

Registered No 3944037

LUXFER GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2015

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COMPANIES HOUSE

LUXFER GROUP LIMITED

STRATEGIC REPORT

Strategic review

The company is a holding company for certain subsidiaries of Luxfer Holdings PLC. The key performance indicators during the year are detailed in the following paragraphs.

During 2015 the interest receivable and similar income of the company increased by £237,000 to £791,000 which arose due to increased interest receivable from group undertakings and a gain on translation of loans and foreign exchange hedges.

Administrative expenses (excluding exceptional items) increased by £278,000 to £6,497,000 and included contributions to the Luxfer Group Pension Plan (LGPP) of £149,000 (2014 – £256,000) to fund the Pension Protection Fund Levy in this scheme and £2,426,000 (2014 – £2,585,000) in relation to the LGPP deficit payments.

Exceptional costs of £1,357,000 incurred during the year predominantly related to merger and acquisition costs of £1,195,000 related to two approaches made to acquire the Luxfer Group. Neither of these approaches resulted in an executable offer that could be put to the shareholders of Luxfer Group. In 2015, following a consultation with the trustees and members, it was agreed the Luxfer Group Pension Plan would close to future accrual of benefits effective from 5 April 2016 and for the purpose of increasing pensions in payment, to use the Consumer Prices Index ('CPI') as the reference index in place of the Retail Prices Index ('RPI') where applicable. Advisory costs of £162,000 were incurred by the company as part of this process.

Overall, the net assets of the company decreased by £7,223,000 to £21,023,000 as at 31 December 2015.

The company is expected to operate in a similar manner as a holding company in the future.

Principal risks and uncertainties

The company's principal risks and uncertainties relate to the treasury function services it provides to associate companies and also the company's participation in the Luxfer Group Pension Plan scheme. The risks relating to treasury activities are discussed further under 'Financial instruments' below.

Risks relating to the group's Retirement Benefit Funds

The company is the principal employer of the Luxfer Group's U.K. defined benefit arrangements. This is further explained in Note 20 of the financial statements. The funding requirements of the defined benefit arrangements are subject to fluctuations in investment markets, along with changes in the life expectancy of their members and as a result these plans may have significant deficits. Increased regulatory burdens have also proved to be a significant risk, with taxes such as the U.K.'s Pension Protection Fund Levy (PPF levy) which has added additional costs to the U.K. plan. In 2015, the cost of the PPF levy to the company decreased to £149,000 from £256,000.

Financial instruments

Treasury

The company's treasury function manages borrowing facilities, investment of surplus funds and the management of financial risks for the whole group.

The company finances its activities through group loans, cash and bank borrowing facilities. Other financial assets and liabilities, such as trade creditors, arise directly from the company's operating activities.

As part of its treasury activities the company will use forward foreign currency exchange contracts, interest rate contracts and also aluminium LME contracts to hedge financial risks and commodity price risks on behalf of associate undertakings in the Luxfer Group. All these activities are undertaken within the Luxfer Group's hedging policies and the company will offset any 'external' third party derivative contracts with 'internal' contracts with its associate undertakings. The company does not trade in these financial derivatives.

LUXFER GROUP LIMITED

STRATEGIC REPORT (Continued)

Financial instruments (Continued)

Interest rate risk

The company provides short and long term loan financing to other Luxfer Group companies and will also borrow funds from other group companies. Apart from the fixed rate loan with Luxfer Holdings PLC (see Note 16), these loans are usually made on a variable interest rate basis pegged to either a short or medium term LIBOR rate and therefore the company's net interest receivable and payable is exposed to changes in interest rates.

The company's other main variable interest rate risk relates to its draw downs on the group's revolving credit bank facilities.

Movements in foreign currency exchange rates

The company's treasury funding of associate companies extends to Luxfer Group companies outside the United Kingdom and therefore the company is exposed to foreign exchange currency risks on lending and borrowing with these associate companies. As at 31 December 2015 the company had loans receivable in euros of £7,840,000 and loans payable of £494,000 in Australian dollars and £8,481,000 in U.S. dollars.

The company also usually makes a small net gain from the difference between external foreign currency derivative contracts with banks and internal contracts with associate group companies.

The company made foreign currency gains on loan investments of £136,000 in 2015 and made losses of £174,000 in 2014.

Foreign currency risk

Where no natural hedge exists, firm contractual commitments of the group's trading subsidiaries denominated in foreign currencies are hedged by means of forward foreign exchange contracts.

Future developments

Both the level of activity and year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future. The directors remain confident of the long-term prospects for the company.

By order of the Board on 28 June 2016



B G Purves
Director

LUXFER GROUP LIMITED

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 2015.

The company is domiciled, registered and incorporated in England and Wales. The company's registered address is Anchorage Gateway, 5 Anchorage Quay, Salford, M50 3XE.

Results and dividends

The loss for the year amounted to £7,360,000 (2014 – profit of £1,480,000). No interim dividend was paid during the year (2014 – £nil). The directors do not recommend the payment of a final dividend (2014 – £nil).

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources and borrowing facilities to continue operational existence for the foreseeable future. Accordingly, the company continues to adopt the going concern basis in preparing the financial statements.

Directors

The directors of the company who served during the year and up to the date of signing the financial statements, unless otherwise stated, were:

B G Purves

A M Beaden

L F Seddon (resigned 21 March 2016)

J M Savage

Directors' liabilities

During the year the company had in force an indemnity provision in favour of the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions, as defined in the Companies Act 2006, were in force during the year and up to the date of the Directors' Report for the benefit of all directors of the company.

Independent auditors

PricewaterhouseCoopers LLP have been appointed as auditors in the year replacing Ernst & Young LLP. PricewaterhouseCoopers LLP indicated their willingness to continue in office and a resolution that they be reappointed as auditors will be proposed at the annual general meeting.

Disclosure of information to the auditors

The directors who served during the year and at the time of approving the Directors' Report confirm that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- they have taken all steps a director may be reasonably expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Financial instruments

Details of financing and treasury policies, along with the management of treasury risk, use of derivatives, and interest rate and foreign exchange risk can be found in the Strategic Report on pages 1-2.

Future developments

An indication of the likely future developments in the business of the company can be found in the Strategic Report on page 2.

