

Registered No. 03944037

LUXFER GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2016

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LUXFER GROUP LIMITED

STRATEGIC REPORT

Strategic review

The Company is a holding company for certain subsidiaries of Luxfer Holdings PLC.

During 2016, the interest receivable and similar income of the Company decreased by £279,000 to £512,000 which arose due to decreased interest receivable from group undertakings.

Administrative expenses (excluding exceptional items) increased by £799,000 to £7,296,000 and included contributions to the Luxfer Group Pension Plan (LGPP) of £112,000 (2015 – £149,000) to fund the Pension Protection Fund Levy in this scheme and £2,171,000 (2015 – £2,426,000) in relation to the LGPP deficit payments.

Exceptional items of £55,000 were credited during the year regarding an exchange gain on the settlement of the intercompany loan with Luxfer Germany GmbH. During 2015, £1,195,000 was incurred in relation to two approaches made to acquire the Luxfer Group and also, £162,000 of advisory costs were incurred regarding the closure to future accrual of benefits of the Luxfer Group Pension Plan.

Overall, the net assets of the Company decreased by £1,724,000 to £19,299,000 as at 31 December 2016.

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

Key Performance Indicators

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

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 2016, the cost of the PPF levy to the Company decreased to £112,000 from £149,000. The Group and the Trustees of the plan closely monitor the financial performance of the Schemes, taking actuarial and investment advice as appropriate. It is a long-term liability, and we have a programme in place to contribute cash to our defined benefit plan over a number of years. This is based on affordability and is varied according to our net earnings. These plans are funded and the bulk of the assets are invested in 'growth' assets.

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 2016, the Company had loans receivable in euros of £1,790,000 and loans payable of £584,000 in Australian dollars, £707,000 in euros, £852,000 in Czech krona, £2,551,000 in Canadian dollars and £5,674,000 in U.S. dollars.

The Company made foreign currency losses on loan investments of £72,000 in 2016 and made gains of £136,000 in 2015.

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.

On behalf of the Board on 21 June 2017



B G Purves
Director

LUXFER GROUP LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

Luxfer Group Limited is a private company limited by shares, 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 financial year amounted to £1,777,000 (2015 – loss of £7,360,000). No interim dividend was paid during the year (2015 – £nil). The Directors do not recommend the payment of a final dividend (2015 – £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

J M Savage (resigned 11 August 2016)

L F Seddon resigned as Company Secretary on 4 March 2016 and D N Fletcher was appointed on 4 March 2016.

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 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 21 June 2017



D N Fletcher
Company Secretary

LUXFER GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The Directors 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.

LUXFER GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUXFER GROUP LIMITED

Report on the financial statements

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 2016 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 2016;
- 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 United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

LUXFER GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUXFER GROUP LIMITED (CONTINUED)

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, 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

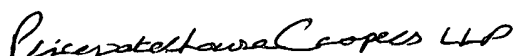
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Simon White (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 June 2017

LUXFER GROUP LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

All amounts in thousands

	Note	2016 £000	2015 £000
Income from fixed asset investments.....	2	5,500	-
Interest receivable and similar income	3	512	791
Interest payable and similar expenses.....	4	(2,031)	(1,894)
Net interest payable and similar expenses		(1,519)	(1,103)
Administrative expenses (excluding exceptional items).....		(7,296)	(6,497)
OPERATING LOSS (BEFORE EXCEPTIONAL ITEMS)		(3,315)	(7,600)
Exceptional items	5	55	(1,357)
OPERATING LOSS	6	(3,260)	(8,957)
LOSS BEFORE TAXATION		(3,260)	(8,957)
Income tax credit	8	1,483	1,597
LOSS FOR THE FINANCIAL YEAR		(1,777)	(7,360)
Attributable to:			
Equity shareholders		(1,777)	(7,360)

The notes on pages 11 to 27 are an integral part of these financial statements.

LUXFER GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

All amounts in thousands

	2016 £000	2015 £000
Loss for the financial year	(1,777)	(7,360)
Other comprehensive income movements		
Items that may be reclassified to the income statement:		
Fair value movements in cash flow hedges	(2)	18
Transfers to income statement on cash flow hedges	11	120
Deferred income taxes on cash flow hedges	-	(28)
Hedge accounting income adjustments	9	110
Total other comprehensive income movements for the year	9	110
Total comprehensive loss for the year	(1,768)	(7,250)
Attributed to:		
Equity shareholders	(1,768)	(7,250)

The notes on pages 11 to 27 are an integral part of these financial statements.

