API Group plc
Report and Financial Statements
Year ended 31 December 2016

Company number: ***00169249***

Contents

The directors present their Strategic Report together with the audited financial statements for the year ended 31 December 2016.

This report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the Strategic Report is consistent with the financial statements. The auditor's report is set out on page 10.

Principal activities and review of the business

Group overview of activities

API is a leading manufacturer and distributor of foils, films and laminates for use primarily in packaging for fast moving consumer goods and printed media. API's metallic, holographic and pigmented solutions provide added value options for specifiers and brand owners, visually enhancing and authenticating brands and packaging. API's products can be found across a wide variety of applications and sectors including wines, beers and spirits, tobacco, personal care, food, greeting cards, vehicle licensing and number plates.

With production operations in the UK, US and, since December 2016, mainland Europe (with the acquisition of a facility in Amsterdam), and a strong (owned) distribution network, API has become a trusted partner in the supply chain for many of the world's leading brands by providing creative solutions, outstanding technical support and a strong customer service ethos.

API completed its transition to a functional structure in 2016 to deliver a 'One API' brand enhancement strategy. The purpose of this strategy is to leverage the market reach of the individual business units to offer our customers a broader and more attractive package of brand enhancement solutions through one commercial interface.

The business' objective is to deliver high single digit or low double digit operating margin, with a resilient financial performance founded on a competent, well trained workforce, outstanding products, strong customer service and a sustainable market position. Intergroup trade provides a further opportunity to maximise added value for the group.

Delivery of our objectives is dependent upon:

- delivery of brand enhancement solutions to our customer base;
- optimising our cost base and operational efficiency;
- growing volume through product development and innovation;
- superior service delivery; and
- value adding investment in additional capabilities and capacity.

Acquisitions and divestments

2016 represented a year of significant change for the API business including two acquisitions and a divestment which are summarised below.

In July 2016, API completed the acquisition of Hazen Paper Company's Paperboard Lamination facilities and business in Osgood, Indiana ("Osgood"). The acquisition of an independent US lamination facility and business is part of the API strategy to focus on brand enhancement solutions for the packaging market and enables the business to provide a combined foils and laminate offering to customers in the US whilst giving broader product and geographical coverage for our global customers.

In December 2016, API acquired the manufacturing assets and business of Amsterdam Metallized Products B.V. ("AMP") in the Netherlands. AMP is a leading global provider of technologies for brand enhancement packaging substrate technologies, pioneering transfer metalizing paper, board and filmic materials.

Both acquisitions represent the continued focus on offering the very best brand enhancement solutions for the packaging market adding complementary products and further enhancing API's capability to serve customers, and providing entry into attractive new sectors.

In April 2016 API completed the disposal of its holographic security business to Opsec Security Group. Holographic security foils addressed a different market segment to the core group strategy and instead the proceeds have been reinvested to support both the acquisitions outlined above and also capital investments supporting the core product areas of the API business.

A direct consequence of this disposal was the closure of the Salford facility resulting in the transfer of equipment relating to the retained decorative holographics business to our foils facility in Livingston. This transition was successfully completed by the end of 2016 with decorative holographic product being manufactured and distributed from the Livingston location. API is currently in the process of disposing of the Salford facility (disclosed as a property held as asset for sale in note 9).

Details of acquisitions and disposals made in the year can be found in note 26 to the financial statements.

In 2016, API also undertook a review of its Foils manufacturing cost base for North America. The outcome of this review was an announcement that the facility in Rahway, New Jersey, is planned to close in 2018. The assets of the Rahway facility are to be transferred to the Lawrence, Kansas factory. The land and buildings were sold in January 2017 with the facility leased back to API for a period of 18 months (disclosed as a property held as asset for sale in note 9).

Group financial review

API had a strong financial performance in 2016. Revenues during the year were £125.5m (9 months to December 2015: £82.9m) reflecting, in addition to the acquisitions, an underlying annualised sales growth at constant exchange rates of 8.9% driven by robust tobacco sales (in support of product launches) in European and Asian Laminates and also strong foils revenues in North America.

Margin performance continued to be helped by the benign resin environment and prices generally being maintained across most business. The evidence is reflected in a gross profit percentage in 2016 of 21.5% (9 months to December 2016: 21.2%) more than offsetting the dilutional impact at a gross profit level of additional lamination facilities on the overall margins of the group.

Operating profit before exceptional items was £4.0m (9 months to 31 December 2015: £2.4m) reflecting, both the strong revenue performance, controlled costs and also the 12 month period.

Profit before tax was £2.5m (9 months to 31 December 2015: £1.2m) with £0.5m of exceptional costs (9 months to December 2015: £0.4m) which represented a combination of the profit on disposal of the security holographics business offset by the costs to transfer the decorative holographics and closure of Salford site, acquisition costs relating to the purchase of both the Osgood and Netherlands businesses and costs relating to the consolidation of US manufacturing operations.

The tax charge for the period was £1.1m (9 months to 31 December 2015: £1.4m.)

Cash generated by operations was £7.6m (9 months to 31 December 2015: cash absorbed by operations of £5.9m) with a reduction in working capital of £2.1m. Cash outflows resulting from capital expenditure amounted to £1.7m with the majority of expenditure relating to a combination of operational improvements and IT infrastructure.

Net debt (other financial liabilities excluding forward foreign exchange contracts less cash at bank and in hand) was £20.9m at December 2016 (December 2015 £13.3m) reflecting the take on of funding to support the July and December acquisitions. Additional funding (including $5m from a fellow subsidiary of the ultimate parent company, WebFinancial Holding Corporation ("WFHC")) was used to enable the Osgood facility purchase. The purchase of the business and assets from AMP was funded from existing funding available due to a strong base business cash generation (evidenced by the cash inflow generated by operations).

Principal risks and uncertainties

An analysis of the principal risks and uncertainties facing the group is set out below:

Financial risks			
Area of risk	**Description**	**Potential impact**	**Mitigation**
Foreign currency	With operations in numerous countries, the group is exposed to foreign exchange translation risk when the net assets and income statements of overseas subsidiaries are consolidated into the group financial statements. Transactional foreign exchange exposures arise when an entity within the group enters into a transaction to pay or receive funds in a currency other than its functional currency.	Movements in exchange rates could have substantial favourable or adverse impacts on both the consolidated financial statements and those of individual entities. Sensitivity to movements in exchange rates is explained in note 22 to the financial statements.	The group's debt is structured to ensure that, where possible, it is held in the same territory where the operations being financed are situated. For substantial transactional exposures, it is group policy to hedge through the use of foreign exchange forward contracts. The group does not undertake any trading activity in financial instruments.
Interest rates	Interest rate risk arises from cash and borrowings which are subject to floating interest rates.	Changes to interest rates could impact net results and cash flow. Sensitivity to movements in interest rates is explained in note 22 to the financial statements.	If considered appropriate, the group uses swap hedge instruments to convert a portion of its debt from floating to fixed interest rates.
Credit	Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed.	Non-payment by customers resulting in bad debts could have an adverse impact on the group's profitability.	Customers are assessed for financial reliability using external rating agencies. Secure payment terms are frequently used in riskier geographies or for riskier customers. The group regularly assesses the cost and benefits of credit insurance and obtains coverage as considered appropriate.
Liquidity	Liquidity risk refers to the risk that the group may not be able to settle or meet its financial obligations on time or at a reasonable price. This will arise from mismatches between cash inflows and outflows from the business.	Failure to meet covenant and other conditions could result in the group being forced to accept materially less attractive lending terms or to implement measures designed to accelerate the repayment of debt to the possible detriment of shareholder value.	This risk is monitored through regular short-term cash flow forecasting, trading forecasts from the businesses and annual budgets agreed by the ultimate parent company, Steel Partners, before the start of each financial year.
Defined benefit pension schemes	The group provides final salary retirement benefits for a number of its former and current employees through pension schemes in the UK and US. Contribution requirements may vary depending on investment performance, mortality rates, inflation levels and changes in other actuarial assumptions.	While these schemes are closed to future service accrual, actuarial valuations and funding assessments may lead to demands for higher top-up contributions from the group.	The group, in conjunction with the trustees of the pension schemes, actively monitors the performance of the schemes' assets and takes appropriate actions to ensure these are maximised and also that the obligations under the schemes are mitigated where possible.

Operational risks			
Area of risk	**Description**	**Potential impact**	**Mitigation**
Markets	A key risk faced by the business is a reduction in levels of demand by customers. In general, customers are unencumbered by formal contractual commitments and provide limited visibility of future volume requirements. Ultimately, order levels depend on rates of consumption several stages removed from the group's point of sale which, when combined with the effects of confidence and decision making by multiple parties within the supply chain, are difficult to predict.	The group's cost base is inevitably somewhat inelastic and financial results are therefore difficult to insulate from any sharp or prolonged downturn in market activity.	The group constantly strives to adapt its operations to prevailing demand. Management prepares monthly forecasts and carries out regular business reviews to enable it to react to movements in demand and take remedial action as quickly as possible.
Commercial relationships	The business relies on a small number of key customers and supply contracts for a significant proportion of its turnover.	Any slump in the fortunes of major customers or lack of success in maintaining or replacing existing major supply positions could have a materially adverse impact on the group's operating results.	The group aims to build long-term relationships with major end-users of its products, as well as continuing to provide a high value of quality and service to its direct customers. There is continuing focus on diversifying the customer base to reduce reliance on a few major customers, with some evidence of this resulting from the 2016 acquisitions.
Geographic	A significant proportion of the group's sales are in developed Western economies, including the UK. In line with the general move of manufacturing to lower cost countries, certain of the group's immediate and end-use customers routinely consider relocating facilities to regions where the group's infrastructure is less well developed such as Eastern Europe and Asia.	Any accelerated reduction in the accessible customer base could impact the group's sales opportunities.	The group has strategies in place to expand its operations into other regions both through the creation of directly owned distribution hubs or developing relationships with third-party distributors.
Input costs	A significant proportion of the group's raw material and conversion costs are affected by the price of oil and gas and the dynamics of particular commodity supply sectors. It is difficult to insulate input costs from volatility in the price of these commodities.	A significant increase in raw material input costs could reduce margins as the group could also face challenges in passing higher costs through to customers due to competitive pressures in most markets.	The group monitors the prices of raw materials and utilities.
Health and safety	Due to the nature of its operations, the group is exposed to a wide range of health and safety risks, including the potential for serious fires and explosions.	As well as the risk of injury or loss of life, failure to properly manage and control these risks could lead to the suspension or withdrawal of operating consents by enforcement authorities, corporate prosecution or the loss of productive capacity through damage to equipment or facilities. There is the potential for significant adverse disruption to the group's activities and financial consequences which may not be wholly covered by insurance.	Health and safety is given high priority by the group's management and is monitored closely by the board. An active programme is in place to control exposure and minimise the fire and explosion risk. In addition, management works closely with insurers on the prevention of property loss and business interruption.
Environment	API is aware of the impact the group's operations can have on the environment. Some of the group's manufacturing processes involve solvents and other hazardous chemicals. Where these substances are used there is the potential for air and ground contamination.	Failure to meet required standards could lead to the suspension or withdrawal of operating consents by enforcement authorities or financial and reputational loss arising from corporate prosecution.	API is aware of the impact the group's operations can have on the environment. The risk of new incidents is contained by means of strict operating procedures. Past exposures are remedied when required.