By order of the Board on 28 June 2016



D N Fletcher
Company Secretary

LUXFER GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that 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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUXFER GROUP LIMITED

Our opinion

In our opinion, Luxfer Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2015;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUXFER GROUP LIMITED

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

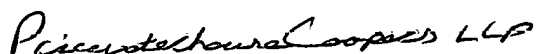
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Simon White (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

28 June 2016

LUXFER GROUP LIMITED
INCOME STATEMENT
All amounts in thousands

| | Note | 2015 £000 | 2014 £000 |
|--|------|----------------|--------------|
| CONTINUING OPERATIONS | | | |
| Income from fixed asset investments..... | 2 | - | 7,500 |
| Interest receivable and similar income..... | 3 | 791 | 554 |
| Interest payable and similar charges | 4 | (1,894) | (2,014) |
| Net interest (payable) / receivable and similar income | | (1,103) | 6,040 |
| Administrative expenses (excluding exceptional items)..... | | (6,497) | (6,219) |
| OPERATING LOSS (BEFORE EXCEPTIONAL ITEMS) | | (7,600) | (179) |
| Exceptional items..... | 5 | (1,357) | - |
| OPERATING LOSS | 6 | (8,957) | (179) |
| LOSS ON OPERATIONS BEFORE TAXATION | | (8,957) | (179) |
| Income tax credit | 8 | 1,597 | 1,659 |
| (LOSS) / PROFIT FOR THE YEAR | | (7,360) | 1,480 |
| Attributable to: | | | |
| Equity shareholders..... | | (7,360) | 1,480 |

The notes on pages 11 to 30 are an integral part of these financial statements.

LUXFER GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
All amounts in thousands

| | Note | 2015 £000 | 2014 £000 |
|--|------|----------------|--------------|
| (Loss) / profit for the year | | (7,360) | 1,480 |
| Other comprehensive income movements | | | |
| Items that may be reclassified to the income statement: | | | |
| Fair value movements in cash flow hedges | | 18 | (42) |
| Transfers to income statement on cash flow hedges..... | | 120 | (103) |
| Deferred income taxes on cash flow hedges..... | | (28) | 31 |
| Hedge accounting income / (expense) adjustments | | 110 | (114) |
| Total other comprehensive income movements for the year | | 110 | (114) |
| Total comprehensive (loss) / income for the year | | (7,250) | 1,366 |
| Attributed to: | | | |
| Equity shareholders | | (7,250) | 1,366 |

The notes on pages 11 to 30 are an integral part of these financial statements.

LUXFER GROUP LIMITED
BALANCE SHEET
All amounts in thousands

| | Note | 31 December 2015 £000 | 31 December 2014 £000 |
|--|------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 67 | 93 |
| Intangible assets | 10 | 253 | 284 |
| Investments | 11 | 47,098 | 48,201 |
| Deferred income taxes | 12 | 228 | 229 |
| | | <u>47,646</u> | <u>48,807</u> |
| Current assets | | | |
| Trade and other receivables | 13 | 25,649 | 30,557 |
| Cash and cash equivalents | 14 | 17,135 | - |
| | | <u>42,784</u> | <u>30,557</u> |
| Assets classified as held for sale | 23 | - | 800 |
| | | <u>42,784</u> | <u>31,357</u> |
| TOTAL ASSETS | | <u>90,430</u> | <u>80,164</u> |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Ordinary share capital | 15 | 6,100 | 6,100 |
| Capital contribution reserve | | 133 | 92 |
| Retained earnings | | 14,730 | 22,104 |
| Hedging reserve | | 60 | (50) |
| Capital and reserves attributable to the company's equity shareholders | | <u>21,023</u> | <u>28,246</u> |
| Total equity | | <u>21,023</u> | <u>28,246</u> |
| Non-current liabilities | | | |
| Amounts owed to ultimate parent undertaking | 16 | 5,003 | 5,003 |
| Long term borrowings | 16 | 24,408 | 24,408 |
| | | <u>29,411</u> | <u>29,411</u> |
| Current liabilities | | | |
| Bank loans and overdrafts | 17 | 6,500 | 122 |
| Trade and other payables | 18 | 33,496 | 22,385 |
| | | <u>39,996</u> | <u>22,507</u> |
| Total liabilities | | <u>69,407</u> | <u>51,918</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>90,430</u> | <u>80,164</u> |

The notes on pages 11 to 30 are an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the Board on 28 June 2016 and signed on its behalf by:



B G Purves
Director

Company Registration No. 3944037

LUXFER GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
All amounts in thousands

| | Note | Ordinary share capital £000 | Capital contribution reserve £000 | Retained earnings £000 | Hedging reserve £000 | Total equity £000 |
|---|------|--------------------------------------|--|------------------------------|----------------------------|-------------------------|
| At 1 January 2014 | | 6,100 | 48 | 20,643 | 64 | 26,855 |
| Profit for the year | | - | - | 1,480 | - | 1,480 |
| Decrease in fair value of cash flow hedges | | - | - | - | (42) | (42) |
| Transfer to income statement on cash flow hedges | | - | - | - | (103) | (103) |
| Deferred income taxes on items taken to other comprehensive income | | - | - | - | 31 | 31 |
| Total comprehensive income for the year | | - | - | 1,480 | (114) | 1,366 |
| Capital contribution in respect of share-based compensation charges | 22 | - | 44 | - | - | 44 |
| Deferred income taxes on items taken to equity | | - | - | (19) | - | (19) |
| Other changes in equity in the year | | - | 44 | (19) | - | 25 |
| At 31 December 2014 | | 6,100 | 92 | 22,104 | (50) | 28,246 |
| Loss for the year | | - | - | (7,360) | - | (7,360) |
| Increase in fair value of cash flow hedges | | - | - | - | 18 | 18 |
| Transfer to income statement on cash flow hedges | | - | - | - | 120 | 120 |
| Deferred income taxes on items taken to other comprehensive income | 12 | - | - | - | (28) | (28) |
| Total comprehensive loss for the year | | - | - | (7,360) | 110 | (7,250) |
| Capital contribution in respect of share-based compensation charges | 22 | - | 41 | - | - | 41 |
| Deferred income taxes on items taken to equity | 12 | - | - | (14) | - | (14) |
| Other changes in equity in the year | | - | 41 | (14) | - | 27 |
| At 31 December 2015 | | 6,100 | 133 | 14,730 | 60 | 21,023 |

The notes on pages 11 to 30 are an integral part of these financial statements.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
All amounts in thousands

1. Accounting policies

Basis of preparation and statement of compliance with IFRS

These financial statements were prepared in accordance with The Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). These are the company's first financial statements prepared in accordance with FRS 101.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments, and on the going concern basis as disclosed in the statement of going concern as set out in the Directors' Report.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore the directors continue to apply the going concern basis for accounting in the preparation of the company financial statements.