LUXFER GROUP LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2016

All amounts in thousands

	Note	31 December 2016 £000	31 December 2015 £000
ASSETS			
Non-current assets			
Property, plant and equipment.....	9	41	67
Intangible assets	10	222	253
Investments.....	11	47,098	47,098
Deferred income taxes	12	209	228
Trade and other receivables.....	13	666	—
		<u>48,236</u>	<u>47,646</u>
Current assets			
Trade and other receivables.....	13	37,380	25,649
Cash and cash equivalents	14	5,107	17,135
		<u>42,487</u>	<u>42,784</u>
TOTAL ASSETS		<u>90,723</u>	<u>90,430</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital.....	15	6,100	6,100
Capital contribution reserve.....		177	133
Retained earnings		12,953	14,730
Hedging reserve.....		69	60
Capital and reserves attributable to the Company's equity shareholders		<u>19,299</u>	<u>21,023</u>
Total equity.....		<u>19,299</u>	<u>21,023</u>
Non-current liabilities			
Loan owed to ultimate parent undertaking	16	5,003	5,003
Loans owed to group undertakings.....	16	24,408	24,408
Trade and other payables.....	18	630	—
		<u>30,041</u>	<u>29,411</u>
Current liabilities			
Bank loans and overdrafts	17	—	6,500
Trade and other payables.....	18	41,383	33,496
		<u>41,383</u>	<u>39,996</u>
Total liabilities.....		<u>71,424</u>	<u>69,407</u>
TOTAL EQUITY AND LIABILITIES		<u>90,723</u>	<u>90,430</u>

The notes on pages 11 to 27 are an integral part of these financial statements.

The financial statements on pages 7 to 27 were approved by the Board on 21 June 2017 and signed on its behalf by:



B G Purves
Director

Company Registration No. 03944037

LUXFER GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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 2015.....		6,100	92	22,104	(50)	28,246
Loss for the financial 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		—	—	—	(28)	(28)
Total comprehensive (loss) / income 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		—	—	(14)	—	(14)
Other changes in equity in the year		—	41	(14)	—	27
At 31 December 2015.....		6,100	133	14,730	60	21,023
Loss for the financial year		—	—	(1,777)	—	(1,777)
Decrease in fair value of cash flow hedges		—	—	—	(2)	(2)
Transfer to income statement on cash flow hedges		—	—	—	11	11
Total comprehensive (loss) / income for the year		—	—	(1,777)	9	(1,768)
Capital contribution in respect of share-based compensation charges	22	—	44	—	—	44
Other changes in equity in the year		—	44	—	—	44
At 31 December 2016.....		6,100	177	12,953	69	19,299

The notes on pages 11 to 27 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").

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 25 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 2015.

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).

The policies set out below have been consistently applied across all years presented, unless stated otherwise.

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.

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
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. 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	10% – 30%
Including:	
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.

Interest payable and similar charges

Interest expense is recognised using the effective interest method.

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

1. Accounting policies (Continued)

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.

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

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 Black-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.

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

1. Accounting policies (Continued)

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.

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 judgements 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 judgements 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.

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

1. Accounting policies (Continued)

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

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.

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. Judgement 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 2016:

International Financial Reporting Standards		Mandatory effective date
IAS 7	Statement of cash flows (Amendments)	No earlier than January 1, 2017
IAS 12	Income taxes (Amendments)	No earlier than January 1, 2017
IFRS 2	Share based payments (Amendments)	No earlier than January 1, 2018
IFRS 15	Revenue from Contracts with Customers	No earlier than January 1, 2018
IFRS 9	Financial Instruments	No earlier than January 1, 2018
IFRS 16	Leases	No earlier than January 1, 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

	2016 £000	2015 £000
Dividends received from subsidiary undertakings	<u>5,500</u>	<u>—</u>

3. Interest receivable and similar income

	2016 £000	2015 £000
Interest receivable from group undertakings	475	622
Interest receivable from third parties	37	33
Gain on translation of loans	—	136
	<u>512</u>	<u>791</u>

4. Interest payable and similar expenses

	2016 £000	2015 £000
Bank loans and overdrafts	712	609
Interest payable to group undertakings	1,247	1,227
Loss on translation of loans	72	—
Amortisation of finance costs	—	58
	<u>2,031</u>	<u>1,894</u>

5. Exceptional items

	2016 £000	2015 £000
Exchange gain	55	—
Merger and acquisition costs	—	(1,195)
Changes to U.K. defined benefit pension plan	—	(162)
	<u>55</u>	<u>(1,357)</u>

As a result of the settlement of the intercompany loan with Luxfer Germany GmbH on the 18 December 2016, an exchange gain of £55,000 has been recognised.