Future developments

Performance in the business is broadly in line with expectations. Integration of the two acquisitions continues with application of the Steel Business System, and consolidation of the product portfolios into the existing API estate.

The business is anticipating significant capital investment in 2017, which includes the North American foils manufacturing reconfiguration project.

As a net exporter to the European Union, Brexit announcements are being monitored closely for any potential impact upon the business.

Key financial measures

	Year ended 31 December 2016 £m	**9 months ended 31 December 2015 £m**
Total revenue	125.5	82.9
Operating profit before exceptional items	4.0	2.4
Profit before tax	2.5	1.2
Cash generated from / (absorbed by) operations	7.6	(5.9)

Good progress has been made in each of API Group's key financial measures, even when accounting for the short comparative period.

By order of the board

Jack Howard
Director
31 March 2017

DIRECTORS' REPORT

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

Result and dividends
The group profit for the year ended 31 December 2016 amounted to £1,380,000 (9 months to 31 December 2015: loss of £229,000). The directors do not recommend the payment of a final dividend (9 months to 31 December 2015: £nil).

Events since the date of the statement of financial position
In January 2017, the land and buildings in Rahway, New Jersey were sold and the facility leased back to API for a period of 18 months.

Directors
The directors who served on the board of the company during the period to 31 December 2016 were:

Jack Lawrence Howard
COSN I LLC

Share capital
As at 31 December 2016, the company's issued share capital comprised 76,748,730 ordinary shares of 1p each. Details of the company's share capital can be found in note 19 to the financial statements.

Directors' shareholdings
No directors who held office at the end of the financial period reported having any interests in the ordinary shares of the company as at 31 December 2016.

Safety, health and the environment
The group's first priority in the workplace is the health, safety and welfare of its employees and those affected by its operations. API has a good health and safety record and a culture of safety, which aims for continuous improvement, is deeply embedded within the group.

The group's SHE policy has been designed to provide a framework and guidelines for sites to ensure that they meet or exceed all applicable legal and regulatory requirements, to share best practice and to maintain suitably active and directed management programmes at site level. There is a clear emphasis on the responsibilities of local management teams, with oversight through line management and support from group resources.

Employees
The board promotes good relationships and communication with employees. Steps are taken to inform employees of the circumstances facing the business and its progress and plans, with the aim of promoting a sense of common endeavour towards the group's business objectives as a whole.

The group encourages consultation and communication at site level and employees have access to senior management so that their views can be taken into account when making decisions which are likely to affect their interests. Communication with employees includes updates on staff notice boards, communications by email and team meetings. Information, including the latest news relating to the group's business, is also made available on the company's intranet.

Each site and the group's central services team has access to an HR advisor who is available to address any concerns or questions an employee may have on a strictly confidential basis. Each HR advisor reports to the VP of Legal & HR of the group.

The group has a whistleblowing policy in place to enable and encourage employees, regardless of seniority, to bring matters relating to suspected wrongdoing or dangers at work to the board's attention. The whistleblowing policy forms part of the employee handbook and is also available for employees to access on the company's intranet. Arrangements are in place for proportionate and independent investigation of any concerns or allegations and for appropriate follow-up action, when required.

Equal opportunities
API is an equal opportunities employer. Both employment (including recruitment) policy and practice in the group are based on non-discrimination and equal opportunity irrespective of age, disability, race, religion or belief, gender, sexual orientation, gender re-assignment, colour, nationality, ethnic or national origin and marital or civil partner status. The group's equal opportunities policy forms part of the group's employee handbook and is also available for employees to access on the group's intranet.

The group endeavours to give full and fair consideration to the possibility of employing disabled people wherever a vacancy arises and is committed to making reasonable adjustments whenever required. Disabled employees have the same opportunities as other employees in relation to training, career development and promotion.

Training and development
Training and development of all employees is given due priority. The assessment of training and development needs is led by the relevant HR advisor and programmes are coordinated primarily at a business unit level. Senior management and staff participate in a performance management programme involving annual objective-setting and appraisal.

Research and development
Each business unit has a technical team which focuses on innovating, customising and developing existing and new product lines and manufacturing processes to address customer and market requirements. Details of the group's expenditure on research and development are disclosed in note 3 to the financial statements.

Charitable and political donations
Charitable donations made by the group during the year amounted to £2,014 (9 months to 31 December 2015: £3,339). No political donations were made (9 months to 31 December 2015: £nil).

Going concern
The principal risks and uncertainties that could impact on the future development of the group's operating and financial performance are outlined in the Strategic Report. The group's main borrowing facilities in the UK and the US are committed until June 2018.

The directors are satisfied, on the basis of the group's latest financial projections and facilities available, that the group has adequate financial resources to continue to operate for the foreseeable future. The directors therefore continue to adopt the going concern basis in preparing these financial statements.

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 period. Under that law, the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- for the group financial statements, state whether IFRSs as adopted by the European Union have been followed, subject to any material departure disclosed and explained in the financial statements;
- for the company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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.

Articles of Association
The company's Articles of Association may only be amended by special resolution approved at a general meeting of the shareholders. A copy of the Articles of Association is available for inspection at the company's registered office.

Disclosure of information to auditors
All of the current directors have taken all the steps they ought to have taken to make themselves aware of any information needed by the company's auditor for the purpose of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of which the auditors are unaware.

Auditors
BDO LLP have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board

Claire Chadwick
Company Secretary
31 March 2017

Registered office:
Second Avenue, Poynton Industrial Estate
Poynton, Cheshire SK12 1ND

INDEPENDENT AUDITOR'S REPORT

to the members of API Group plc

We have audited the financial statements of API Group plc for the year ended 31 December 2016 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Changes in Equity, the Group Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditors

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). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP.

Stuart Wood (senior statutory auditor)
For and on behalf of BDO, LLP, statutory auditor
Manchester
United Kingdom
31 March 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP INCOME STATEMENT

for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Period ended 31 December 2015* £'000
Revenue	2	**125,468**	82,870
Cost of sales		**(98,445)**	(65,334)
Gross profit		**27,023**	17,536
Distribution costs		**(4,598)**	(3,142)
Administrative expenses (excluding exceptional items)		**(18,430)**	(11,974)
Operating profit before exceptional items	3	**3,995**	2,420
Exceptional items	5	**(470)**	(392)
Operating profit		**3,525**	2,028
Finance revenue	6	—	2
Finance costs	6	**(1,048)**	(861)
Net finance costs		**(1,048)**	(859)
Profit before taxation		**2,477**	1,169
Tax expense	7	**(1,097)**	(1,398)
Profit / (loss) for the year		**1,380**	(229)

All profits / (losses) are attributable to equity holders of the parent and relate to continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Period ended 31 December 2015* £'000
Profit / (loss) for the year		**1,380**	(229)
Items that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on retranslation of foreign operations		**2,220**	2
Change in fair value of effective cash flow hedges		**(933)**	(1,692)
Items not reclassified to profit or loss in subsequent periods:			
Re-measurement (losses) / gains on defined benefit pension schemes	18	**(9,019)**	8,335
Tax on items relating to components of other comprehensive income		**1,607**	(1,792)
Other comprehensive (expense) / income for the year, net of tax		**(6,125)**	4,853
Total comprehensive (expense) / income for the year attributable to equity holders of the parent		**(4,745)**	4,624

* Period for 9 months ended 31 December 2015

The notes on pages 15 to 35 form part of these financial statements.

GROUP STATEMENT OF FINANCIAL POSITION
at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Property, plant and equipment	8	**28,418**	26,722
Intangible assets	10	**12,595**	5,188
Deferred tax assets	7	**2,795**	1,608
		43,808	33,518
Current assets			
Assets classified as held for sale	9	**4,374**	—
Trade and other receivables	13	**24,004**	21,735
Inventories	14	**15,955**	13,129
Derivative financial assets	22	**74**	219
Cash and cash equivalents	15	**4,139**	3,274
		48,546	38,357
Total assets		**92,354**	71,875
Liabilities			
Current liabilities			
Trade and other payables	16	**24,434**	18,671
Other financial liabilities	17	**3,242**	1,308
Income tax payable		**368**	289
		28,044	20,268
Non-current liabilities			
Trade and other payables	16	**1,707**	—
Other financial liabilities	17	**22,660**	15,259
Deferred tax liabilities	7	**156**	209
Deficit on defined benefit pension schemes	18	**15,796**	7,403
		40,319	22,871
Total liabilities		**68,363**	43,139
Net assets		**23,991**	28,736
Equity			
Called up share capital	19	**767**	767
Share premium		**7,136**	7,136
Other reserves	21	**9,415**	9,415
Foreign exchange reserve	21	**2,649**	429
Retained profit		**4,024**	10,989
Equity shareholders' funds		**23,991**	28,736

Signed on behalf of the board

Jack Howard
Director
31 March 2017

Company number: 00169249

The notes on pages 15 to 35 form part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Equity share capital £'000	Share premium £'000	Other reserves £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total shareholders' equity £'000
At 31 March 2015	767	7,136	8,846	427	6,367	23,543
Loss for the period	—	—	—	—	(229)	(229)
Other comprehensive income:						
Exchange differences on retranslation of foreign operations	—	—	—	2	—	2
Change in fair value of effective cash flow hedges	—	—	—	—	(1,692)	(1,692)
Re-measurement gains on defined benefit pension schemes	—	—	—	—	8,335	8,335
Tax on items relating to components of other comprehensive income	—	—	—	—	(1,792)	(1,792)
Total comprehensive income for the period	—	—	—	2	4,622	4,624
Shares sold by Employee Benefit Trust	—	—	569	—	—	569
At 31 December 2015	767	7,136	9,415	429	10,989	28,736
Profit for the year	—	—	—	—	1,380	1,380
Other comprehensive income:						
Exchange differences on retranslation of foreign operations	—	—	—	2,220	—	2,220
Change in fair value of effective cash flow hedges	—	—	—	—	(933)	(933)
Re-measurement losses on defined benefit pension schemes	—	—	—	—	(9,019)	(9,019)
Tax on items relating to components of other comprehensive income	—	—	—	—	1,607	1,607
Total comprehensive income for the year	—	—	—	2,220	(6,965)	(4,745)
At 31 December 2016	**767**	**7,136**	**9,415**	**2,649**	**4,024**	**23,991**

For year ended 31 December 2016 and the period ended 31 December 2015, there was no interim or final dividend.

The notes on pages 15 to 35 form part of these financial statements.