Once approved, the financial statements cannot be amended without re-presenting them for approval by the Board.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The company is a qualifying entity for the purposes of FRS 101. Note 24 gives details of the company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained. The accounting policies set out in this note to the financial statements have been consistently applied in preparing these financial statements and comparative information from 1 January 2014, for further detail see Note 25.

The key disclosure exemptions adopted by the company in accordance with FRS 101 are as follows:

- IFRS 7, 'Financial Instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - Paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows);
 - 10(f), (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements);
 - 16 (statement of compliance with all IFRSs);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A-D (requirements for a third statement of financial position);
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Basis of preparation and statement of compliance with IFRS (Continued)

- Paragraphs 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 35, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts).

Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in GBP sterling (£), which is also the company's functional currency.

Consolidation

The company is a wholly owned subsidiary of Luxfer Holdings PLC. It is included in the consolidated financial statements of Luxfer Holdings PLC which are publically available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

Business combinations and goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the group's cash-generating units that are expected to benefit from the combination. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous U.K. GAAP amounts subject to being tested for impairment at that date.

Negative goodwill is measured at cost being the excess of the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination over the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest. Any amount of negative goodwill is recognised immediately as income.

Other intangible assets

Other intangible assets are measured initially at purchase cost, or where acquired in a business combination at fair value, and are amortised on a straight-line basis over their estimated useful lives as follows:

| | |
|---------------------------------|---------------|
| Technology and patents..... | 14 – 20 years |
| Tradenames and trademarks | 20 – 25 years |
| Development costs..... | 5 – 10 years |
| Software..... | 4 – 7 years |

The carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Reviews are made annually of the estimated remaining lives and residual values of the patents and trademarks.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is initially calculated on a straight-line basis over the estimated useful life of the particular asset. As a result of the complexity of our manufacturing process, there is a wide range of plant and equipment in operation. The rate of annual charge is summarised as follows:

| | |
|--|---|
| Freehold buildings | 3% – 10% |
| Leasehold land and buildings | The lesser of life of lease or freehold rate |
| Plant and equipment | 4% – 30% |
| Including: | |
| Heavy production equipment (including casting, rolling, extrusion and press equipment).... | 4% – 6% |
| Chemical production plant and robotics | 10% – 15% |
| Other production machinery | 10% – 20% |
| Furniture, fittings, storage and equipment | 10% – 30% |

Freehold land is not depreciated.

Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

For any individual asset the carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the asset is written-down to its recoverable amount. The recoverable amount of property, plant and equipment is the greater of the fair value less costs of disposal and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement as part of the profit or loss on operations before taxation.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the item) is included in the income statement in the year the item is derecognised.

Investment in and income from non-current investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

As the company is a holding company, the directors consider that income from non-current investments is more appropriately presented as part of operating profit. Accordingly, the presentation of the income statement has been amended. Dividend income is recognised when the right to receive payment is established.

Interest receivable and similar income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Interest payable and similar charges

Interest expense is recognised using the effective interest method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials are valued on a first-in, first-out basis. Strategic purchases of inventories in order to secure supply and reduce the impact of price volatility on the cost of inventories are valued on an average cost basis. Work in progress and finished goods costs comprise direct materials and, where applicable, direct labor costs, an apportionment of production overheads and any other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution. Inventories are reviewed on a regular basis, and we will make allowance for excess or obsolete inventories and write-down to net realisable value based primarily on committed sales prices and our estimates of expected and future product demand and related pricing.

Research and development

Research expenditure is expensed as incurred. Internal development expenditure is charged as administrative costs to the income statement in the year it is incurred unless it meets the recognition criteria of IAS 38, 'Intangible Assets'. Where the recognition criteria are met, intangible assets are capitalised and amortised over their estimated useful economic lives from product launch. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment.

Foreign currencies

Transactions in currencies other than an operation's functional currency are initially recorded in the functional currency at the rate of exchange prevailing on the dates of transactions. At each balance sheet date, the foreign currency monetary assets and liabilities are translated into the functional currency at the rates prevailing on the balance sheet date. All differences are taken to the income statement.

Current and deferred income taxes

The tax expense for the period 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 or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Current and deferred income taxes (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased items, are capitalised as a fixed asset at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

The capital element of the leasing commitment is shown as obligations under finance leases. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Retirement benefits costs

The company participates in the group's defined benefit pension plan which requires contributions to be made to separately administered funds. There is no allocation of the plan deficit between the various subsidiary companies as the directors consider the sponsor to be the ultimate parent company in the group. Therefore, the plan is accounted for as a defined contribution plan and contributions are charged to the income statement as they become payable in accordance with the rules of the plan.

The company also participates in the group's defined contribution plan. Contributions are charged to the income statement as they become payable in accordance with the rules of the plan.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Share-based compensation

Luxfer Holdings PLC issues equity-settled share options to certain employees within the company. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Luxfer Holdings PLC also issues matching shares under its Employee Share Incentive Plan (the 'SIP'). Where employees are entitled to participating and matching shares under the SIP, these are recorded at fair value at the date the shares are acquired. Employees are only entitled to the shares at the end of a holding period of three years. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and be transferred to employees. As the shares awarded are issued by the ultimate parent company without charge to the company, an amount equivalent to the expense recorded in the income statement account is recorded as a credit to a capital contribution reserve.

Fair value is measured by use of the Blacks-Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Separate disclosure of expenses or income

Certain items of expense or income, referred to as exceptional items, are not included in the segmental performance as evaluated by the chief operating decision maker; where material and to inform users of the financial statements, such items of expense or income incurred during a period are disclosed under identifiable headings in the income statement and further explained in Note 5 to the financial statements. Examples of such items include but are not limited to:

- Restructurings of the activities of the company and reversals of any provisions for the costs of restructuring;
- write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- disposals of items of property, plant and equipment;
- disposals of investments and subsidiaries;
- discontinued operations;
- litigation settlements; and
- other material reversals of provisions.

