would or might require equity securities to be allotted after such expiry and so that notwithstanding such expiry the directors may allot equity securities pursuant to any such offer or agreement previously made by the Company as if the power conferred hereby had not expired PROVIDED however that the power conferred by this resolution shall be limited:
    a to the allotment of equity securities in connection with or pursuant to any arrangement whereby the holders of ordinary shares at a record date or dates adopted for the purposes of the arrangement are entitled to acquire any equity securities of the Company issued for cash pursuant to such arrangement, in the proportion (as nearly as may be) to such holders' holdings of shares (or, as appropriate, to the numbers of ordinary shares which such holders are for the purpose deemed to hold) subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under or resulting from the application of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and
    b to the allotment (otherwise than pursuant to sub-paragraph a above) of equity securities having an aggregate nominal value not exceeding £252,144 (representing 5% of the total ordinary share capital in issue as at 26 February 2014).

    Words and expressions defined in or for the purposes of the Act shall bear the same meanings in this resolution. *(Resolution 10)*

# Notice of meeting continued

**As special business** continued

11. Purchase of own shares

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

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

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

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

    d this authority shall expire, unless previously revoked or varied, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or twelve months from the date of the resolution (whichever is the earlier) provided that the Company may before this authority expires make contracts for purchases of ordinary shares under this authority which would or might be executed wholly or partly after this authority expires and may make a purchase of ordinary shares pursuant to any such contract. *(Resolution 11)*

By order of the Board

**S P Cannon**
Secretary
26 February 2014

## Notes relating to the Notice

### Entitlement to attend and vote

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

### Website giving information regarding the meeting

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

### Appointment of proxies

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

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

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

### Appointment of proxy using hard copy proxy form

5. To appoint a proxy using the proxy form, the form must be:
   - a completed and signed;
   - b sent or delivered to the Company's registrars at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; and
   - c received by the Company's registrars not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting at which the person named in the proxy form proposes to vote.

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

## Notes relating to the Notice continued

**Appointment of proxy using e-mail**

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

**Changing proxy instructions**

7. To change proxy instructions simply submit a new proxy form using the methods set out above. Note that the cut-off times for receipt of proxy forms (see note 5) also apply in relation to amended instructions; any amended proxy form received after the relevant cut-off time will be disregarded. Where another hard copy proxy form is required please contact the Company (see note 18). If a member submits more than one valid proxy form, the form received last before the latest time for the receipt of proxies will take precedence.

**Termination of proxy appointments**

8. To revoke a proxy instruction the Company must be informed by either:
   a sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to the Company's registrars at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or
   b sending an e-mail clearly stating the registered shareholder's name and address and the intention to revoke the previous proxy appointment to agm@molinsplc.com.

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

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

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

**Corporate representatives**

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

**Issued shares and total voting rights**

10. As at the close of business on 25 February 2014 (being the last business day prior to publication of this notice), the Company's issued share capital comprised 20,171,540 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company at that time was 20,171,540.

**Questions at the meeting**

11. Under section 319A of the Act, the Company must answer any question asked at the Meeting relating to the business being dealt with at the Meeting unless:
   a answering the question would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information;
   b the answer has already been given on a website in the form of an answer to a question; or
   c it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

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

12. Under section 338 of the Act, a member or members meeting the qualification criteria set out at note 15, may, subject to conditions, require the Company to give its members notice of a resolution which may properly be moved and is intended to be moved at that Meeting. The conditions are that:
    - a the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);
    - b the resolution must not be defamatory of any person, frivolous or vexatious; and
    - c the request:
        - i may be in hard copy form or in electronic form (see note 16);
        - ii must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported;
        - iii must be authenticated by the person or persons making it (see note 16); and
        - iv must be received by the Company not later than six weeks before the Meeting to which the request relates, or if later, the time at which notice is given of that Meeting.