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2016

	Note	Year ended 31 December 2016 £'000	Period ended 31 December 2015* £'000
Operating activities			
Group profit / (loss) after tax		**1,380**	(229)
Adjustments to reconcile group profit / (loss) after tax to net cash flow from operating activities:			
Tax expense		**1,097**	1,398
Net finance costs		**1,048**	859
Depreciation of property, plant and equipment		**2,818**	1,901
Loss / (profit) on disposal of property, plant and equipment		**198**	(25)
Profit on disposal of security holographics		**(1,224)**	—
Goodwill impairment		**59**	392
Amortisation of intangible fixed assets		**119**	—
Movement in fair value foreign exchange contracts		**41**	75
(Increase) / decrease in inventories		**(855)**	1,036
Increase in trade and other receivables		**(898)**	(7,220)
Increase / (decrease) in trade and other payables		**3,852**	(4,065)
Cash generated from / (absorbed by) operations		**7,635**	(5,878)
Interest paid		**(727)**	(424)
Pension contributions and scheme expenses paid		**(1,043)**	(770)
Income taxes paid		**(665)**	(223)
Net cash flow from operating activities		**5,200**	(7,295)
Investing activities			
Interest received		**—**	2
Purchase of property, plant and equipment		**(1,737)**	(1,749)
Purchase of Laminates Americas		**(10,725)**	—
Purchase of Amsterdam Metallised Products		**(4,245)**	—
Sale of Security Holographics		**5,124**	—
Sale of property, plant and equipment		**—**	35
Net cash flow used in investing activities		**(11,583)**	(1,712)
Financing activities			
Sale of shares by Employee Benefit Trust		**—**	569
New borrowings		**15,388**	4,670
Repayment of loans		**(8,038)**	(570)
Repayment of finance leases		**(611)**	(259)
Net cash flow generated from financing activities		**6,739**	4,410
Increase / (decrease) in cash and cash equivalents		**356**	(4,597)
Effect of exchange rates on cash and cash equivalents		**186**	(36)
Cash and cash equivalents at the beginning of the year		**2,918**	7,551
Cash and cash equivalents at the end of the year	15	**3,460**	2,918

* Period for 9 months ended 31 December 2015
The notes on pages 15 to 35 form part of these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. Group accounting policies

Authorisation of financial statements
The group's financial statements for the year ended 31 December 2016 were authorised for issue by the board of directors on 31 March 2017 and the statement of financial position was signed on the board's behalf by Jack Howard, director. API Group plc is a public limited company incorporated and domiciled in England and Wales.

Basis of preparation and statement of compliance with IFRS
The group's financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2016 and applied in accordance with the Companies Act 2006. The group has applied optional exemptions available to it under IFRS 1.

The group financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

Going concern
The directors are satisfied, on the basis of the group's latest financial projections and facilities available, that the group has adequate financial resources to continue to operate for the foreseeable future. The directors therefore continue to adopt the going concem basis in preparing these financial statements.

Period of account
The results in the financial statements represent the 12 month period from 1 January 2016 to 31 December 2016. The comparatives represent the 9 months to 31 December 2015. The reason for the prior year change in year end was to be coterminous with the ultimate parent undertaking, Steel Partners Holdings L.P.

Changes in accounting policies
In the preparation of these group financial statements, the group followed the same accounting policies and methods of computation as compared with those applied in the previous period.

Accounting standards adopted in the period
There are no new accounting standards, amendments to existing standards or interpretations, effective from 1 January 2016, which have had a material impact on the group.

New standards, amendments and interpretations issued but not effective or early adopted by the group
The following standards have been issued but are not yet effective and have not been early adopted by the group:

	Effective date
IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 – Leases	1 January 2019
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IAS 7: Disclosure Initiative	1 January 2017

The application of IFRS 9, IFRS 15 and IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the group's accounts. However, it is not practical to provide a reasonable estimate on the effect of IFRS 9, IFRS 15 and IFRS 16 until the group performs a detailed review nearer to the effective date.

Other than as described above, there are no new standards, amendments or interpretations which are not yet effective that would be expected to have a material impact on the group.

1. Group accounting policies (continued)

Significant judgements and estimates
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the date of the statement of financial position and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Details regarding judgements which have the most significant effect on the amounts recognised in the financial statements are as follows:

- *Impairment of non-financial assets*
  The group assesses whether there are any indicators of impairment for all non-financial assets. Goodwill is tested for impairment annually or at other times when relevant indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying values may not be recoverable. When value-in-use calculations are undertaken, management must estimate expected cash flows from the asset or cash generating unit and choose a suitable discount rate to calculate the net present value of those cash flows. Further details regarding impairment of property, plant and equipment and goodwill are given in note 11.

- *Deferred tax assets*
  Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits. Further details are given in note 7.

- *Pensions and other post-retirement benefits*
  The cost and valuation of defined benefit pension plans is determined using actuarial valuations. This involves making assumptions about discount rates, future applicable salary and pension increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 18.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the group and its subsidiaries as at 31 December 2016. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

Business combinations and goodwill
On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

Goodwill arising on acquisitions is capitalised and subject to annual impairment review. Between 5 October 1997 and 1 October 2004 goodwill was amortised over its estimated useful life. Such amortisation ceased on 30 September 2004. The group's policy before 5 October 1997 was to eliminate goodwill arising upon acquisitions against reserves. Under IFRS 1 and IFRS 3, such goodwill will remain eliminated against reserves.

Interests in joint arrangements
A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and liabilities, relating to the arrangement. In relation to its interest in joint operations, the group recognises:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of the liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

1. Group accounting policies (continued)

Revenue recognition
Revenue represents amounts invoiced to third parties excluding value added taxes and represents net invoice value less estimated rebates, returns and settlement discounts. It is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured. This is normally the date of despatch. Rebates and discounts are recognised in accordance with contractual obligations held with customers. They are recognised in the period to which they relate.

Exceptional items
Exceptional items are material items which derive from events which fall within the ordinary activities of the group and which require separate disclosure by virtue of their size or incidence.

Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The group's policy is to write off the difference between the cost of each item of property, plant and equipment and its residual value systematically over its estimated useful life. Annual reviews are made 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. Under this policy it becomes impractical to indicate average asset lives exactly but the indicative ranges are as follows:

- freehold buildings and long leasehold property – 14 to 50 years;
- plant and machinery – 5 to 20 years;
- office and IT equipment – 3 to 10 years; and
- freehold and leasehold land is not depreciated.

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 amount of the item) is included in the income statement in the year the item is derecognised.

As permitted by IFRS 1, property previously revalued before the transition date of 1 October 2004 has been treated as deemed cost at the transition date.

Intangible assets
Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired with a business acquisition are capitalised at fair value at the date of acquisition if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. The useful lives of intangible assets are assessed as finite or indefinite. Customer relationships have an estimated useful life of 7 years and are amortised on a straight line basis. Trade names have an estimated useful life of 10 years and are amortised on a straight line basis. Except as set out in the policy for research and development costs, internally generated intangible assets are not capitalised and expenditure is charged against income as it is incurred.

Impairment of non-financial assets
The carrying values of intangible assets are reviewed annually for impairment or if events or changes in circumstances indicate the carrying value may not be recoverable. Property, plant and equipment are reviewed to ensure that assets are not carried at above their recoverable amounts once some indication of impairment exists. Calculations are made of the discounted cash flows resulting from continued use of the assets (value in use) or from their disposal (fair value less costs to sell). Where these values are less than the carrying amount of the assets, an impairment loss is charged to the income statement.

Research and development costs
Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

Inventories
Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a first-in first-out basis. Cost of work in progress and finished goods comprises the cost of raw materials, direct labour and overheads attributable to the production of inventory. Net realisable value comprises the estimated selling value less selling costs.

1. Group accounting policies (continued)

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any amounts which may not be collectible. Should an amount become uncollectible, it is written off to the income statement in the period in which it is identified.

Cash and cash equivalents

Cash and cash equivalents principally comprise funds held with banks and other financial institutions with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at the lower of carrying amount and fair value less costs to sell. Depreciation is not charged against property, plant and equipment classified as held for sale.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost under the effective interest rate method.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the date of the statement of financial position. The carrying value of deferred tax assets is reviewed at each date of the statement of financial position.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement or other comprehensive income.

1. Group accounting policies (continued)

Pensions and other post-retirement benefits
The cost of providing benefits under the defined benefit pension plans is determined separately for each plan using the projected unit credit method.

Re-measurements are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through Other Comprehensive Income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss account on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the group recognises restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The difference between the return on plan assets and the interest income on plan assets recognised in the income statement as other finance revenue or cost is recognised in Other Comprehensive Income.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

The US business contributes to a multi-employer defined benefit pension scheme. This scheme is accounted for as a defined contribution scheme, as the information available from the scheme administrators is insufficient for it to be accounted for as a defined benefit scheme.

Employee Benefit Trust (the "Trust")
The company has a discretionary trust established to facilitate the operation of the company executive share option schemes and long-term incentive plans. Shares in API Group plc held by the Trust are deducted from equity at cost. Amounts received on exercise of these options are also recognised in equity, with any difference between proceeds from the exercise of these options and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

Foreign currencies
The assets and liabilities of overseas subsidiary undertakings are translated into sterling at rates ruling at the date of the statement of financial position and trading items at the average rate for the period. The exchange differences arising on the translation of the financial statements of foreign subsidiary undertakings are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the statement of financial position. All translation differences are taken to the income statement.

Derivative financial instruments and hedging
The group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative instruments are measured at fair value on the date which the derivative contract is entered into and are subsequently re-measured at fair value at the date of the statement of financial position. Derivatives are carried as assets if the fair value is positive and liabilities if the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market values for similar instruments.

Hedge accounting is adopted when the hedging relationship is formally designated and documented on inception. Such hedges are expected to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine whether they have been highly effective during the reporting period for which they were designated. Gains and losses arising from the changes in the fair value of derivatives that do not qualify for hedge accounting are taken to finance revenue or finance costs in the income statement.

Hedges of a net investment in a foreign operation are accounted for in a similar way. Gains or losses relating to the effective portion are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On the disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

2. Revenue analysis

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Total revenue by origin		
Laminates	**65,520**	45,192
Foils Europe	**27,321**	18,153
Foils Americas	**24,596**	14,437
Laminates Americas	**7,115**	—
Holographics	**2,152**	7,195
Netherlands	**848**	—
	127,552	84,977
Inter-segmental revenue		
Laminates	**23**	13
Foils Europe	**1,103**	346
Foils Americas	**455**	277
Holographics	**503**	1,471
	2,084	2,107
External revenue by origin		
Laminates	**65,497**	45,179
Foils Europe	**26,218**	17,807
Foils Americas	**24,141**	14,160
Laminates Americas	**7,115**	—
Holographics	**1,649**	5,724
Netherlands	**848**	—
Segment revenue	**125,468**	82,870
External revenue by destination		
UK	**18,469**	17,211
Rest of Europe	**72,888**	47,771
Americas	**28,054**	12,130
Asia Pacific	**5,604**	5,335
Africa	**453**	423
Segment revenue	**125,468**	82,870

All revenue is derived from the sale of goods. Trading between operating segments is on an arm's length basis and accounted for in a similar manner to transactions with third parties.