The nature of the items of expense or income is considered to determine whether the item should be presented as part of operating profit or loss or as other expenses or income. The operating profit before exceptional items, presented by the company excludes the impact of these items. Management believes that the use of adjusted measures such as this provides additional useful information on underlying trends to shareholders.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less.

Financial assets and liabilities

Trade and other receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank and other loans

Bank and other loans are recorded at the fair value of the proceeds received plus directly attributable transaction costs. Issue costs relating to revolving credit facilities are charged to the income statement over the estimated life of the facility on a periodic basis and are added to the carrying value of the facility. Issue costs relating to fixed term loans are charged to the income statement using the effective interest method and are added to the carrying value of the fixed term loan.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Financial assets and liabilities (Continued)

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments

The company uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

Hedges are classified as cash flow hedges when they hedge exposure to variability in cash flows either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

In relation to cash flow hedges to hedge the foreign currency risk of firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

In relation to derivative financial instruments used to hedge a forecast transaction, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities and equity instruments are all instruments that are issued by the company as a means of raising finance, including shares, loan notes, debentures, debt instruments and options and warrants that give the holder the right to subscribe for or obtain financial liabilities and equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. All equity instruments are included in shareholders' funds. The finance costs incurred in respect of an equity instrument are charged directly to the income statement. Other instruments are classified as financial liabilities if they contain a contractual obligation to transfer economic benefits.

Critical accounting judgments and key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year, are discussed below. The judgments used by management in the application of the company's accounting policies in respect of these key areas of estimation are considered to be the most significant.

Impairment of non-financial assets

The company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying value may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit, including suitable sales growth and terminal growth rates, and choose a suitable discount rate in order to calculate the present value of those cash flows.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

1. Accounting policies (Continued)

Critical accounting judgments and key sources of estimation uncertainty (Continued)

Deferred income taxes

Deferred income tax assets are recognised for unabsorbed tax losses and unutilised capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Judgment is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in Note 12.

New standards and amendments to standards not applied

The EU has adopted the following standards and amendments to standards with a mandatory effective date after 1 January 2015:

| International Financial Reporting Standards | | Mandatory effective date |
|---|---|--------------------------------|
| IFRS 11 | Joint Arrangements (Amendments)..... | No earlier than 1 January 2016 |
| IAS 16, IAS 38 | Property, Plant and Equipment, Intangible Assets (Amendments) | No earlier than 1 January 2016 |
| IAS 27 | Separate Financial Statements (Amendments) | No earlier than 1 January 2016 |
| IFRS 10, IAS 28 | Consolidated Financial Statements, Investments in Associates and Joint Ventures (Amendments)..... | No earlier than 1 January 2016 |
| IFRSs | Annual Improvements to IFRSs: 2014 Cycle..... | No earlier than 1 January 2016 |
| IAS 1 | Presentation of Financial Statements (Amendments)..... | No earlier than 1 January 2016 |
| IFRS 15 | Revenue from Contracts with Customers | No earlier than 1 January 2018 |
| IFRS 9 | Financial Instruments | No earlier than 1 January 2018 |
| IFRS 16 | Leases..... | No earlier than 1 January 2019 |

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the company in future periods. Beyond the information above it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

2. Income from fixed asset investments

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Dividends received from subsidiary undertakings | — | 7,500 |

3. Interest receivable and similar income

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Interest receivable from group undertakings | 622 | 542 |
| Interest receivable from third parties | 33 | 12 |
| Gain on translation of loans | 136 | — |
| | <u>791</u> | <u>554</u> |

4. Interest payable and similar charges

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Bank loans and overdrafts | 609 | 496 |
| Interest payable to group undertakings | 1,227 | 1,216 |
| Amortisation of finance costs | 58 | 128 |
| Loss on translation of loans | — | 174 |
| | <u>1,894</u> | <u>2,014</u> |

5. Exceptional items

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Merger and acquisition costs | 1,195 | — |
| Changes to U.K. defined benefit pension plan | 162 | — |
| | <u>1,357</u> | <u>—</u> |

Merger and acquisition costs related to two approaches made to acquire the Luxfer Group. Neither of these approaches resulted in an executable offer that could be put to the shareholders of Luxfer Group. In 2015, following a consultation with the trustees and members, it was agreed the Luxfer Group Pension Plan would close to future accrual of benefits effective from 5 April 2016 and for the purpose of increasing pensions in payment, to use the Consumer Prices Index ('CPI') as the reference index in place of the Retail Prices Index ('RPI') where applicable (see Note 20). Advisory costs were incurred by the company as part of this process.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

6. Operating loss

This is stated after charging:

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Depreciation (Note 9) | 26 | 26 |
| Amortisation of other intangibles (charged to administrative expenses) (Note 10) | 31 | 31 |
| Impairment of assets held for sale | 40 | 75 |
| Operating lease rentals – land and buildings | 36 | 36 |
| – plant and equipment | 29 | 31 |
| Additional pension contributions to the LGPP (see Note 20) | 2,427 | 2,841 |
| | <u>2,589</u> | <u>3,040</u> |

Fees paid to the auditors for the U.K. audit (2015 – £25,000) and non-audit (2015 – £nil) services were borne by associated group undertakings for the years ended 31 December 2015 and 31 December 2014.

7. Staff costs

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Wages and salaries | 1,261 | 1,055 |
| Social security costs | 335 | 369 |
| Retirement benefits costs | 426 | 469 |
| Share-based compensation charges | 41 | 44 |
| | <u>2,063</u> | <u>1,937</u> |

The average monthly number of employees during the year was made up as follows:

| | 2015 No. | 2014 No. |
|----------------|-------------|-------------|
| Administration | <u>15</u> | <u>12</u> |

The compensation of the members of our Board of Directors (each, a “director”) was:

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Remuneration (short-term benefits) | 876 | 888 |
| Share awards | 229 | 3 |
| Post-retirement benefits | 168 | 169 |
| Total short-term and post-retirement benefits | <u>1,273</u> | <u>1,060</u> |

During the year, three directors (2014 – three) were members of both the defined benefit plan and defined contribution plan; and one director (2014 – two) was a member of the defined contribution plan. The highest paid director was a participant in the unfunded unregistered unsecured retirement benefit arrangement (URBS) during the years ended 31 December 2015 and 31 December 2014.