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

13. Under section 338A of the Act, a member or members meeting the qualification criteria set out at note 15, may, subject to conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that:
    - a the matter of business must not be defamatory of any person, frivolous or vexatious; and
    - b the request:
        - i may be in hard copy form or in electronic form (see note 16);
        - ii must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported;
        - iii must be accompanied by a statement setting out the grounds for the request;
        - iv must be authenticated by the person or persons making it (see note 16); and
        - v must be received by the Company not later than six weeks before the Meeting to which the request relates, or if later, the time at which notice is given of that Meeting.

**Website publication of audit concerns**

14. Pursuant to sections 527 to 531 of the Act, where requested by a member or members meeting the qualification criteria set out at note 15, the Company must publish on its website a statement setting out any matter that such members propose to raise at the Meeting relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Meeting. Where the Company is required to publish such a statement on its website:
    - a it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
    - b it must forward the statement to the Company's auditor no later than the time the statement is made available on the Company's website;
    - c the statement may be dealt with as part of the business of the Meeting; and
    - d the request:
        - i may be in hard copy form or in electronic form (see note 16);
        - ii either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported;
        - iii must be authenticated by the person or persons making it (see note 16); and
        - iv must be received by the Company at least one week before the Meeting.

**Members' qualification criteria**

15. A request under section 338, section 338A or section 527 of the Act (see notes 12 to 14) may only be made by:
    - a a member or members having a right to vote at the Meeting and holding at least 5% of total voting rights of the Company; or
    - b at least 100 members having a right to vote at the Meeting and holding, on average, at least £100 of paid up share capital.

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

## Notes relating to the Notice continued

**Submission of hard copy and electronic requests and authentication requirements**

16. A request made under section 338, section 338A or section 527 of the Act (see notes 12 to 14) must be made in accordance with one of the following ways:
    a a hard copy request which is signed by the Relevant Member(s), stating their full name(s) and address(es) and sent for the attention of the Company Secretary at the Company's Registered Office address; or
    b a request which states the Relevant Member's full name and address e-mailed to agm@molinsplc.com.

**Documents on display**

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

**Communication**

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

**After the meeting**

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

## Explanatory notes on the resolutions

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

### The resolutions

*Ordinary business*

**Resolution 1 – To receive the Annual Report and Accounts 2013**

The Companies Act 2006 requires the directors to lay before the Company in a general meeting copies of the Company's annual accounts, and the auditor's report on those accounts. The resolution goes beyond this by asking shareholders to receive the Annual Report and Accounts 2013 and therefore gives shareholders a vote.

**Resolution 2 – Declaration of a final dividend**

The Company's Articles of Association state that the Company may, by ordinary resolution, declare a final dividend be paid to members.

**Resolutions 3, 4 and 5 – Directors' re-appointments**

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

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

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

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

No directors have been appointed since the last Annual General Meeting. All three directors seeking re-appointment have served three years on the Board. On their third anniversary the Board undertook a review of Mr Davies' and Mr Moorhouse's independence. Following those reviews both directors were considered still to be independent. The Chairman, Mrs Palmer-Baunack, met the independence criteria on appointment. On re-appointment the test of independence is not considered appropriate in relation to the Chairman under the requirements of the UK Corporate Governance Code. Each of the three directors will retire at the forthcoming Annual General Meeting (the Meeting) it being the third following that at which they were appointed. Being eligible all three offer themselves for re-appointment. Biographical information for Mrs Palmer-Baunack, Mr Davies and Mr Moorhouse is given on page 18 of the Annual Report and Accounts 2013.

**Resolution 6 – To appoint KPMG LLP as auditors and to authorise the directors to determine their remuneration**

It is a Companies Act 2006 (the Act) requirement that a company appoint an auditor at each general meeting at which accounts are laid, to hold office from the conclusion of the meeting until the conclusion of the next similar general meeting. KPMG Audit Plc has notified the Company that, having instigated an orderly wind down of business, it will not be seeking re-appointment at the forthcoming Meeting. The Company has evaluated the work of KPMG Audit Plc and recommends that its intermediate parent KPMG LLP be appointed as the Company's auditors from the conclusion of the Meeting until the conclusion of the next similar meeting. In addition, the Act states that the auditors' remuneration shall be fixed by the Meeting or in such manner as the Company in general meeting may determine. For simplicity of administration the directors are seeking authorisation to determine KPMG LLP's remuneration.