Merger and acquisition costs incurred during 2015 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:

	2016 £000	2015 £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
Operating lease rentals – land and buildings	84	36
– plant and equipment	25	29
Additional pension contributions to the LGPP (see Note 20).....	2,171	2,426

Fees paid to the auditors for the U.K. audit £25,000 (2015 – £25,000) and non-audit £nil (2015 – £nil) services were borne by associated group undertakings for the years ended 31 December 2016 and 31 December 2015.

7. Staff costs

	2016 £000	2015 £000
Wages and salaries.....	1,542	1,261
Social security costs.....	359	335
Other pension costs.....	312	426
	<u>2,213</u>	<u>2,022</u>

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

	2016 No.	2015 No.
Administration	<u>15</u>	<u>15</u>

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

	2016 £000	2015 £000
Remuneration (short-term benefits)	842	876
Share awards	144	229
Post-retirement benefits	67	168
Total short-term and post-retirement benefits	<u>1,053</u>	<u>1,273</u>

During the year, three directors (2015 – three) were members of both the defined benefit plan and defined contribution plan; and one director (2015 – one) was a member of the defined contribution plan. The highest paid director was a participant in the unfunded unregistered unsecured retirement benefit arrangement (UURBS) during the years ended 31 December 2016 and 31 December 2015.

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:

	2016 £000	2015 £000
Remuneration (short-term benefits)	493	410
Share awards	101	153
Post-retirement benefits	28	107
Total short-term and post-retirement benefits	622	670

8. Income tax credit

(a) Analysis of taxation credit for the year

	2016 £000	2015 £000
Current income taxes:		
Group relief	(1,742)	(1,602)
Adjustments in respect of previous years	242	46
Total current tax credit	(1,500)	(1,556)
Deferred income taxes:		
Origination and reversal of timing differences	(17)	(48)
Adjustments in respect of previous years	34	7
Total deferred income taxes credit	17	(41)
Tax credit	(1,483)	(1,597)

The income tax credit relate to continuing activities.

(b) Factors affecting the taxation credit for the year

The tax assessed for the year differs from (2015: differs from) the standard rate of 20% (2015 – 20.25 %) for corporation tax in the U.K.

The differences are explained below:

	2016 £000	2015 £000
Loss before taxation	(3,260)	(8,957)
Loss at 2016 standard rate of corporation tax in the U.K. of 20% (2015 – 20.25%)	(652)	(1,814)
Effects of:		
(Non-taxable income) and non-deductible expenses	(1,110)	146
Adjustments in respect of previous years	276	53
Deferred tax not recognised	3	18
Tax credit	(1,483)	(1,597)

(c) Factors that may affect future taxation charge

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

In his Budget announcement of 16 March, 2016, the Chancellor of the Exchequer announced certain tax changes which will have a significant effect on the Group's future tax position. The proposals include further reductions in the U.K. corporation tax rate to 17% from 1 April, 2021.

At 31 December, 2016, the previously announced reductions in the rate had been 'substantively enacted' and this has been reflected in the financial statements at 31 December, 2016.

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

9. Property, plant and equipment

	Plant and equipment £000
Cost:	
At 31 December 2015 and 31 December 2016.....	<u>308</u>
Accumulated depreciation:	
At 31 December 2015.....	241
Provided during the year.....	26
At 31 December 2016.....	<u>267</u>
Net book values:	
At 31 December 2016.....	<u>41</u>
At 31 December 2015.....	<u>67</u>

The carrying amount of assets held under finance leases was £nil in 2016 and 2015.