3. Operating profit before exceptional items

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
This is stated after charging/(crediting):		
Research and development expenditure expensed during the year	**657**	435
Depreciation of property, plant and equipment	**2,818**	1,901
Amortisation of intangible assets	**119**	—
Loss / (profit) on disposal of property, plant and equipment	**198**	(25)
Cost of inventories recognised as an expense	**72,379**	46,300
Including write-down of inventories to net realisable value	**52**	(510)
Net foreign currency differences	**(440)**	(272)
Operating lease payments – minimum lease payments	**1,049**	716
Fees payable to the company's auditor for audit of the company's accounts	**30**	30
Fees payable to the company's auditor and its associates for other services		
– audit of the UK defined benefit pension scheme	**7**	5
– audit of the accounts of subsidiaries	**70**	70

4. Staff costs and directors' emoluments

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Wages and salaries	23,298	15,225
Social security costs	2,220	1,581
Defined contribution pension costs	788	625
	26,306	17,431

The average monthly number of employees (excluding non-executive Directors) during the year was made up as follows:

	Year ended 31 December 2016 Number	Period ended 31 December 2015 Number
Laminates	122	121
Foils Europe	198	184
Foils Americas	133	128
Laminates Americas	21	—
Holographics	23	86
Netherlands	4	—
Central	27	7
	528	526

Directors' emoluments

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Total		
Aggregate emoluments	21	570
Highest paid director		
Aggregate emoluments	21	526

None of the current directors are members of any of the defined benefit pension schemes.

No share options were issued or exercised in the year ended 31 December 2016 (9 month period ended December 2015: nil).

5. Exceptional items

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Profit on disposal of security holographics	1,224	—
Transfer of decorative holographics / closure of Salford site	(886)	—
Acquisition of Laminates Americas	(209)	—
Acquisition of API Netherlands	(257)	—
Consolidation of US manufacturing operations	(283)	—
Goodwill impairment of joint operation, APIO	(59)	(392)
	(470)	(392)

In the year ended 31 December 2016, the security holographics business was sold to Opsec Security Limited giving rise to a profit on disposal (after a charge for goodwill of £1,686,000) of £1,224,000. Details of the disposal of security holographics are set out in note 26.

In the year ended 31 December 2016 costs were incurred for the acquisitions of Laminates Americas and API Netherlands, the consolidation of US manufacturing operations (expected to conclude in 2018), and the transfer of decorative holographics to Livingston along with the closure of the Salford site. In the period ended 31 December 2015, full provision was made against the goodwill relating to the joint operation, API Optix s.r.o. of £392,000; the £59,000 provision in the year ended 31 December 2016 reflects the movement in the cost of goodwill from exchange differences.

6. Finance revenue and finance costs

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Finance revenue		
Other interest receivable	—	2
Finance costs		
Interest payable on bank loans, overdrafts and finance leases	**(724)**	(406)
Other interest payable	**(49)**	(52)
Finance cost in respect of defined benefit pension plans	**(275)**	(403)
	(1,048)	(861)

Included within interest payable on bank loans, overdrafts and finance leases is £46,000 (period ended 31 December 2015: £34,000) relating to the amortisation of fees and expenses incurred in obtaining bank facilities.

7. Taxation

a) Tax expense in the income statement

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Current income tax		
UK corporation tax	**(383)**	(151)
Overseas tax	**(282)**	(92)
Adjustment to prior periods	**(57)**	143
Total current income tax expense	**(722)**	(100)
Deferred tax		
Origination and reversal of temporary differences		
– defined benefit pension plan	**(83)**	(24)
– tax losses and other short-term differences	**(162)**	(1,062)
– capital allowances	**(123)**	(154)
– effect of change in tax rate	**(7)**	(58)
Total deferred tax expense	**(375)**	(1,298)
Total tax expense in the income statement	**(1,097)**	(1,398)

(b) Tax credit / (expense) on items accounted for through other comprehensive income

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Deferred tax		
Re-measurement gains and losses on defined benefit pension schemes	**1,570**	(2,002)
Change in fair value of effective cash flow hedges	**186**	338
Foreign currency adjustment	**(5)**	(10)
Effect of change in tax rate	**(144)**	(118)
	1,607	(1,792)

(c) Reconciliation of the total tax charge

The tax rate in the income statement for the year is higher (period ended 31 December 2015: higher) than the standard rate of corporation tax in the UK of 20% (period ended 31 December 2015: 20%). The differences are reconciled below:

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Accounting profit before tax	**2,477**	1,169
Accounting profit multiplied by the UK standard rate of corporation tax of 20% (period ended 31 December 2015: 20%)	**495**	234
Adjustments to tax charge in respect of prior periods	**57**	(143)
Adjustments in respect of foreign tax rates	**79**	27
Decrease in deferred tax asset recognised on losses and capital allowances	**50**	945
Losses for which deferred tax is not recognised	**42**	262
Losses utilised	**(338)**	—
Other temporary differences for which deferred tax is not recognised	**86**	(116)
Effect of change in tax rate	**7**	58
Expenses not deductible for tax purposes	**619**	131
Total tax expense reported in the income statement	**1,097**	1,398

7. Taxation (continued)

(d) Unrecognised tax losses

The group has unrecognised tax losses arising in the UK of £3,531,000 (31 December 2015: £4,189,000) that are available and may be offset against future taxable profits of those businesses in which the losses arose. The UK tax group also has unrecognised capital allowances of £1,106,000 (31 December 2015: £414,000) available to offset against future taxable profits at the rate of 17%/19% (31 December 2015: 18%) a year on a reducing balance basis. The group has unrecognised US federal tax losses available for carried forward of $6,973,000 (31 December 2015: $8,531,000), which are available for offset against future profits for a period of between 6 and 18 years.

(e) Deferred tax

The deferred tax included in the statement of financial position is analysed as follows:

	31 December 2016 £'000	31 December 2015 £'000
Deferred tax liability		
Revaluation of fixed assets	**(156)**	(165)
Fair value of cash flow hedges	**—**	(44)
	(156)	(209)
Deferred tax asset		
Defined benefit pension plans	**2,531**	1,192
Tax losses	**—**	161
Fair value of cash flow hedges	**138**	—
Capital allowances	**126**	255
	2,795	1,608

Reductions in the UK corporation tax rate from 20% to 17% (19% effective from 1 April 2017 and 17% effective from 1 April 2020) have been substantively enacted. This will impact the group's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based at the rates of tax substantively enacted at the date of the statement of financial position.

8. Property, plant and equipment

	Freehold land £'000	Freehold buildings £'000	Long leasehold land and buildings £'000	Plant and machinery £'000	Office and IT equipment £'000	Total £'000
Cost						
At 31 March 2015	2,309	10,395	1,848	57,027	9,785	81,364
Additions	—	215	132	964	146	1,457
Disposals	—	—	—	(120)	(149)	(269)
Foreign currency adjustment	14	67	—	141	42	264
At 31 December 2015	2,323	10,677	1,980	58,012	9,824	82,816
Additions	—	23	7	1,100	566	1,696
Acquisitions	554	2,325	—	3,137	—	6,016
Disposals	—	—	—	(6,090)	(847)	(6,937)
Transferred to assets classified as held for sale	(2,293)	(3,612)	—	—	—	(5,905)
Foreign currency adjustment	449	1,857	3	3,540	725	6,574
At 31 December 2016	**1,033**	**11,270**	**1,990**	**59,699**	**10,268**	**84,260**
Depreciation						
At 31 March 2015	—	4,445	905	42,415	6,510	54,275
Provided during the period	—	273	73	1,377	178	1,901
Disposals	—	—	—	(117)	(143)	(260)
Foreign currency adjustment	—	42	—	121	15	178
At 31 December 2015	—	4,760	978	43,796	6,560	56,094
Provided during the year	—	383	111	1,706	618	2,818
Disposals	—	—	—	(4,869)	(837)	(5,706)
Transferred to assets classified as held for sale	—	(1,531)	—	—	—	(1,531)
Foreign currency adjustment	—	1,019	3	2,654	491	4,167
At 31 December 2016	**—**	**4,631**	**1,092**	**43,287**	**6,832**	**55,842**
Net book value at 31 December 2016	**1,033**	**6,639**	**898**	**16,412**	**3,436**	**28,418**
Net book value at 31 December 2015	2,323	5,917	1,002	14,216	3,264	26,722
Net book value at 31 March 2015	2,309	5,950	943	14,612	3,275	27,089

Finance leases

Included in the net book value of plant and machinery is £1,850,000 (31 December 2015: £1,975,000) relating to assets acquired under finance leases.

8. Property, plant and equipment (continued)

Construction work-in-progress
Included in the cost of property, plant and equipment is £1,031,000 (31 December 2015: £769,000) relating to construction work-in-progress.

Commitments
Amounts contracted in respect of property, plant and equipment (including construction work-in-progress) amounted to £250,000 (31 December 2015: £62,000). See note 23.

Security
The group's UK borrowings of £8,841,000 (31 December 2015: £10,903,000) are secured by floating charges on the UK assets of the group including fixed assets to the value of £14,435,000 (31 December 2015: £14,589,000). The US loans of £9,094,000 (31 December 2015: £1,800,000) are pledged against certain property, plant and equipment to the value of £13,370,000 (31 December 2015: £7,344,000).

9. Assets classified as held for sale

In April 2016 API completed the disposal of its holographic security business to Opsec Security Group. Holographic security foils addressed a different market segment to the core group strategy and instead the proceeds have been reinvested to support both the acquisitions outlined above and also capital investments supporting the core product areas of the API business. A direct consequence of this disposal was the decision to sell the Salford facility. Substantial progress towards a sale was made before the end of 2016, and the disposal is expected to be completed during the first half of 2017. The Salford land and buildings have been classified as held for sale in the group statement of financial position. The sale proceeds less cost to sell are expected to be substantially in excess of the net book value of the assets and so no impairment loss has been recognised.

In 2016, API undertook a review of its foils manufacturing cost base for North America. The outcome of this review was an announcement that the facility in Rahway, New Jersey, is planned to close in 2018. The assets of the Rahway facility are to be transferred to the Lawrence, Kansas factory. The land and buildings were sold in January 2017 with the facility leased back to API for a period of 18 months. The Rahway land and buildings have been classified as held for sale in the group statement of financial position. The sale proceeds less cost to sell were substantially in excess of the net book value of the assets and so no impairment loss has been recognised.

	31 December 2016 £'000	31 December 2015 £'000
Salford	**2,163**	—
Rahway	**2,211**	—
	4,374	—

10. Intangible assets

	Goodwill £'000	Customer relationships £'000	Trade name £'000	Total £'000
Cost				
At 31 March 2015	5,574	—	—	5,574
Foreign currency adjustment	6	—	—	6
At 31 December 2015	5,580	—	—	5,580
Additions	5,561	2,878	372	8,811
Disposals	(1,686)	—	—	(1,686)
Foreign currency adjustment	313	156	2	471
At 31 December 2016	**9,768**	**3,034**	**374**	**13,176**
Impairment / amortisation				
At 31 March 2015	—	—	—	—
Impairment provision	392	—	—	392
At 31 December 2015	392	—	—	392
Amortisation in the year	—	119	—	119
Impairment provision	59	—	—	59
Foreign currency adjustment	—	11	—	11
At 31 December 2016	**451**	**130**	**—**	**581**
Net book value at 31 December 2016	**9,317**	**2,904**	**374**	**12,595**
Net book value at 31 December 2015	5,188	—	—	5,188
Net book value at 31 March 2015	5,574	—	—	5,574

10. Intangible assets (continued)

Details of the acquisition of Laminates Americas and API Netherlands are set out in note 26.

