

API Group plc
Report and Financial Statements
for the year ended 31 December 2018

Company number: 00169249



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Strategic Report

The directors present their Strategic Report together with the audited financial statements for the year ended 31 December 2018.

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 11.

Principal activities and review of the business

Group overview of activities

API Group plc ('API' or 'group') 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 the end of 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 is focussed on delivering 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.

Group financial review

2018 was a year of significant restructuring for the group. The restructuring included the closure of manufacturing operations in Rahway, New Jersey with those manufacturing operations being transferred to Lawrence, Kansas. In addition, part of the Laminates business of API Netherlands B.V. was sold in part to Dunmore Europe GmbH (a fellow group undertaking).

Revenues during the year were £124.6m (2017: £147.1m), 15% below prior year. Key factors for the decreased revenue were the transfer of business from API Netherlands B.V. to Dunmore Europe GmbH, the reduction in activity with a major tobacco customer for Laminates Europe and lower levels of activity in both Foils Americas and Laminates Americas.

Gross profit margin in 2018 was 14.1% (2017: 20.3%). Margin performance was impacted by increasing raw material costs together with the impact of lower sales on manufacturing costs which are relatively fixed in the short term.

Operating loss before exceptional items was £6.7m (2017: operating profit before exceptional items £3.7m), a disappointing performance which reflected the significant challenges of consolidating foils manufacturing in the US and the transfer of part of the laminates business of API Netherlands BV to Dunmore Europe GmbH.

Loss before tax was £22.1m (2017: £1.2m) which reflected the exceptional costs of £13.8m (2017: £3.4m) incurred during the year, see further details below.

The tax charge for the year was £0.2m (2017: £0.7m).

Cash absorbed by operations was £7.1m (2017: cash generated from operations £7.6m) which included a reduction in working capital of £1.4m. Cash outflows resulting from capital expenditure amounted to £6.2m with the majority of expenditure relating to the reconfiguration of the North American foils manufacturing base.

Strategic Report (continued)

Exceptionals

Total exceptional costs in the 2018 financial statements were £13.8m. The significant items comprising the balance are detailed below.

A High Court ruling in October 2018 held that UK pension funds with Guaranteed Minimum Pensions ("GMPs") built up from 17 May 1990 to 5 April 1997 must equalise benefits for the different effects of these GMPs between men and women. The cost for the equalisation of these benefits has been estimated at £2.0m.

Reflecting the financial performance of certain parts of the business, impairment provisions were made in the year ended 31 December 2018 against several intangible fixed assets; £4.6m for the intangibles fixed assets of Laminates Americas (a division of API Americas Inc.) and £1.3m for the intangible fixed assets of API Netherlands BV.

In the year ended 31 December 2018, costs of £2.9m were incurred on the completion of the reorganisation of API Netherlands BV. This involved several aspects including (i) the transfer of the Laminates business to other group undertakings and the associated closure of Laminates manufacturing operations in the Netherlands (ii) the establishment of a foils sales operation and (iii) the relocation of the remaining activities to another facility close to Amsterdam.

The consolidation of US foils manufacturing operations was completed in the year ended 31 December 2018 with the closure of the manufacturing facility in Rahway, New Jersey and the transfer of that manufacturing to Lawrence Kansas. This gave rise to exceptional costs of £2.6m.

Financing and Net Debt

On 14 November 2017, the ultimate parent undertaking of API Group plc, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a new five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC'). Cedar 2015 Limited, the parent undertaking of API Group plc and API Americas Inc. are both Borrowers under that finance facility and the UK facilities are now provided through Cedar 2015 Limited.

Net debt (other financial liabilities excluding forward foreign exchange contracts less cash at bank and in hand plus amount owed to parent undertaking) was £38.7m at December 2018 (December 2017 £23.3m). This increase in net debt reflected investment activity to support the reconfiguration activity across the business and the poor trading performance.