B G Purves and A M Beaden were also directors of the ultimate parent company, Luxfer Holdings PLC, and fellow subsidiaries. Details regarding their emoluments are disclosed in the financial statements of that company and those emoluments are borne by this company. The directors do not believe that it is practicable to apportion these amounts between the services of B G Purves and A M Beaden as directors of the company and their services as directors of the holding and fellow subsidiary companies; accordingly no charge for their services is made to the holding and fellow subsidiary companies.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

7. Staff costs (Continued)

The highest paid director's emoluments were as follows:

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Remuneration (short-term benefits)..... | 410 | 410 |
| Share awards..... | 153 | 1 |
| Post-retirement benefits..... | 107 | 107 |
| Total short-term and post-retirement benefits | <u>670</u> | <u>518</u> |

8. Income tax credit

(a) Analysis of taxation charge for the year

| | 2015 £000 | 2014 £000 |
|--|----------------|----------------|
| Current income taxes: | | |
| Group relief | (1,602) | (1,682) |
| Adjustments in respect of previous years | 46 | 33 |
| Total current tax credit | <u>(1,556)</u> | <u>(1,649)</u> |
| Deferred income taxes: | | |
| Origination and reversal of timing differences | (48) | 5 |
| Adjustments in respect of previous years | 7 | (15) |
| Total deferred income taxes credit | <u>(41)</u> | <u>(10)</u> |
| Tax credit..... | <u>(1,597)</u> | <u>(1,659)</u> |

The income tax charges relate to continuing activities.

(b) Factors affecting the taxation charge for the year

The tax assessed for the year differs from the standard rate of 20.25% (2014 – 21.5%) for corporation tax in the U.K.

The differences are explained below:

| | 2015 £000 | 2014 £000 |
|--|----------------|----------------|
| Loss on operations before taxation | (8,957) | (179) |
| Loss on operations at 2015 standard rate of corporation tax in the U.K. of 20.25% (2014 – 21.5%) | (1,814) | (38) |
| Effects of: | | |
| Non-deductible expenses | 146 | (26) |
| Non-taxable income | — | (1,613) |
| Deferred tax not recognised | 18 | — |
| Adjustments in respect of previous years..... | 53 | 18 |
| Tax credit | <u>(1,597)</u> | <u>(1,659)</u> |

(c) Factors that may affect future taxation charge

The tax rate for the current period is lower than the prior period due to changes in the U.K. corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Further reductions to the U.K. corporation tax rates were substantively enacted as part of the Finance (No. 2) Bill 2015 on 26 October 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities have been updated to reflect the reduction in the rates. In his Budget of 16 March 2016, the Chancellor of the Exchequer announced his intention to further reduce the U.K. corporation tax rate to 17% from 1 April 2020.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

9. Property, plant and equipment

| | Plant and equipment £000 |
|--|---|
| Cost: | |
| At 1 January 2015 and 31 December 2015.... | <u><u>308</u></u> |
| Accumulated depreciation: | |
| At 1 January 2015..... | 215 |
| Provided during the year..... | 26 |
| At 31 December 2015..... | <u><u>241</u></u> |
| Net book values: | |
| At 31 December 2015..... | <u><u>67</u></u> |
| At 1 January 2015..... | <u><u>93</u></u> |

10. Intangible assets

| | Software £000 | Goodwill £000 | Patents £000 | Total £000 |
|---|--------------------------|--------------------------|-------------------------|-----------------------|
| Cost: | | | | |
| At 1 January 2015 and 31 December 2015..... | <u>31</u> | <u>2,787</u> | <u>623</u> | <u><u>3,441</u></u> |
| Accumulated amortisation: | | | | |
| At 1 January 2015..... | 31 | 2,660 | 466 | 3,157 |
| Provided during the year..... | — | — | 31 | 31 |
| At 31 December 2015..... | <u>31</u> | <u>2,660</u> | <u>497</u> | <u><u>3,188</u></u> |
| Net book values: | | | | |
| At 31 December 2015..... | <u>—</u> | <u>127</u> | <u>126</u> | <u><u>253</u></u> |
| At 1 January 2015..... | <u>—</u> | <u>127</u> | <u>157</u> | <u><u>284</u></u> |

Goodwill relates to the acquisition of the Magnesium Elektron, MEL Chemicals and Baco Contracts businesses from British Aluminium Limited in the year ended 31 December 2000.

The company tests goodwill with an indefinite useful life for signs of impairment each year. These tests compare the retrospective carrying amount with the recoverable amount of the asset, which is defined as the value in use.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

11. Investments

| | Subsidiary undertakings £000 | Loans to group undertakings £000 | Total £000 |
|--------------------------|------------------------------------|---|----------------|
| Cost: | | | |
| At 1 January 2015..... | 44,098 | 4,103 | 48,201 |
| Repayments | — | (1,103) | (1,103) |
| At 31 December 2015..... | 44,098 | 3,000 | 47,098 |

Details of the investments which the company holds are as follows:

| Name of company | Country of registration (or incorporation) and operation | Holding | Proportion of voting rights and shares held | Nature of business |
|---|--|---|---|----------------------|
| Luxfer Group Services Limited | England and Wales | Ordinary shares | 100% | Property Services |
| BAL 1996 Limited ¹ | England and Wales | Ordinary shares | 100% | Non trading |
| LGL 1996 Limited | England and Wales | Ordinary shares | 100% | Dormant |
| Magnesium Elektron Limited | England and Wales | Ordinary shares & preference shares ² | 100% 54% | Manufacturing |
| Magnesium Elektron CZ s.r.o. ¹ | Czech Republic | Register capital | 100% | Manufacturing |

¹ held by a subsidiary undertaking

² The preference shares are redeemable upon Magnesium Elektron Limited giving three months' notice that they intend to redeem all or part of the preference shares. The preference shareholders are not entitled to any dividend but on a winding up or repayment of capital they are entitled to repayment of capital in priority to the holders of ordinary shares. Preference shareholders are not entitled to notice of meetings nor are they entitled to vote at any meeting

12. Deferred income taxes

| | Provided 31 December 2015 £000 | Provided 31 December 2014 £000 | Unprovided 31 December 2015 £000 | Unprovided 31 December 2014 £000 |
|--------------------------|---|---|---|---|
| Other timing differences | 228 | 229 | 20 | 16 |
| Tax losses | — | — | 1,407 | 1,481 |
| Deferred tax assets | 228 | 229 | 1,427 | 1,497 |