**Resolution 7 – To approve the Remuneration report**

This resolution seeks shareholders' approval for the Remuneration report which can be found at pages 24 to 26 of the Annual Report and Accounts 2013. The Remuneration report gives details of the implementation of the Company's current remuneration policy in respect of the directors' emoluments in the year ended 31 December 2013. The vote is advisory and will not affect the way the remuneration policy has been implemented.

The Company's auditor, KPMG Audit Plc, has audited those parts of the Remuneration report that are required to be audited and their report may be found on pages 34 to 36 of the Annual Report and Accounts 2013.

**Resolution 8 – To approve the Remuneration policy**

This resolution seeks shareholders' approval for the Remuneration policy, which can be found at pages 26 to 30 of the Annual Report and Accounts 2013. The Remuneration policy sets out the Company's future policy on directors' remuneration. If Resolution 8 is approved the Remuneration policy will be effective from the close of the Meeting on 24 April 2014. Payments will continue to be made to directors (in their capacity as directors) in line with existing contractual arrangements until that date. The policy remains consistent with that operated during 2013 and approved at the 2013 Annual General Meeting under the previous reporting framework. The Remuneration policy, if approved, will remain in force for a period of no longer than three years.

# Notice of meeting continued

**The resolutions** continued

*Special business*

**Resolution 9 – Power to allot securities**

The Companies Act 2006 and the Company's Articles of Association permit the allotment of new shares only if the Company is authorised to do so by resolution of the Company. Such authorisation was given for a period of 15 months at the 2013 Annual General Meeting and therefore the directors are seeking new shareholder authorisation at this Meeting.

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

**Resolution 10 – Disapplication of pre-emption rights**

In Resolution 9 above the directors seek authority to allot securities up to an aggregate nominal value of £1,512,865 in accordance with the requirements of section 551 of the Companies Act 2006 (the Act). However section 561 of the Act requires such securities to be offered to existing shareholders (pre-emption rights). This resolution, which is permitted by section 571 of the Act, seeks shareholders' authorisation for the directors to disapply, albeit to the extent limited within the resolution, the section 561 pre-emption rights so that the Company can satisfy immediate allotment requirements such as share option schemes and incentive plans. Currently the directors have no other intention of allotting securities.

**Resolution 11 – Purchase of own shares**

At the 2013 Annual General Meeting authority to purchase for cancellation 3,000,000 ordinary shares was granted. The 2013 Annual General Meeting authority expires on 24 April 2014 and the directors consider it appropriate to seek further authority from the shareholders at the forthcoming Meeting for the Company to purchase up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the Notice convening the Meeting.

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

# Corporate information

## Registered office
Rockingham Drive
Linford Wood East
Milton Keynes MK14 6LY

Tel: +44 (0)1908 246870
Fax: +44 (0)1908 234224
E-mail: molins.ho@molinsplc.com

## Registered number
124855

## Secretary
Mrs S P Cannon
Solicitor

## Auditor
KPMG Audit Plc
Altius House
One North Fourth Street
Milton Keynes MK9 1NE

## Stockbrokers
Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

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

## Share price
Available from:
FT Cityline – tel: +44 (0)905 817 1690
Financial Times and certain other national newspapers

## Website
Further information is available at www.molins.com

## Timetable
**Annual General Meeting**
24 April 2014

**Payment dates for preference dividend**
30 June 2014 and 31 December 2014

**Record date for proposed final dividend**
22 April 2014

**Payment date for proposed final dividend**
9 May 2014

**Half-year announcement**
August 2014

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