Strategic Report (continued)

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 21 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 21 to the financial statements.	2017 refinancing secured economic rates, taking advantage of leverage and rates from ultimate parent company Steel Partners.
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. In 2017 the group implemented a group wide credit insurance policy and a consistent insurer across the business. Further details are set out in note 13 for credit risk management.
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. Regular updates on debt are provided to the ultimate parent company and drawdowns/ repayment of funding are made as required to ensure all daily transactional requirements are met.
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 (within an agreed risk profile) and also that the obligations under the schemes are mitigated where possible.

Strategic Report (continued)

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, evidence of this resulting from the recent 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. Through its relationships with Global brands the supply routes increasingly extend beyond Western economies.
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 and seeks to recover impacts of raw material where possible.
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.
Brexit	There are various risks as a result of the 2016 referendum on the future of the UK's membership in the EU.	There might be several implications including delays on the import & export of goods, duty payable & global mobility.	We regularly monitor developments and use our overseas structure to mitigate risks where possible.

Strategic Report (continued)

Future developments

The restructuring and reconfiguration activity prevalent in 2017 and 2018 is now mainly complete. 2019 will be a difficult year for the group and will reflect the full year impact of the reduction in activity with a major tobacco customer which resulted in a reduction in the Laminates Europe workforce in the first half of 2019. Underlying trading conditions remain challenging as businesses along the case manufacturing, erection and packing supply chain seek to internalise product wherever possible to both protect and enhance margins. In contrast, the size of the packaging market available to ourselves with the product portfolio enhanced by the recent acquisitions provides access to a number of opportunities for the API business to deliver strong organic growth after 2019.

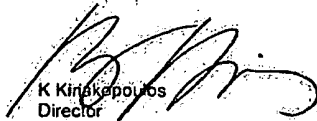
As a net exporter to the European Union, Brexit announcements continued to be monitored closely for any potential impact upon the business.

Key financial measures

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Total revenue	124.6	147.1
Operating (loss) / profit before exceptional items	(6.7)	3.7
EBITDA before exceptional items	(2.2)	6.7
Working capital turnover	6.3	8.4
Cash (absorbed by) / generated from operations	(7.1)	7.6

Total revenue of £124.6m reflects a decrease in revenues in each of the 5 business units (see note 2). Operating profit and EBITDA have decreased due to the disruption caused by the consolidation of manufacturing in the US for Foils Americas and the transfer of the Laminates business of API Netherlands B.V. to other group companies. The cash absorbed by operations was £7.1m compared with cash generated by operations of £7.6m in 2017; this reflects the operating loss before exceptional items coupled with the cash cost of certain exceptional items.

The Strategic Report has been approved by the board of directors.
By order of the board


K Kinakopoulos
Director

31/7/2019

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Result and dividends

The group (API Group plc and its subsidiary undertakings) loss for the year ended 31 December 2018 amounted to £22,267,000 (2017: loss of £1,930,000). The directors do not recommend the payment of a final dividend (2017: £nil).

Events since the date of the statement of financial position

On 10 July 2019, a further 1,200,000,000 ordinary shares of 1p each were issued and allotted to the immediate parent undertaking, Cedar 2015 Limited, and paid-up by Cedar 2015 Limited for an amount of £12,000,000.

In July 2019, API Group plc subscribed for 14,000,000 ordinary shares of £1.00 each in its subsidiary undertaking, API Foils Holdings Limited, for a consideration of £14,000,000.

An indication of future developments is given in the Strategic Report.

Directors

The directors who served on the board of the company during the year to 31 December 2018 and to the date of this report were:

Jack Lawrence Howard (resigned 26 April 2019)
COSN I LLC (resigned 26 April 2019)
Douglas Woodworth (appointed 26 April 2019)
William Fejes (appointed 26 April 2019)
Kostantinos Kiriakopoulos (appointed 26 April 2019)

Share capital

As at 31 December 2018, 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 2018.

Safety, health and the environment ('SHE')

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 and senior management promote 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 instant messenger and team meetings. Information, including the latest news relating to the group's business, is also made available on the company's intranet, and website and Microsoft Teams.

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. If an employee were to become disabled whilst in the groups' employment, the group would endeavour to support and retain the disabled employee in the business through making reasonable adjustments to their role. Disabled employees have the same opportunities as other employees in relation to training, career development and promotion.