As from 1 October 2004, the date of transition to IFRS, goodwill was no longer amortised (previously amortised over a period up to 20 years) but is now subject to annual impairment testing.

Carrying amount of goodwill allocated to cash-generating units:

	31 December 2016 £'000	31 December 2015 £'000	31 March 2015 £'000
Foils Europe – UK	**2,538**	2,538	2,538
Foils Europe – Germany	**964**	964	964
Holographics	**—**	1,686	1,686
Laminates Americas	**3,501**	—	—
API Netherlands	**2,314**	—	—
API Optix s.r.o (joint operation)	**—**	—	386
	9,317	5,188	5,574

11. Impairment of non-financial assets

The directors have reviewed impairment tests at 31 December 2016 for cash generating units that have a goodwill allocation and for any of these units or other units in the group that have indicators of impairment of property, plant and equipment.

Goodwill acquired through business combinations has been allocated for impairment testing purposes to the following cash-generating units:

- Foils Europe – UK
- Foils Europe – Germany
- Laminates Americas; and
- API Netherlands.

These represent the lowest level within the group at which goodwill is monitored for internal management purposes. The value of goodwill allocated to these units is listed in note 10.

The recoverable amount of each of the cash generating units has been determined on a value in use basis. Value in use is calculated as the net present value of pre-tax cash flows based on budgets for the year ended 31 December 2016 and forecasts for the following 4 years which have been approved by the board. The cash flows were derived from business plans, including detailed sales forecasts by product type and geography, prepared by individual businesses within each division. These include an allowance for detailed capital and maintenance programmes. A terminal value has been calculated using a 1.5% growth perpetuity. The growth rates and inflation have been based on independent economic data and reflect management's assessment of specific risks related to the cash generating units. A pre-tax discount rate of 12% (31 December 2015: 12%) has been used, which was considered a best estimate for the current risk-adjusted cost of capital for the group.

The directors believe that no reasonable possible change in any of the key assumptions would cause the carrying value of the units to exceed their recoverable amounts.

Goodwill relating to API Optix s.r.o, a joint operation, has been provided for in full at 31 December 2016 and 31 December 2015.

12. Joint operation

The group has a 50% interest in a company, API Optix s.r.o. ("APIO"). Under IFRS 11, this joint arrangement is considered to be a joint operation.

The group's interests in the assets and liabilities of APIO are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Non-current assets	**269**	251
Current assets	**159**	118
Current liabilities	**(16)**	(20)
	412	349

The aggregate amount of the capital and reserves of APIO is £824,000 (31 December 2015: £698,000). The net income for the year ended 31 December 2016 is £7,000 (period ended 31 December 2015: £16,000).

The registered capital of APIO is 25,200,000 Czech crowns.

13. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due within one year		
Trade receivables	**21,219**	19,439
Prepayments	**1,552**	1,544
Other debtors	**1,233**	752
	24,004	21,735

Trade receivables are non-interest bearing and are generally on between 30 and 90 days' terms. They are shown net of any provisions for impairment. At 31 December 2016, trade receivables at a nominal value of £77,000 (31 December 2015: £85,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	31 December 2016 £'000	31 December 2015 £'000
Opening provision	**85**	130
Charge for the year	**20**	39
Amounts written off	**(36)**	(83)
Unused amounts reversed	**(1)**	(1)
Foreign currency adjustment	**9**	—
Closing provision	**77**	85

Of the total trade receivables shown above, £4,434,000 (31 December 2015: £3,358,000) are past due, but not impaired. An analysis of these trade receivables is as follows:

	31 December 2016 £'000	31 December 2015 £'000
0-30 days overdue	**3,812**	2,602
31-60 days overdue	**219**	301
61-90 days overdue	**53**	76
91+ days overdue	**350**	379
	4,434	3,358

Due to the nature and number of the group's customers, it is not practical to analyse the credit quality of trade receivables that are neither past due nor impaired. Credit risk arises from the possibility that customers may not be able to settle their obligations as agreed. Customers are assessed for financial reliability using external rating agencies. Secure payment terms are frequently used in riskier geographical areas or for riskier customers. In determining the level of credit insurance placed, the group continually monitors the market to assess the cost of premiums compared to the credit risks associated with different market and product sectors. At 31 December 2016, the maximum exposure to credit risk in respect of trade receivables, after taking account of credit insurance, was £3,304,000 (31 December 2015: £3,510,000).

14. Inventories

	31 December 2016 £'000	31 December 2015 £'000
Raw materials	**8,232**	7,055
Work in progress	**935**	635
Finished goods	**6,788**	5,439
	15,955	13,129

15. Cash and cash equivalents

For the purpose of the group cash flow statement, cash and cash equivalents comprise the following:

	31 December 2016 £'000	31 December 2015 £'000
Cash at bank and in hand	**4,139**	3,274
Bank overdrafts (note 17)	**(679)**	(356)
	3,460	2,918

Cash and cash equivalents are held at major banks with high quality credit ratings. The maximum exposure to credit risk is represented by their respective carrying values.
Cash and cash equivalents includes £202,000 (31 December 2015 - £569,000) relating to the API Group plc No 2 Employee Benefit Trust (note 21); the use of these funds is restricted.

16. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Current		
Trade payables	**19,269**	15,031
Other payables	**5,165**	3,640
	24,434	18,671
Non-current		
Other payables	**1,707**	—

17. Other financial liabilities

	31 December 2016 £'000	31 December 2015 £'000
Current		
Bank overdrafts	**679**	356
Current instalments due on bank loans	**1,084**	308
Current instalments due on finance leases	**631**	624
Forward foreign exchange contracts	**848**	20
	3,242	1,308
Non-current		
Non-current instalments due on bank loans	**18,073**	14,099
Non-current instalments due on loan by WFHC	**4,046**	—
Non-current instalments due of finance leases	**541**	1,160
	22,660	15,259

Details of forward foreign exchange contracts are given in note 22.

Bank loans
Bank loans comprise the following:

	31 December 2016 £'000	31 December 2015 £'000
Revolving loans (UK)	**8,841**	10,903
Revolving loans (US)	**1,222**	1,704
Term loans (US)	**9,094**	1,800
	19,157	14,407
Less: current instalments due on bank loans	**(1,084)**	(308)
	18,073	14,099

The group's banking facilities comprise:

UK facilities
The UK facilities are with HSBC Bank plc and are for a period to June 2018. The facilities comprise a £13.5m multicurrency revolving facility agreement and ancillary facilities of £7.5m to cover FX contracts, letters of credit and sundry other items. At 31 December 2016, UK facilities drawn down comprised revolving loans of £8.9m (31 December 2015: £11.0m) with interest rates of 1.5% (31 December 2015: 2.6%). The facilities are subject to two quarterly financial covenant targets reflecting the financial performance of the group excluding the impact of the Americas business units. Covenants relate to Interest Cover and Leverage. At 31 December 2016, the covenant ratios were within targets.

US facilities
The US facilities are with HSBC Bank USA and are for a period to June 2018. The facilities comprise amortising loans of $10.3m (31 December 2015: $1.4m) and a revolving credit facility of up to $5.5m (31 December 2015: $4.5m), depending on the level of trade debtors and stock. There is also an equipment purchase loan with Wells Fargo Bank of $0.9m (31 December 2015: $1.3m). At 31 December 2016, interest rates were 3.7%. The revolving credit facility was secured on working capital to the value of £9,599,000 (31 December 2015: £4,886,000) and the loans over certain property, plant and equipment. The US facilities with HSBC are subject to a Leverage covenant as well as the two covenants for the UK facilities. Following the acquisition of Laminates Americas, HSBC Bank USA waived the Leverage covenant at 30 September 2016 and 31 December 2016.

Loan by WFHC
The loan by WFHC relates to a $5.0m loan from a fellow subsidiary of the ultimate parent company, WebFinancial Holding Corporation. The loan has an interest rate of LIBOR plus 6.0% and the principal and interest is is repayable on the 1st October 2018.

17. Other financial liabilities (continued)

Finance leases
Finance leases comprise the following:

	31 December 2016 £'000	31 December 2015 £'000
Within one year	**658**	658
Between one and five years	**549**	1,207
	1,207	1,865
Less: interest allocated to future periods	**(35)**	(81)
	1,172	1,784

There is a finance lease with HSBC Equipment Finance (UK) Limited of £1.2m (31 December 2015: £1.8m) with a primary period to November 2018 and interest rate of 3.1%.

18. Pensions and other post-retirement benefits

The group operates a number of pension schemes. Current UK employees participate in a defined contribution scheme. Overseas employees participate in a variety of different pension arrangements of the defined contribution type and are funded in accordance with local practice. A non-contributory scheme is operated for members of the North New Jersey Teamsters 11 Union employed at the group's site in Rahway, New Jersey. This scheme is a multi-employer defined benefit scheme which is accounted for as a defined contribution scheme, as the information available from the scheme administrators is insufficient for it to be accounted for as a defined benefit scheme. Under the rules of the scheme the employer is not liable for any deficit of the scheme unless it withdraws from the scheme.
In the UK, a defined benefit pension scheme, the API Group Pension and Life Assurance Scheme, was closed to future accrual in December 2008. This was a funded pension scheme for the company and its UK subsidiaries providing benefits based on final pensionable earnings, funded by the payment of contributions to a separately administered trust fund. A second defined benefit scheme, operated in the US, the API Foils, Inc. North American Pension Plan, is also closed to future accrual. Due to the nature of the liabilities, the pension schemes are exposed to inflation, interest rate risk and changes in life expectancy of members. As the plan assets include significant investments in equities, the pension schemes are also exposed to equity market risk.

The assets and liabilities of the defined benefit schemes are:

At 31 December 2016	United Kingdom £'000	United States £'000	Total £'000
Equities	**45,616**	**1,039**	**46,655**
Bonds	**10,451**	**1,201**	**11,652**
Liability driven investments	**22,050**	**—**	**22,050**
Hedge funds	**6,090**	**—**	**6,090**
Property	**9,093**	**69**	**9,162**
Cash	**3,278**	**—**	**3,278**
Fair value of scheme assets	**96,578**	**2,309**	**98,887**
Present value of scheme liabilities	**(111,463)**	**(3,220)**	**(114,683)**
Net pension liability before deferred tax	**(14,885)**	**(911)**	**(15,796)**

At 31 December 2015	United Kingdom £'000	United States £'000	Total £'000
Equities	42,263	888	43,151
Bonds	25,934	1,070	27,004
Hedge funds	10,216	—	10,216
Property	8,645	60	8,705
Cash	263	—	263
Fair value of scheme assets	87,321	2,018	89,339
Present value of scheme liabilities	(93,946)	(2,796)	(96,742)
Net pension liability before deferred tax	(6,625)	(778)	(7,403)

Equities have a quoted price in an active market (Level 1 hierarchy). The fair value of bonds, liability driven investments, hedge funds and property are determined using observable market prices (Level 2 hierarchy). The funds have not invested in any of the group's own financial instruments nor in properties or other assets used by the group.