Deferred tax assets are recognised to the extent justified by a review of forecasts of future taxable profits of fellow group companies to which the company may provide group relief.

| | Retirement benefit obligations £000 | Share-based compensation £000 | Derivative financial instruments £000 | Total £000 |
|--|--|-------------------------------------|--|---------------|
| At 1 January 2015 | 209 | 35 | (15) | 229 |
| Credited / (charged) to income statement | 29 | (10) | 22 | 41 |
| Charged to other comprehensive income | — | — | (28) | (28) |
| Charged to equity | — | (14) | — | (14) |
| At 31 December 2015 | 238 | 11 | (21) | 228 |

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

13. Trade and other receivables

| | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| Trade receivables..... | 1 | 1 |
| Amounts owed by group undertakings | 18,305 | 24,102 |
| Amounts owed by ultimate parent undertaking | 116 | — |
| Prepayments and other receivables..... | 1,041 | 997 |
| Other taxes and social security | — | 84 |
| Derivative financial instruments..... | 4,599 | 3,730 |
| Group relief receivable | 1,587 | 1,643 |
| | <u>25,649</u> | <u>30,557</u> |

Amounts owed by group undertakings and ultimate parent undertaking are unsecured, repayable on demand and no interest is charged.

14. Cash and cash equivalents

| | 31 December 2015 £000 | 31 December 2014 £000 |
|-------------------------------|-----------------------------|-----------------------------|
| Cash at bank and in hand..... | 17,135 | — |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The directors consider that the carrying value of cash and cash equivalents approximates to their fair value.

15. Ordinary share capital

| | 31 December 2015 No. | 31 December 2014 No. | 31 December 2015 £000 | 31 December 2014 £000 |
|--|----------------------------|----------------------------|-----------------------------|-----------------------------|
| Authorised: | | | | |
| Ordinary shares of £1 each | 6,100,000 | 6,100,000 | 6,100 | 6,100 |
| | <u>6,100,000</u> | <u>6,100,000</u> | <u>6,100</u> | <u>6,100</u> |
| | | | | |
| | 31 December 2015 No. | 31 December 2014 No. | 31 December 2015 £000 | 31 December 2014 £000 |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of £1 each | 6,100,000 | 6,100,000 | 6,100 | 6,100 |
| | <u>6,100,000</u> | <u>6,100,000</u> | <u>6,100</u> | <u>6,100</u> |

16. Non-current liabilities

| | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| Amounts owed to group undertakings..... | 24,408 | 24,408 |
| Amounts owed to ultimate parent undertaking..... | 5,003 | 5,003 |
| | <u>29,411</u> | <u>29,411</u> |

The loan payable to the company's ultimate parent company totaled £5,003,000 and bears interest at 9% payable half yearly. The loan expired on 15 June 2016 and was rolled forward on similar terms. There are two loans from fellow group undertakings, the first totals £20,000,000 and bears interest at 3% plus 6 month LIBOR. It is due to expire on 31 December 2017. The second totals £4,408,000 and is interest free.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

17. Bank loans and overdrafts

| | 31 December 2015 £000 | 31 December 2014 £000 |
|----------------------|-----------------------------|-----------------------------|
| Bank overdraft | — | 122 |
| Bank loans | 6,500 | — |
| | <u>6,500</u> | <u>122</u> |

Bank overdraft incurs interest charges at floating rates based on daily bank deposit rates. Bank loans represent a draw down on Luxfer Group's revolving credit facility made for a specific period which determines the interest rate payable and repayment date. The directors consider that the carrying value of bank overdraft and loans approximate to their fair value.

18. Trade and other payables

| | 2015 £000 | 2014 £000 |
|---|---------------|---------------|
| Trade payables | 546 | 367 |
| Amounts owed to group undertakings | 25,906 | 15,699 |
| Amounts owed to ultimate parent undertaking | — | 1,317 |
| Other taxes and social security | 118 | 138 |
| Derivative financial instruments | 4,522 | 3,671 |
| Accruals and deferred income | 2,404 | 1,193 |
| | <u>33,496</u> | <u>22,385</u> |

The directors consider that the carrying value of trade payables approximates to their fair value.

Amounts owed to parent undertaking and group undertakings are unsecured, repayable on demand and no interest is charged.

19. Financial instruments

The company has the following financial assets and liabilities measured at fair value through profit or loss:

| | 31 December 2015 £000 | 31 December 2014 £000 |
|---|-----------------------------|-----------------------------|
| Financial assets: derivatives | 4,599 | 3,730 |
| Financial liabilities: derivatives | (4,522) | (3,671) |
| | <u>77</u> | <u>59</u> |

| | 31 December 2015 £000 | 31 December 2014 £000 |
|--|-----------------------------|-----------------------------|
| Derivative financial instruments are as follows: | | |
| Held to hedge purchases and sales by the company: | | |
| Forward foreign currency exchange rate contracts | 77 | 59 |
| LME derivative contracts | — | — |
| | <u>77</u> | <u>59</u> |

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

19. Financial instruments (Continued)

Forward foreign currency exchange rate contracts

The company enters into forward foreign currency exchange rate contracts to mitigate the exchange rate risk for certain foreign currency receivables and payables. At 31 December 2015, the outstanding contracts all mature within 18 months (2014 – 18 months) of the year end. The company is committed to sell \$34,400,000, €37,240,000 and Australian \$5,500,000 and receive a fixed GBP sterling amount. The company is committed to purchase \$39,416,000 and €844,000 and pay a fixed GBP sterling amount. The fair value of these contracts was calculated by determining what the company would be expected to receive or pay on termination of each individual contract by comparison to present market prices. The key assumptions used in valuing the derivatives are the exchange rates for GBP:USD and GBP:EUR.

LME derivative contracts

The company enters into LME derivative contracts to hedge a portion of its price exposure of purchases of aluminium. At 31 December 2015, the outstanding contracts all mature within 27 months (2014 – 24 months of the year end). At 31 December 2015, the company has hedged 10,650 metric tons of aluminium for supply (2014 – 7,500 metric tons), using its ancillary banking facilities. The fair value of these contracts has been calculated by valuing the contracts against the equivalent forward rates quoted on the LME.