Directors' Report (continued)

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 including at the mid-year stage for non-production employees.

Research and development

Each business unit has a technology and product development 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 £nil (2017: £301). No political donations were made (2017: £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 November 2022 through a \$600 million revolving credit facility with certain consolidated subsidiaries of Steel Partners Holdings L.P.. Further details are given in note 16 and 17.

The directors are satisfied, on the basis of the group's latest financial projections, which include the impact of the reduction in activity with a major tobacco customer and the resulting reduction in the Laminates Europe workforce, 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.

Use of financial instruments

Disclosures in relation to the use of financial instruments are given in the Strategic Report.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

Directors' Report (continued)

Modern Slavery Act 2015 (the 'MSA')

The company has a zero-tolerance approach to modern slavery. The company is committed to acting ethically and with integrity in all its business dealings and relationships; developing, implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its own business worldwide or in any of its supply chains; and ensuring there is transparency in its own business and in its approach to tackling modern slavery throughout its supply chains, consistent with its disclosure obligations under the MSA.

The company is continuing to develop its supplier audit process and thereby improve its practices to combat slavery and human trafficking. A copy of the company's Anti-Slavery and Anti-Human Trafficking Policy is issued to all new workers on joining the business and is available on the company's website at the link 'Modern Slavery Act Policy and Statements'. To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, the company's human resource managers and procurement managers provide training to its employees on the subject. The company expects the same high standards from all of its contractors, suppliers and other business partners.

Directors' liabilities

The company has purchased directors' and officers' liability insurance cover which was in place during the period and remains in force as at the date of this report.

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this annual report confirms that, so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware and the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The Directors' Report has been approved by the board of directors.
By order of the board



Claire Chadwick
Company Secretary

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

31/07/2019

INDEPENDENT AUDITOR'S REPORT

to the members of API Group plc

Opinion

In our opinion:

- the financial statements of API Group plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the parent company balance sheet;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the consolidated and parent company statements of accounting policies; and
- the related notes 1 to 24 to the Group financial statements and 1 to 12 to the Parent Company financial statements.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

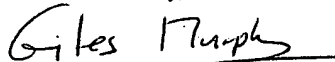
Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

Use of our report

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



Giles Murphy (Senior Statutory Auditor)

For and on behalf of Deloitte LLP, statutory auditor
Manchester
United Kingdom
31 July 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Revenue	2	124,627	147,118
Cost of sales		(107,109)	(117,303)
Gross profit		17,518	29,815
Distribution costs		(5,066)	(5,661)
Administrative expenses (excluding exceptional items)		(19,145)	(20,462)
Administrative expenses – exceptional items		(13,810)	(3,352)
Total administrative expenses		(32,955)	(23,814)
Operating (loss) / profit before exceptional items	3	(6,693)	3,692
Operating (loss) / profit		(20,503)	340
Finance costs	6	(1,554)	(1,550)
Loss before taxation		(22,057)	(1,210)
Tax expense	7	(210)	(720)
Loss for the year		(22,267)	(1,930)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

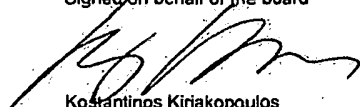
	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Loss for the year		(22,267)	(1,930)
Items that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on retranslation of foreign operations		(478)	(683)
Change in fair value of effective cash flow hedges	21	(52)	692
Items that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement gains on defined benefit pension schemes	18	1,907	5,665
Tax on items relating to components of other comprehensive income	7	(346)	(1,155)
Other comprehensive income for the year, net of tax		1,031	4,519
Total comprehensive (expense) / income for the year attributable to equity holders of the parent		(21,236)	2,589