10. Intangible assets

	Software £000	Goodwill £000	Patents £000	Total £000
Cost:				
At 31 December 2015 and 31 December 2016.....	31	2,787	623	<u>3,441</u>
Accumulated amortisation:				
At 31 December 2015.....	31	2,660	497	3,188
Provided during the year.....	—	—	31	31
At 31 December 2016.....	<u>31</u>	<u>2,660</u>	<u>528</u>	<u>3,219</u>
Net book values:				
At 31 December 2016.....	<u>—</u>	<u>127</u>	<u>95</u>	<u>222</u>
At 31 December 2015.....	<u>—</u>	<u>127</u>	<u>126</u>	<u>253</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 and 31 December 2016	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 ³	Ordinary shares	100%	Property Services
BAL 1996 Limited ¹	England and Wales ³	Ordinary shares	100%	Dormant
LGL 1996 Limited	England and Wales ³	Ordinary shares	100%	Dormant
Magnesium Elektron Limited	England and Wales ³	Ordinary shares & preference shares ²	100% 54%	Manufacturing
Magnesium Elektron CZ s.r.o. ¹	Czech Republic ⁴	Register capital	100%	Manufacturing
Luxfer Magtech International Limited ¹	England and Wales ³	Ordinary shares	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

³ Registered address: Anchorage Gateway, 5 Anchorage Quay, Salford, M50 3XE, England

⁴ Registered address: Nádražní 214, 435 33 Louka u Litvínova, Czech Republic.

12. Deferred income taxes

	Provided 31 December 2016 £000	Provided 31 December 2015 £000	Unprovided 31 December 2016 £000	Unprovided 31 December 2015 £000
Other timing differences	209	228	21	20
Tax losses	—	—	1,735	1,407
Deferred tax assets	209	228	1,756	1,427

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 1 January 2016	238	11	(21)	228
(Charged) / credited to income statement	(8)	6	(15)	(17)
Credit to other comprehensive income	—	—	(2)	(2)
At 31 December 2016	230	17	(38)	209

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

13. Trade and other receivables

	31 December 2016 £000	31 December 2015 £000
Non-current Assets		
Derivative financial instruments.....	666	—
Current Assets		
Trade receivables.....	—	1
Amounts owed by group undertakings.....	27,552	18,305
Amounts owed by ultimate parent undertaking.....	1,429	116
Prepayments and other receivables.....	830	1,041
Derivative financial instruments.....	5,851	4,599
Group relief receivable.....	1,718	1,587
	37,380	25,649

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 2016 £000	31 December 2015 £000
Cash at bank and in hand.....	5,107	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 2016 No.	31 December 2015 No.	31 December 2016 £000	31 December 2015 £000
Authorised:				
Ordinary shares of £1 each.....	6,100,000	6,100,000	6,100	6,100
	31 December 2016 No.	31 December 2015 No.	31 December 2016 £000	31 December 2015 £000
Allotted, called up and fully paid:				
Ordinary shares of £1 each.....	6,100,000	6,100,000	6,100	6,100

16. Non-current liabilities

	31 December 2016 £000	31 December 2015 £000
Loan owed to ultimate parent undertaking.....	5,003	5,003
Loans owed to group undertakings.....	24,408	24,408
	29,411	29,411

LUXFER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

All amounts in thousands

16. Non-current liabilities (Continued)

The loan payable to the Company's ultimate parent company totaled £5,003,000 and bears interest at 7% payable half yearly. It is due to expire on 15 June 2021. There are two loans from fellow group undertakings, the first totals £20,000,000 and bears interest at 3% plus 6 month LIBOR. The second totals £4,408,000 and is interest free. For both of these loans, we have received confirmation from the counterparty that the loan is not repayable before 1 January 2018.

17. Bank loans and overdrafts

	31 December 2016 £000	31 December 2015 £000
Bank loans	—	6,500

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 loans are approximate to their fair value.