20. Pensions

The company participates in both defined benefit and defined contribution pension plans. The principal defined benefit pension plan is the Luxfer Group Pension Plan ('LGPP'), which closed to new members in 1998, new employees then being eligible for a defined contribution plan. The assets of the LGPP are held in separate trustee administered funds. The pension cost of the LGPP is assessed in accordance with the advice of an independent firm of actuaries, Lane, Clark & Peacock LLP. The latest actuarial valuation of the LGPP was carried out as at 5 April 2015. The pension cost for the defined benefit pension plans for the company was £76,000 (2014 – £75,000). The accrued contributions at the year end, included in accruals and deferred income amounted to £nil (2014 – £nil).

As the ultimate parent company, Luxfer Holdings PLC, is considered the sponsor of the LGPP, the plan is accounted for as a defined contribution plan. With effect from April 2004 the LGPP changed from a final salary to a career average revalued earnings benefit scale. The company, in common with all other group subsidiaries who participate in the LGPP, increased its pension contribution in April 2004 from 9.3% of salary costs to 13.1% of salary costs. In August 2005, a plan specific earnings cap of £60,000 per annum subject to inflation increases was introduced, effectively replacing the statutory earnings cap. In October 2007, the rate of the future accrual for pension was reduced and a longevity adjustment introduced to mitigate against the risk of further increases in life expectancies. The plan specific earnings cap was increased to £67,000 per annum. In 2015, following a consultation with the trustees and members, it was agreed the plan would close to future accrual of benefits effective from 5 April 2016 and for the purpose of increasing pensions in payment, to use the Consumer Prices Index ('CPI') as the reference index in place of the Retail Prices Index ('RPI') where applicable. Under the valuation methodology set out in IAS 19R, 'Employee benefits', the LGPP shows a deficit of £31,575,000 as at 31 December 2015 (2014 – £48,958,000). Full details relating to the LGPP can be found in the financial statements of Luxfer Holdings PLC.

During 2015, the company made contributions to the LGPP of £149,000 (2014 – £256,000) to fund the Pension Protection Fund Levy in this plan and of £2,426,000 (2014 – £2,585,000) in relation to the LGPP deficit payments.

In October 2009, the group's registered defined contribution arrangements were switched from a trust based occupational plan to a group personal pension plan. The principal defined contribution plan in which the company's employees participate is now the Luxfer Group Retirement Savings Plan. Contributions made by the company to defined contribution plans amounted to £205,000 (2014 – £206,000).

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

21. Commitments under operating leases

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

| | Land and Buildings 2015 £000 | Other 2015 £000 | Land and Buildings 2014 £000 | Other 2014 £000 |
|---|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| Not later than one year | — | 7 | 36 | 2 |
| Later than one year and not later than five years | 24 | 17 | — | 30 |
| Later than five years | — | — | — | — |
| | <u>24</u> | <u>24</u> | <u>36</u> | <u>32</u> |

22. Share-based compensation

During the year, equity awards over the shares in the ultimate parent undertaking, Luxfer Holdings PLC, were granted to senior employees of Luxfer Group Limited.

| | 2015 £000 | 2014 £000 |
|---------------------------------------|--------------|--------------|
| Share-based compensation charges..... | <u>41</u> | <u>44</u> |

There were no cancellations or modifications to the awards in 2015.

The weighted average remaining contractual life of the share awards in the group schemes outstanding as at 31 December 2015 was 4 years (2014 – 4 years). The weighted average fair value of options granted in the group schemes during the year was \$11.42 (2014 – \$17.05). The weighted average exercise price for options outstanding in the group schemes at 31 December 2015 was \$7.24 (2014 – \$7.13).

The following table illustrates the assumptions used in deriving the fair value of share options during the year:

| | 2015 | 2014 |
|--|---------------|---------------|
| Dividend yield (%) | 4.00 | 2.00 |
| Expected volatility range (%) | 28.24 – 41.39 | 25.03 – 38.7 |
| Risk-free interest rate (%) | 0.09 – 1.40 | 0.13 – 1.81 |
| Expected life of share options range (years) | 1 – 5 | 1 – 5 |
| Weighted average exercise price (\$) | \$0.76 | \$0.83 |
| Model used | Black-Scholes | Black-Scholes |

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

In December 2013, the ultimate parent undertaking, Luxfer Holdings PLC, implemented an Employee Share Incentive Plan (the “SIP”) in the U.K. Under the plan, all employees with at least six months of service with the group and who are employed by a participating group company are entitled to contribute up to 10% of basic pay each month, subject to a £150 maximum. The SIP trustees buy shares (partnership shares) every 6 months at market value with the employees’ contributions. For each partnership share purchased, the group purchases (or allots and issues) one share (matching shares) which is allocated to the employee. In the U.K. SIP, if the employee sells or transfers partnership shares within three years from the date of allocation, the linked matching shares are forfeited.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

23. Related party disclosures

The company is a wholly owned subsidiary of Luxfer Holdings PLC and has taken advantage of the exemption under FRS 101 not to disclose transactions with other group companies.

On 5 February 2014, as part of a relocation, the company purchased outright the residential property of David Rix, a member of the Executive Management Board of the ultimate parent company, Luxfer Holdings PLC. The property was valued on an arm's length basis by third parties with a purchase price of £800,000. This asset was held as a current asset on the company balance sheet. On 3 July 2015, the property was sold for proceeds of £760,000.

See Note 7 for disclosure of the directors' remuneration.

24. Parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party is Luxfer Holdings PLC, which is registered in England and Wales. The company is included in the consolidated financial statements of Luxfer Holdings PLC which is the smallest and largest group in which the company is consolidated. Copies of Luxfer Holdings PLC's financial statements may be obtained from The Company Secretary, Anchorage Gateway, 5 Anchorage Quay, Salford, M50 3XE.

25. Explanation of transition to FRS 101

As stated in Note 1, these are the company's first financial statements prepared in accordance with FRS 101.