18. Pensions and other post-retirement benefits (continued)

The amounts recognised in the Group Income Statement and Group Statement of Comprehensive Income for the year are as follows:

Year ended 31 December 2016	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Recognised in arriving at operating profit:			
Scheme expenses borne by employers	**582**	**43**	**625**
Interest income on scheme assets	**3,234**	**88**	**3,322**
Interest cost on scheme liabilities	**(3,474)**	**(123)**	**(3,597)**
Other finance cost	**(240)**	**(35)**	**(275)**
Taken to the Statement of Comprehensive Income			
Actual return on scheme assets	**13,527**	**96**	**13,623**
Less: interest income on scheme assets	**(3,234)**	**(88)**	**(3,322)**
Less: investment management fees	**(220)**	**—**	**(220)**
	10,073	**8**	**10,081**
Other re-measurement gains and losses	**(19,013)**	**(87)**	**(19,100)**
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	**(8,940)**	**(79)**	**(9,019)**

Period ended 31 December 2015	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Recognised in arriving at operating profit:			
Scheme expenses borne by employers	387	28	415
Interest income on scheme assets	2,274	61	2,335
Interest cost on scheme liabilities	(2,654)	(84)	(2,738)
Other finance cost	(380)	(23)	(403)
Taken to the Statement of Comprehensive Income			
Actual return on scheme assets	(1,236)	(39)	(1,275)
Less: interest income on scheme assets	(2,274)	(61)	(2,335)
Less: investment management fees	(169)	—	(169)
	(3,679)	(100)	(3,779)
Other re-measurement gains and losses	11,983	131	12,114
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	8,304	31	8,335

The major assumptions used in determining the value of the defined benefit schemes are disclosed below.

	United Kingdom		United States	
	December 2016	December 2015	**December 2016**	December 2015
Rate of increase in pensions in payment	**2.25%**	2.15%	**n/a**	n/a
Rate of increase to deferred pensions	**2.25%**	2.15%	**n/a**	n/a
Inflation – CPI	**2.25%**	2.15%	**n/a**	n/a
Discount rate	**2.65%**	3.80%	**4.30%**	4. 50%
Post-retirement mortality (in years):				
Member age 65 (current life expectancy) – male	**20.9**	20.9	**n/a**	n/a
Member age 65 (current life expectancy) – female	**23.1**	23.1	**n/a**	n/a
Member age 45 (life expectancy at 65) – male	**22.7**	22.7	**n/a**	n/a
Member age 45 (life expectancy at 65) – female	**25.0**	25.0	**n/a**	n/a

These assumptions have been selected after consultation with the group's UK pension advisors, KPMG LLP and the group's US actuaries, Prudential Retirement.

The rate of increase in pensions and the inflation rate assumptions in the UK are based on statistics published by the Bank of England for long-term estimates of the Retail Price Index ("RPI"). At 31 December 2016, the relevant inflation rate based on the RPI for the duration of the UK Scheme was 3.25% (31 December 2015: 3.15%). The statutory basis of indexation used by the scheme is based on the Consumer Price Index ("CPI"). It is estimated that long-term CPI is approximately 1.0% (31 December 2015: 1.0%) lower than the RPI. A 0.1% variation in the inflation rate would result in a change in the present value of the scheme liabilities of approximately £1.1m (31 December 2015: £1.1m).

The discount rate for the UK scheme has been set by reference to the iBoxx AA corporate bond 15-year index. The rate has been modified to take account of the duration of the scheme, which is approximately 18 years (31 December 2015: 18 years). A 0.1% variation in the discount rate would result in a change in the present value of the scheme liabilities of approximately £1.9m (31 December 2015: £1.6m).

18. Pensions and other post-retirement benefits (continued)

In the UK, the mortality assumptions for the current year are based on nationally published tables using 120% of the S1P*A YOB CMI 2013 model with 1.25% long-term rate of improvement (31 December 2015: 120% of the S1P*A YOB CMI 2013 model with 1.25% long-term rate of improvement). A 1 year variation in life expectancy at age 65 would result in a change in the present value of the scheme liabilities of approximately £2.3m (31 December 2015: £2.1m). In the US, mortality assumptions are in accordance with the RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2016 (31 December 2015: RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2015).

Scheme assets are stated at their market values at the respective statement of financial position dates.

Following closure of the UK scheme to future accrual, the group has agreed to make contributions up to 2021 in order to make up the funding shortfall. The agreed contributions for the year ended 31 December 2017 are £700,000. Following closure of the US scheme to future accrual, the group has agreed to make contributions for the year ended 31 December 2017 of $187,000.

Changes in the present value of the defined benefit obligations are as follows:

	United Kingdom £'000	United States £'000	Total £'000
At 1 April 2015	105,814	3,086	108,900
Service cost	—	—	—
Interest cost	2,654	84	2,738
Benefits paid	(2,539)	(254)	(2,793)
Re-measurement gains from changes in financial assumptions	(11,983)	(131)	(12,114)
Foreign currency differences	—	11	11
At 31 December 2015	93,946	2,796	96,742
Service cost	—	—	—
Interest cost	3,474	123	3,597
Benefits paid	(4,970)	(308)	(5,278)
Re-measurement losses from changes in financial assumptions	19,013	87	19,100
Foreign currency differences	—	522	522
At 31 December 2016	**111,463**	**3,220**	**114,683**

Changes in the fair value of the scheme assets are analysed as follows:

	United Kingdom £'000	United States £'000	Total £'000
At 1 April 2015	90,571	2,228	92,799
Interest income	2,274	61	2,335
Return on scheme assets excluding interest income	(3,510)	(100)	(3,610)
Employer contributions	525	76	601
Benefits paid	(2,539)	(254)	(2,793)
Foreign currency differences	—	7	7
At 31 December 2015	87,321	2,018	89,339
Interest income	3,234	88	3,322
Return on scheme assets excluding interest income	10,293	8	10,301
Employer contributions	700	123	823
Benefits paid	(4,970)	(308)	(5,278)
Foreign currency differences	—	380	380
At 31 December 2016	**96,578**	**2,309**	**98,887**

19. Share capital

Allotted, called up and fully paid

	31 December 2016 thousands	31 December 2015 thousands	31 December 2016 £'000	31 December 2015 £'000
Ordinary shares of 1p	**76,749**	76,749	**767**	767

During the current year and previous period, no further shares were issued.

During the current year and previous period, no options were granted over the ordinary shares. At 31 December 2016, there were nil share options outstanding (31 December 2015: nil).

Capital management
The primary purpose of the group's capital management is to ensure the maintenance of healthy capital ratios in order to support day-to-day business operations and the achievement of strategic objectives. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the financial position of the group. Capital, which comprises total equity, is monitored using normal financial ratios, primarily gearing for the group overall and a leverage ratio associated with the main bank facilities in the UK.

20. Share-based payments

Share options
There were no share options remaining in place at 31 December 2016 (31 December 2015: nil).

Long term incentive plan
The long term incentive plan finished in the year ended 31 March 2015.

21. Reserves

Other reserves
Other reserves of £9,415,000 (31 December 2015: £9,415,000) comprise the capital redemption reserve £8,846,000 and a surplus of £569,000 (31 December 2015: £569,000) in the ESOP reserve.

The capital redemption reserve arose from the cancellation of 549,000 preference shares of £1 each (£549,000) in March 1999 and the cancellation of 34,570,000 deferred shares of 24p (£8,297,000) in the year ended 31 March 2009.

The ESOP reserve related to shares held by the API Group plc No 2 Employee Benefit Trust (the "Trust"), established in 1997 to facilitate the operation of the company's executive share schemes. The remaining shares held by the Trust were sold as a result of the acquisition of the company by Steel Partners Holdings L.P.. At 31 December 2016, the only asset the Trust had was cash of £202,000 (31 December 2015: £569,000).

Foreign exchange reserve
The foreign exchange reserve of £2,649,000 surplus (31 December 2015: £429,000 surplus) is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

22. Financial instruments

The group's policy is to ensure that banking facilities are adequate to meet the foreseeable peak requirements arising from variations in working capital and the timing of capital expenditure. Facilities are in place to independently finance the two main operations based in the UK and North America. The group's debt is structured to ensure that, where possible, it is held in the same territory where the operations being financed are situated. For substantial transactional exposures, it is group policy to hedge through the use of foreign exchange forward contracts.

Liquidity profile
The table below summarises the maturity profile of the group's financial liabilities based on contractual undiscounted payments:

At 31 December 2016	Within one year £'000	One to two Years £'000	Two to five years £'000	After five years £'000	Total £'000
Non-derivative financial liabilities	**2,404**	**15,946**	**3,234**	**3,470**	**25,054**
Interest on financial liabilities	**793**	**659**	**928**	**1,235**	**3,615**
Trade and other payables	**23,440**	**1,707**	**—**	**—**	**25,147**
Forward foreign exchange contracts:					
Payable	**21,299**	**—**	**—**	**—**	**21,299**
Receivable	**(20,526)**	**—**	**—**	**—**	**(20,526)**

At 31 December 2015	Within one year £'000	One to two years £'000	Two to five years £'000	After five years £'000	Total £'000
Non-derivative financial liabilities	1,288	13,134	2,222	—	16,644
Interest on financial liabilities	408	487	24	—	919
Trade and other payables	17,924	—	—	—	17,924
Forward foreign exchange contracts:					
Payable	6,722	—	—	—	6,722
Receivable	(6,921)	—	—	—	(6,921)

Liquidity risk is considered as part of the annual budget and monthly forecasting. The effect on liquidity of potential movements in interest and currency rates is also considered.

Fair values of financial assets and liabilities
The fair values of financial assets and liabilities are determined to be equivalent to their book values. The group uses a fair value hierarchy for determining and disclosing the fair values of financial instruments by valuation technique, in accordance with IFRS 13. All of the financial instruments held by the group are included in the level 2 hierarchy. Fair values are determined using observable market prices (level 2 as defined by IFRS 13 Fair Value Measurement) with the fair value of forward exchange contracts being estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Credit risk
The group's credit risk relates to deposit and trade receivables and cash at bank. Details are disclosed in notes 13 and 15.

Equity price risk
Equity price risks are not applicable to the group as it does not currently have any tradable investments.

Interest rate risk
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the group's profit before tax. The impact on the group's equity is not significant.

	Increase in interest rate	Effect on profit before tax £'000
31 December 2016	**+1%**	**(239)**
31 December 2015	+1%	(149)

22. Financial instruments (continued)

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the sterling against the US dollar and euro exchange rates, with all other variables held constant, of the group's profit before tax and equity due to foreign exchange conversion of monetary assets and liabilities.

	Effect on profit before tax £'000	Effect on equity £'000
31 December 2016		
10% weakening of sterling versus US dollar	**(69)**	**(180)**
10% strengthening of sterling versus US dollar	**85**	**220**
10% weakening of sterling versus Euro	**(492)**	**561**
10% strengthening of sterling versus Euro	**602**	**(686)**
31 December 2015		
10% weakening of sterling versus US dollar	40	3
10% strengthening of sterling versus US dollar	(44)	(3)
10% weakening of sterling versus Euro	59	489
10% strengthening of sterling versus Euro	(64)	(538)

The impact of translating the net assets of foreign operations into sterling is excluded from the above sensitivity analysis.