18. Trade and other payables

	31 December 2016 £000	31 December 2015 £000
Non-current liabilities		
Derivative financial instruments.....	630	—
Current liabilities		
Trade payables.....	527	546
Amounts owed to group undertakings.....	33,136	25,906
Other taxes and social security	163	118
Derivative financial instruments.....	5,801	4,522
Accruals and deferred income	1,756	2,404
	41,383	33,496

The Directors consider that the carrying value of trade payables approximates to their fair value. Amounts owed to 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 2016 £000	31 December 2015 £000
Financial assets: derivatives	6,517	4,599
Financial liabilities: derivatives	(6,431)	(4,522)
	86	77
	31 December 2016 £000	31 December 2015 £000
Derivative financial instruments are as follows:		
Held to hedge purchases and sales by the Company:		
Forward foreign currency exchange rate contracts	86	77

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 2016, the outstanding contracts all mature within 24 months (2015 – 18 months) of the year end. The Company is committed to sell \$37,339,000, €46,835,000 and Australian \$5,000,000 and receive a fixed GBP sterling amount. The Company is committed to purchase \$32,995,000, €3,121,000 and Canadian \$197,000 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 on behalf of the Group to hedge a portion of the Group's price exposure of purchases of aluminium. At 31 December 2016, the outstanding contracts all mature within 18 months (2015 – 27 months of the year end). At 31 December 2016, the Company has hedged 6,000 metric tons of aluminium for supply (2015 – 10,650 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 £20,000 (2015 – £76,000). The accrued contributions at the year end, included in accruals and deferred income amounted to £nil (2015 – £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. 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. 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 £43,653,000 as at 31 December 2016 (2015 – £31,575,000). Full details relating to the LGPP can be found in the financial statements of Luxfer Holdings PLC.

During 2016, the Company made contributions to the LGPP of £112,000 (2015 – £149,000) to fund the Pension Protection Fund Levy in this plan and of £2,171,000 (2015 – £2,426,000) 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 £128,000 (2015 – £205,000).

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 2016 £000	Other 2016 £000	Land and Buildings 2015 £000	Other 2015 £000
Not later than one year	88	18	—	7
Later than one year and not later than five years	—	10	24	17
Later than five years	—	—	—	—
	<u>88</u>	<u>28</u>	<u>24</u>	<u>24</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.

	2016 £000	2015 £000
Share-based compensation charges	<u>44</u>	<u>41</u>

There were no cancellations or modifications to the awards in 2016.

The weighted average remaining contractual life of the share awards in the group schemes outstanding as at 31 December 2016 was 3 years (2015 – 4 years). The weighted average fair value of options granted in the group schemes during the year was \$9.39 (2015 – \$11.42). The weighted average exercise price for options outstanding in the group schemes at 31 December 2016 was \$8.51 (2015 – \$7.24).

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

	2016	2015
Dividend yield (%)	4.00	4.00
Expected volatility range (%)	29.73 – 38.73	28.24 – 41.39
Risk-free interest rate (%)	0.36 – 1.05	0.09 – 1.40
Expected life of share options range (years)	1 – 3.5	1 – 5
Weighted average exercise price (\$)	\$0.67	\$0.76
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.

Employee share incentive plans

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. Financial risk management objectives and policies

The Company's financial instruments comprise bank and other loans, derivatives and trade payables. Other than derivatives, the main purpose of these financial instruments is to raise and provide finance for the Luxfer Group's operations. The Company also has various financial assets such as intercompany loans and cash and cash equivalents.

A Treasury Committee, chaired by the Group Finance Director, oversees the implementation of the Group's hedging policies, including the risk management of currency and aluminium risks and the use of derivative financial instruments.

It is not the Group's policy or business activity to trade in derivatives. They are only used to hedge underlying risks occurring as part of the Group's normal operating activities.

Some of the main risks arising from the Company's financial instruments are cash flow interest rate risk and foreign currency translation risk.

The Company regularly enters into forward currency contracts to manage currency risks and when considered suitable will use other financial derivatives to manage commodity and interest rate risks.

Interest rate risk

The Company has exposure to variable interest rates when it draws down on the revolving credit facilities. As a result of this exposure, the Company may decide to hedge interest payable based on a combination of forward rate agreements, interest rate caps and swaps. The revolving credit facility at 31 December, 2016 was nil.

Furthermore, the Company has exposure to variable interest rates with regards to the intercompany loans which it holds. If the LIBOR rate were to change by 1%, based on the balance on the intercompany loans at 31 December, 2016, this would impact the interest cost by approximately £200,000.

Foreign currency translation risk

The Company provides finance to a number of group undertakings who operate within the U.S. and the rest of Europe. Therefore, the Company is exposed to translation risk on both its income statement, based on average exchange rates, and its balance sheet with regards to period end exchange rates.

24. 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.

See Note 7 for disclosure of the Directors' remuneration.

25. 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.