In preparing these financial statements, the company has started from an opening balance sheet as at 1 January 2014, the company's date of transition to FRS 101, and made those changes in accounting policies and other restatements as required by FRS 100 for the first time adoption of FRS 101. As such, this note explains the principal adjustments made by the company in restating its U.K. GAAP balance sheet as at 1 January 2014 and its previously published U.K. GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

25. Explanation of transition to FRS 101 (Continued)

| Notes | 1 January 2014 | | | 31 December 2014 | | |
|---|-------------------|---------------------------------|--------------------------|-------------------|---------------------------------|--------------------------|
| | U.K. GAAP £000 | Effect of transition £000 | Adopted IFRSs £000 | U.K. GAAP £000 | Effect of transition £000 | Adopted IFRSs £000 |
| ASSETS | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | 114 | - | 114 | 93 | - | 93 |
| Intangible assets | b 315 | - | 315 | 157 | 127 | 284 |
| Investments | 48,278 | - | 48,278 | 48,201 | - | 48,201 |
| Deferred income taxes | a,d - | 207 | 207 | - | 229 | 229 |
| | <u>48,707</u> | <u>207</u> | <u>48,914</u> | <u>48,451</u> | <u>356</u> | <u>48,807</u> |
| Current assets | | | | | | |
| Trade and other receivables | a 13,657 | 3,023 | 16,680 | 27,059 | 3,498 | 30,557 |
| Cash and cash equivalents | 2,957 | - | 2,957 | - | - | - |
| Assets held for sale | - | - | - | 800 | - | 800 |
| | <u>16,614</u> | <u>3,023</u> | <u>19,637</u> | <u>27,859</u> | <u>3,498</u> | <u>31,357</u> |
| TOTAL ASSETS | <u>65,321</u> | <u>3,230</u> | <u>68,551</u> | <u>76,310</u> | <u>3,854</u> | <u>80,164</u> |
| EQUITY AND LIABILITIES | | | | | | |
| Capital and reserves | | | | | | |
| Ordinary share capital | 6,100 | - | 6,100 | 6,100 | - | 6,100 |
| Capital contribution reserve | 48 | - | 48 | 92 | - | 92 |
| Retained earnings | a,b,c 20,626 | 17 | 20,643 | 21,871 | 233 | 22,104 |
| Hedging reserve | a - | 64 | 64 | - | (50) | (50) |
| Capital and reserves attributable to the company's equity shareholders | <u>26,774</u> | <u>81</u> | <u>26,855</u> | <u>28,063</u> | <u>183</u> | <u>28,246</u> |
| Total equity | <u>26,774</u> | <u>81</u> | <u>26,855</u> | <u>28,063</u> | <u>183</u> | <u>28,246</u> |
| Non-current liabilities | | | | | | |
| Amounts owed to ultimate parent undertaking | 5,003 | - | 5,003 | 5,003 | - | 5,003 |
| Long term borrowings | 24,408 | - | 24,408 | 24,408 | - | 24,408 |
| | <u>29,411</u> | <u>-</u> | <u>29,411</u> | <u>29,411</u> | <u>-</u> | <u>29,411</u> |
| Current liabilities | | | | | | |
| Bank loans and overdrafts | e - | - | - | - | 122 | 122 |
| Trade and other payables | a,e 9,136 | 3,149 | 12,285 | 18,836 | 3,549 | 22,385 |
| | <u>9,136</u> | <u>3,149</u> | <u>12,285</u> | <u>18,836</u> | <u>3,671</u> | <u>22,507</u> |
| Total liabilities | <u>38,547</u> | <u>3,149</u> | <u>41,696</u> | <u>48,247</u> | <u>3,671</u> | <u>51,918</u> |
| TOTAL EQUITY AND LIABILITIES | <u>65,321</u> | <u>3,230</u> | <u>68,551</u> | <u>76,310</u> | <u>3,854</u> | <u>80,164</u> |

LUXFER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
All amounts in thousands

25. Explanation of transition to FRS 101 (Continued)

| | | 31 December 2014 | | |
|--|-------|-------------------|---------------------------------|--------------------------|
| | Notes | U.K. GAAP £000 | Effect of transition £000 | Adopted IFRSs £000 |
| Continuing operations | | | | |
| Income from fixed asset investments | | 7,500 | - | 7,500 |
| Interest receivable and similar income | | 554 | - | 554 |
| Interest payable and similar charges | | (2,014) | - | (2,014) |
| <i>Net interest receivable and similar income ...</i> | | <i>6,040</i> | <i>-</i> | <i>6,040</i> |
| Administrative expenses | a | (6,322) | 103 | (6,219) |
| <i>Operating loss (before goodwill amortisation and exceptional items)</i> | | <i>(282)</i> | <i>103</i> | <i>(179)</i> |
| Amortisation of goodwill and intangible assets | b | (127) | 127 | - |
| <i>Operating loss</i> | | <i>(409)</i> | <i>230</i> | <i>(179)</i> |
| <i>Loss on operations before taxation</i> | | <i>(409)</i> | <i>230</i> | <i>(179)</i> |
| Income tax credit | | 1,680 | (21) | 1,659 |
| <i>Profit for the year</i> | | <i>1,271</i> | <i>209</i> | <i>1,480</i> |
| Total other comprehensive income movements for the year | a,c | - | (114) | (114) |
| Total comprehensive income for the year ... | | 1,271 | 95 | 1,366 |

Notes to the reconciliation of the balance sheet, income statement and statement of comprehensive income

- Under Adopted IFRSs, derivative financial assets and liabilities are recorded on the balance sheet at fair value. As such, the fair values of the forward foreign currency exchange rate contracts and the LME derivative contracts have been calculated and included within trade and other receivables and trade and other payables with corresponding entries made to retained earnings through the income statement and statement of other comprehensive income. Adjustments have also been made to deferred tax relating to this.
- Under Adopted IFRSs, goodwill is not systematically amortised over its deemed useful economic life, instead is subject to an annual impairment review. The value of goodwill amortised to date has been written back into the carrying value of intangible assets with the corresponding adjustment made to retained earnings through the income statement.
- Under Adopted IFRSs, any excess of current or deferred tax over the amount of the tax rate applied to the amount of the related cumulative share-based compensation charges is recognised directly in equity. A deferred tax charge has therefore been recognised directly in equity.
- Under Adopted IFRSs, deferred income tax assets and liabilities are required to be presented on the face of the balance sheet. Therefore the carrying value of deferred income taxes has been reclassified from trade and other receivables and presented separately.
- Under Adopted IFRSs, bank loans and overdrafts are required to be presented on the face of the balance sheet. Therefore the carrying value of bank loans and overdrafts has been reclassified from trade and other payables and presented separately.