Hedges

Cash flow hedges

Forward foreign exchange contracts

The group has taken out foreign currency forward contracts in order to hedge the value of future sales denominated in euros to the value of €13.6m (31 December 2015: €6.4m) and future purchases denominated in US dollars to the value of $1.5m (31 December 2015: $0.6m). These contracts have maturity dates extending to December 2017 (31 December 2015: June 2016). At 31 December 2016, contracts with a positive value amounted to £74,000 (31 December 2015: £219,000) maturing within one year. Contracts with a negative value amounted to £786,000 (31 December 2015: £nil) maturing within one year. These hedges are fully effective and, consequently, the full amounts of the changes in fair value have been shown in the Statement of Comprehensive Income. The total gain recognised in other comprehensive income in respect of foreign exchange contracts is £213,000 (period ended 31 December 2015: loss of £5,000). A loss of £1,146,000 (31 December 2015: gain of £1,687,000) was recycled from other comprehensive income to revenue in the income statement.

Interest rate

There were no interest rate swaps in the year ended 31 December 2016 or the 9 month period ended 31 December 2015.

Fair value hedges

The group has also taken out foreign currency forward contracts in order to hedge the value of trade debtors, net of trade creditors, denominated in euros. Any profit or loss arising on these contracts is posted directly to the income statement. At 31 December 2016, there were forward contracts in place in respect of fair value hedges to buy sterling and sell euros to the value of €9.0m (31 December 2015: €2.2m) and to buy US dollars and sell euros to the value of $1.0m and €1.0m respectively (31 December 2015: $nil and €nil). These contracts have maturity dates extending to June 2017 (31 December 2015: May 2016). These contracts had a negative fair value of £62,000 at 31 December 2016 (31 December 2015: negative fair value of £20,000). Losses on fair value hedges amounting to £571,000 (31 December 2015: gain of £21,000) are included in the amounts disclosed for net foreign currency differences in note 3.

23. Capital commitments

Amounts contracted but not provided in these financial statements are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Property, plant and equipment	**250**	62

24. Obligations under leases and hire purchase contracts

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Not later than one year	**979**	782
After one year but not more than five years	**928**	1,282
	1,907	2,064

The above commitments relate to short-term leases of no more than four years, mostly in respect of land and buildings. In addition to the above commitments, there is a long lease property which expires in 2073 for which the present annual payment is £38,000 (31 December 2015: £38,000).

25. Related party transactions

Compensation of key management personnel
The key management personnel comprise the General Management Team (prior period Managing Directors) of the company.

	Year ended 31 December 2016 £'000	Period ended 31 December 2015 £'000
Short-term employee benefits	**2,170**	1,205
Post-employment benefits	**55**	23
	2,225	1,228

Transactions with APIO
Transactions during the year with APIO, a joint operation, are purchases of £16,000 (period ended 31 December 2015: £22,000) and research and development charges of £169,000 (period ended 31 December 2015: £116,000). The amount owed to APIO was £128,000 (31 December 2015: £62,000).

Relationships between the parent and its subsidiaries
The relationships between the parent and its subsidiaries are disclosed in note 2 to the parent company financial statements.

Transactions with Steel Partners Holdings L.P.
Transactions between API Group plc and its subsidiaries and other members of the Steel Partners Holdings L.P. group are not disclosed given the production of publically available consolidated financial statements which includes API Group plc. Copies of the group accounts of Steel Partners Holdings L.P. may be obtained from The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801.

26. Acquisitions and disposals

a) Acquisition of Laminates Americas

In July 2016, the group acquired the business and certain assets of the Osgood laminates factory from Hazen Paper Company. The purchase consideration of $14,239,000 was financed through external debt of $9,000,000, a loan from WebFinancial Holding Corporation of $5,000,000 with the remainder from existing funding.

Details of the acquisition are set out below:

Fair value table:

	Net book value £'000	Adjustments £'000	Fair value £'000
Property, plant and equipment	1,295	3,388	4,683
Inventories	716	34	750
Intangibles – customer relationships	—	2,034	2,034
Intangibles – goodwill	—	3,258	3,258
Total	**2,011**	**8,714**	**10,725**
Purchase consideration			**10,725**

Revenues and profit since acquisition were £7,115,000 and £433,000 respectively. Acquisition related costs of £209,000 have been recognised as an expense within the group income statement as part of exceptional items.

b) Acquisition of API Netherlands

In December 2016, the group acquired the business and certain assets from Amsterdam Metallised Products B.V.. The total estimated purchase consideration is €7,375,000.

Details of the acquisition are set out below:

Fair value table:

	Net book value £'000	Adjustments £'000	Fair value £'000
Property, plant and equipment	1,482	—	1,482
Inventories	1,134	128	1,262
Intangibles – customer relationships	—	844	844
Intangibles – trade names	—	372	372
Intangibles – goodwill	—	2,302	2,302
Total	**2,616**	**3,646**	**6,262**
Purchase consideration			**6,262**

The purchase consideration comprises, initial consideration of €5,000,000, estimated earn-out consideration of €375,000 (payable September 2017) and deferred consideration of €2,000,000 (payable June 2018). The earn-out consideration will be in the range €nil to €625,000 and is dependent on the profit performance of API Netherlands for the 9 month period to 31 August 2017. The estimated earn-out consideration is based on forecasted profit performance.

Revenues and loss since acquisition were £848,000 and £74,000 respectively. Acquisition related costs of £257,000 have been recognised as an expense within the group income statement as part of exceptional items.

c) Disposal of security holographics

In April 2016, the group sold the security holographics business (which formed part of the operations of API Holographics Limited) to Opsec Security Limited. The total sale proceeds were £5,607,000 comprising £4,750,000 and a further amount of £857,000 which was paid for inventories.

Details of the disposal are set out below:

	£'000
Property, plant and equipment	1,195
Inventories	1,027
Intangibles – goodwill	1,686
Sub-total	3,908
Employee compensation payable on completion of disposal	275
Disposal transaction costs	200
Total	**4,383**
Sale proceeds	**5,607**
Profit on disposal	**1,224**

Company Balance Sheet
at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Assets			
Non-current assets			
Investments	2	**6,614**	29,114
Deferred tax assets	7	**2,530**	1,192
		9,144	30,306
Current assets			
Trade and other receivables	3	**16,982**	20,255
Cash and cash equivalents	4	**11,699**	6,358
		28,681	26,613
Total assets		**37,825**	56,919
Liabilities			
Current liabilities			
Trade and other payables	5	**398**	22,718
		398	22,718
Non-current liabilities			
Other financial liabilities	8	**4,841**	—
Deficit on defined benefit pension scheme	6	**14,885**	6,625
		19,726	6,625
Total liabilities		**20,124**	29,343
Net assets		**17,701**	27,576
Equity			
Called up share capital	9	**767**	767
Share premium		**7,136**	7,136
Other reserves	10	**9,415**	9,415
Retained profit		**383**	10,258
Equity shareholders' funds		**17,701**	27,576

A profit of £5,644,000 for the year ended 31 December 2016 (period ended 31 December 2015: loss of £564,000) has been dealt with in the financial statements of the parent company.

Signed on behalf of the board

Jack Howard
Director
31 March 2017

Company number: 00169249

The notes on pages 38 to 43 form part of these financial statements.

Company Statement of Changes in Equity
for the year ended 31 December 2016

	Equity share capital £'000	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' equity £'000
At 31 March 2015	767	7,136	8,846	4,350	21,099
Loss for the period	—	—	—	(564)	(564)
Re-measurement gains on defined benefit pension scheme	—	—	—	8,304	8,304
Tax on items relating to components of other comprehensive income	—	—	—	(1,832)	(1,832)
Total comprehensive income for the period	—	—	—	5,908	5,908
Shares sold by Employee Benefit Trust	—	—	569	—	569
At 31 December 2015	767	7,136	9,415	10,258	27,576
Profit for the year	—	—	—	5,644	5,644
Re-measurement losses on defined benefit pension scheme	—	—	—	(8,940)	(8,940)
Tax on items relating to components of other comprehensive income	—	—	—	1,421	1,421
Waiver on loan from subsidiary undertaking	—	—	—	(8,000)	(8,000)
Total comprehensive income for the year	—	—	—	**(9,875)**	**(9,875)**
At 31 December 2016	**767**	**7,136**	**9,415**	**383**	**17,701**

For the year ended 31 December 2016 and period ended 31 December 2015, there was no interim or final dividend.

The notes on pages 38 to 43 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2016

1. Accounting policies

Accounting convention
The financial statements have been prepared in accordance with Financial Reporting Standard 100 'Application of Financial Reporting Requirements', Financial Reporting Standard 101 'Reduced Disclosure Framework' and with the Companies Act 2006.

The company has taken advantage of the exemption provided under Section 408 of the Companies Act 2006 not to publish its individual profit and loss account and related notes.

The principal accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016. These policies have been consistently applied to all periods presented unless otherwise stated.

Disclosure exemptions adopted
In preparing the financial statements, the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore the financial statements to not include:

- Certain disclosures regarding the company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted; and
- Disclosure of related party transactions with other wholly owned members of the group headed by API Group plc.

In addition, and in accordance with FRS 101 further disclosure exemptions in respect of financial instruments and impairment of assets have been adopted because equivalent disclosures are included in the consolidated financial statements of API Group plc.

Significant judgements and estimates
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. Details regarding judgements which have the most significant effect on the amounts recognised in the financial statements are as follows:

- *Deferred tax assets*
  Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits. Further details are given in note 7.

- *Pensions and other post-retirement benefits*
  The cost and valuation of defined benefit pension plans is determined using actuarial valuations. This involves making assumptions about discount rates, future applicable salary and pension increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 6.

Investments in and loans due from subsidiaries
Investments in and loans due from subsidiaries are stated at cost less any impairment which is charged to the profit and loss account.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All translation differences are taken to the income statement.

1. Accounting policies (continued)

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.
Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying value of deferred tax assets is reviewed at each balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement or other comprehensive income.

Pensions

The cost of providing benefits under the defined benefit pension plan is determined using the projected unit credit method.

Re-measurements are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through Other Comprehensive Income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss account on the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Company recognises restructuring related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The difference between the return on plan assets and the interest income on plan assets recognised in the income statement as other finance revenue or cost is recognised in Other Comprehensive Income.

Employee Benefit Trust (the "Trust")

The company has a discretionary trust established to facilitate the operation of the company executive share option schemes and long-term incentive plans. Shares in API Group plc held by the Trust are deducted from equity at cost. Amounts received on exercise of these options are also recognised in equity, with any difference between proceeds from the exercise of these options and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares.

Financial instruments – interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost under the effective interest rate method.

2. Investments

Subsidiary undertakings

	£'000
Cost and carrying value	
At 31 December 2015	29,114
Reduction in share capital in subsidiary undertaking	(22,500)
At 31 December 2016	**6,614**

In the year ended 31 December 2016 there was a reduction in share capital of £22.5 million in the subsidiary undertaking, API-Stace Limited.

Details of the investments of the company are as follows:

Name of company	Registered address	Holding
API Laminates Limited [+]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API Foils Holdings Limited [#]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API Foils Limited [*+]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API Holographics Limited [*]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API Overseas Holdings Limited [*#]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API Group Services Limited [1]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API-Stace Limited [2]	Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND, UK	Ordinary shares
API (USA) Holdings Limited [*#]	3841 Greenway Circle, Lawrence, KS 66046, USA	Common and preferred stocks
API Americas, Inc. [*+4]	3841 Greenway Circle, Lawrence, KS 66046, USA	Common and preferred stocks
API Foils SAS [*+]	14 Boulevard Arago, 91320 Wissous, France	Ordinary shares
API Foils Pty Limited [*]	Level 12, 60 Castlereagh St, Sydney, 2001, Australia	Ordinary shares
API Foils New Zealand Limited [*]	Level 8, 120 Albert Street, Auckland, 1010, New Zealand	Ordinary shares
API Foils Deutschland GmbH [*+]	Ziegelstraße 22, 91126 Rednitzhembach, Germany	Ordinary shares
API Foils Italia srl [*+]	Loc. Squarzolo, Strada Salcido, San Salvatore Monferrato (Allesandria), Italy	Ordinary shares
API Foils (Asia) Limited [+]	Room 1705, Tower 2 Ever Gain Plaza, 88 Container Port Road, Kwai Chung, Hong Kong	Ordinary shares
API Folie Polska Sp. z o.o. [+]	Al. Wojska Polskiego 11, 01-524 Warsaw, Poland	Ordinary shares
API Optix s.r.o. [*+3]	Hlavní 130, 250 68 Husinec-Řež, Czech Republic	Ordinary shares
API Netherlands B.V. [+]	Paul van Vlissingenstraat 12, 1096BK Amsterdam, Netherlands	Ordinary shares

* Held by subsidiary undertaking
\+ Operating company
\# Intermediate holding company
1 Group management company
2 Property holding company
3 Company controls 50% of the voting rights and share capital
4 Previously API Foils, Inc

With the exception of API Optix s.r.o., the company controls 100% of the voting rights and share capital of all the companies listed above.

All the operating subsidiary undertakings are involved in the principal activities of the group.

3. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Amounts falling due within less than one year		
Amounts due from subsidiary undertakings	**8,152**	8,859
Group relief receivable	**226**	294
Other debtors	**61**	91
	8,439	9,244
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	**8,543**	11,011
Total trade and other receivables	**16,982**	20,255

Amounts due from subsidiary undertakings after more than one year are stated after an impairment provision of £600,000 (31 December 2015: £3,850,000).

4. Cash and cash equivalents

Cash and cash equivalents includes £202,000 (31 December 2015: £569,000) relating to the API Group plc No 2 *Employee Benefit Trust (note 10); the use of these funds is restricted.*

5. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Amounts due to subsidiary undertakings	**395**	22,650
Accruals	**3**	68
	398	22,718

6. Pensions and other post-retirement benefits

A defined benefit pension scheme, the API Group Pension and Life Assurance Scheme, was closed to future accrual in December 2008. This was a funded pension scheme for the company and its UK subsidiaries providing benefits based on final pensionable earnings, funded by the payment of contributions to a separately administered trust fund. Due to the nature of the liabilities, the pension scheme is exposed to inflation, interest rate risk and changes in life expectancy of members. As the plan assets include significant investments in equities, the pension scheme is also exposed to equity market risk.

The assets and liabilities of the defined benefit scheme are:

	31 December 2016 £'000	31 December 2015 £'000
Equities	**45,616**	42,263
Bonds	**10,451**	25,934
Liability driven investments	**22,050**	—
Hedge funds	**6,090**	10,216
Property	**9,093**	8,645
Cash	**3,278**	263
Fair value of scheme assets	**96,578**	87,321
Present value of scheme liabilities	**(111,463)**	(93,946)
Net pension liability before deferred tax	**(14,885)**	(6,625)

Equities have a quoted price in an active market (Level 1 hierarchy). The fair value of bonds, liability driven investments, hedge funds and property are determined using observable market prices (Level 2 hierarchy). The funds have not invested in any of the group's own financial instruments nor in properties or other assets used by the group.

The amounts recognised in the Income Statement and Statement of Comprehensive Income are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Recognised in the Income Statement		
Recognised in arriving at operating profit		
Scheme expenses borne by employer	**582**	387
Interest income on scheme assets	**3,234**	2,274
Interest cost on scheme liabilities	**(3,474)**	(2,654)
Other finance cost	**(240)**	(380)
Taken to the Statement of Comprehensive Income		
Actual return on scheme assets	**13,527**	(1,236)
Less: interest income on scheme assets	**(3,234)**	(2,274)
Less: investment management fees	**(220)**	(169)
	10,073	(3,679)
Other re-measurement gains and losses	**(19,013)**	11,983
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	**(8,940)**	8,304

Changes in the present value of the defined benefit obligations are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Opening defined benefit obligations	**93,946**	105,814
Interest cost	**3,474**	2,654
Re-measurement gains from changes in financial assumptions	**19,013**	(11,983)
Benefits paid	**(4,970)**	(2,539)
Closing defined benefit obligations	**111,463**	93,946

6. Pensions and other post-retirement benefits (continued)

Changes in the fair value of the scheme assets are analysed as follows:

	31 December 2016 £'000	31 December 2015 £'000
Opening fair value of scheme assets	**87,321**	90,571
Interest income	**3,234**	2,274
Return on scheme assets excluding interest income	**10,293**	(3,510)
Employer contributions	**700**	525
Benefits paid	**(4,970)**	(2,539)
Closing fair value of scheme assets	**96,578**	87,321

The principal actuarial assumptions at the balance sheet dates are as follows:

	31 December 2016	31 December 2015
Discount rate	**2.65%**	3.80%
Inflation - CPI	**2.25%**	2.15%
Rate of increase in pensions in payment	**2.25%**	2.15%
Rate of increase to deferred pensions	**2.25%**	2.15%
Post-retirement mortality (in years):		
Member age 65 (current life expectancy) - male	**20.9**	20.9
Member age 65 (current life expectancy) - female	**23.1**	23.1
Member age 45 (life expectancy at 65) - male	**22.7**	22.7
Member age 45 (life expectancy at 65) - female	**25.0**	25.0

These assumptions have been selected after consultation with the company's pension advisors, KPMG LLP.

The rate of increase in pensions and the inflation rate assumptions are based on statistics published by the Bank of England for long-term estimates of the Retail Price Index ("RPI"). At 31 December 2016, the relevant inflation rate based on the RPI for the duration of the UK Scheme was 3.25% (31 December 2015: 3.15%). The statutory basis of indexation used by the scheme is based on the Consumer Price Index ("CPI"). It is estimated that long-term CPI is approximately 1.0% (31 December 2015: 1.0%) lower than the RPI. A 0.1% variation in the inflation rate would result in a change in the present value of the scheme liabilities of approximately £1.1m (31 December 2015: £1.1m).

The discount rate has been set by reference to the iBoxx AA corporate bond 15-year index. The rate has been modified to take account of the duration of the scheme, which is approximately 18 years (31 December 2015: 18 years). A 0.1% variation in the discount rate would result in a change in the present value of the scheme liabilities of approximately £1.9m (31 December 2015: £1.6m).

The mortality assumptions for the current year are based on nationally published tables using 120% of the S1P*A YOB CMI 2013 model with 1.25% long-term rate of improvement (31 December 2015: 120% of the S1P*A YOB CMI 2013 model with 1.25% long-term rate of improvement). A 1 year variation in life expectancy at age 65 would result in a change in the present value of the scheme liabilities of approximately £2.3m (31 December 2015: £2.1m).

Scheme assets are stated at their market values at the respective balance sheet dates.
Following closure of the scheme to future accrual, the company has agreed to make contributions up to 2021 in order to make up the funding shortfall. The agreed contributions for the year ended 31 December 2017 are £700,000.

7. Deferred taxation

The deferred tax included in the balance sheet is analysed as follows:

	31 December 2016 £'000	31 December 2015 £'000
Deferred tax asset		
Defined benefit pension plans	**2,530**	1,192
	2,530	1,192

Reductions in the UK corporation tax rate from 20% to 17% (19% effective from 1 April 2017 and 17% effective from 1 April 2020) have been substantively enacted. This will impact the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based at the rates of tax substantively enacted at the balance sheet date.

8. Other financial liabilities

	31 December 2016 £'000	31 December 2015 £'000
Non-current instalments due on bank loans	**4,841**	—

The company is party to a composite lending agreement guarantee providing unlimited guarantees between the company, fellow UK subsidiaries and API Netherlands B.V.. The group facility is secured by a floating charge over the group's UK assets. As at 31 December 2016, the group's UK bank facilities included a £13.5 million multicurrency revolving facility agreement and an asset finance agreement for an equipment purchase; the facilities drawn down at 31 December 2016 comprised revolving loans of £8.9 million (31 December 2015: £11.0 million) and asset finance of £1.2 million (31 December 2015: £1.8 million).

9. Share capital

Allotted, called up and fully paid

	31 December 2016 thousands	31 December 2015 thousands	31 December 2016 £'000	31 December 2015 £'000
Ordinary shares of 1p	**76,749**	76,749	**767**	767

During the current and previous periods, no further shares were issued.

10. Other reserves

Other reserves of £9,415,000 (31 December 2015: £9,415,000) comprise the capital redemption reserve £8,846,000 and a surplus of £569,000 (31 December 2016 £569,000) in the ESOP reserve.

The capital redemption reserve arose from the cancellation of 549,000 preference shares of £1 each (£549,000) in March 1999 and the cancellation of 34,570,000 deferred shares of 24p (£8,297,000) in the year ended 31 March 2009.

The ESOP reserve related to shares held by the API Group plc No 2 Employee Benefit Trust (the "Trust"), established in 1997 to facilitate the operation of the company's executive share schemes. The remaining shares held by the Trust were sold as a result of the acquisition of the company by Steel Partners Holdings L.P.. At 31 December 2016, the only asset the Trust had was cash of £202,000.

11. Profit attributable to members of the parent company

A profit of £5,644,000 for the year ended 31 December 2016 (period ended 31 December 2015: loss of £564,000) has been dealt with in the financial statements of the parent company. As permitted by Section 408 of the Companies Act 2006 the company has not presented its own profit and loss account.

Fees paid to the auditor in respect of audit services provided to the company for the year amounted to £30,000 (period ended 31 December 2015: £30,000).

12. Dividends

No interim or final dividend has been paid within the year ended 31 December 2016 (nil in period ended 31 December 2015).

13. Ultimate parent undertaking and controlling company

The immediate parent undertaking is Cedar 2015 Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party is Steel Partners Holdings L.P., a company incorporated in the USA. Copies of the group accounts of Steel Partners Holdings L.P. may be obtained from The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801.