The notes on pages 17 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

		31 December 2018 £'000	31 December 2017 £'000
	Note		
Assets			
Non-current assets			
Property, plant and equipment	8	32,373	31,989
Intangible assets	9	2,981	10,847
Deferred tax assets	7	1,411	1,560
		36,765	44,396
Current assets			
Assets classified as held for sale	12	254	—
Trade and other receivables	13	22,937	28,054
Income tax receivable		1,039	999
Inventories	14	16,398	17,036
Derivative financial assets	21	54	124
Cash and cash equivalents	15	3,448	4,667
		44,130	50,880
Total assets		80,895	95,276
Liabilities			
Current liabilities			
Trade and other payables	16	33,318	37,876
Other financial liabilities	17	1,015	1,363
Income tax payable		617	408
		34,950	39,645
Non-current liabilities			
Other financial liabilities	17	28,326	16,250
Deferred tax liabilities	7	300	215
Deficit on defined benefit pension schemes	18	11,982	12,586
		40,608	29,051
Total liabilities		75,558	68,696
Net assets		5,337	26,580
Equity			
Called-up share capital	19	767	767
Share premium		7,136	7,136
Other reserves	20	9,415	9,415
Foreign exchange reserve	20	1,488	1,966
Retained (losses) / earnings		(13,469)	7,296
Equity shareholders' funds		5,337	26,580

The financial statements have been approved by the board of directors.
Signed on behalf of the board


Konstantinos Kiriakopoulos
Director

31/7/2019

Company number: 00169249

The notes on pages 17 to 36 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Called-up share capital £'000	Share premium £'000	Other reserves £'000	Foreign exchange reserve £'000	Retained / (losses) earnings £'000	Total shareholders' equity £'000
At 31 December 2016	767	7,136	9,415	2,649	4,024	23,991
Loss for the year	—	—	—	—	(1,930)	(1,930)
Other comprehensive (expense) / income:						
Exchange differences on retranslation of foreign operations	—	—	—	(683)	—	(683)
Change in fair value of effective cash flow hedges	—	—	—	—	692	692
Re-measurement gains on defined benefit pension schemes	—	—	—	—	5,665	5,665
Tax on items relating to components of other comprehensive income	—	—	—	—	(1,155)	(1,155)
Total comprehensive income for the year	—	—	—	(683)	3,272	2,589
At 31 December 2017	767	7,136	9,415	1,966	7,296	26,580
Loss for the year	—	—	—	—	(22,267)	(22,267)
Other comprehensive (expense) / income:						
Exchange differences on retranslation of foreign operations	—	—	—	(478)	—	(478)
Change in fair value of effective cash flow hedges	—	—	—	—	(52)	(52)
Re-measurement gains on defined benefit pension schemes	—	—	—	—	1,907	1,907
Tax on items relating to components of other comprehensive income	—	—	—	—	(346)	(346)
Total comprehensive expense for the year	—	—	—	(478)	(20,758)	(21,236)
On adoption of new revenue recognition accounting standard	—	—	—	—	(7)	(7)
At 31 December 2018	767	7,136	9,415	1,488	(13,469)	5,337

For the years ended 31 December 2018 and 31 December 2017, there was no interim or final dividend.

Details of other reserves are set out in note 20.

The notes on pages 17 to 36 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Note		
Operating activities		
Group loss after tax	(22,267)	(1,930)
Adjustments to reconcile group loss after tax to net cash flow from operating activities:		
Tax expense	210	720
Net finance costs	1,554	1,549
Depreciation of property, plant and equipment	4,107	3,021
Loss / (profit) on disposal of property, plant and equipment	775	(4,124)
Impairment of intangible fixed assets	5,829	964
Amortisation of intangible fixed assets	435	457
Movement in fair value foreign exchange contracts	56	(68)
Withdrawal liability from multi-employer pension scheme	—	3,365
Pension contributions and scheme expenses paid	(1,245)	(1,090)
Defined benefit pension scheme operating profit charge	1,970	—
Decrease / (increase) in inventories	1,076	(1,314)
Decrease / (increase) in trade and other receivables	6,906	(4,884)
(Decrease) / increase in trade and other payables	(6,531)	10,960
Cash (absorbed by) / generated from operations	(7,125)	7,626
Interest paid	(1,297)	(1,138)
Income taxes received / (paid)	194	(1,587)
Net cash flow from operating activities	(8,228)	4,901
Investing activities		
Purchase of property, plant and equipment	(6,218)	(6,844)
Sale of property, plant and equipment	533	8,738
Net cash flow (used in) / generated from investing activities	(5,685)	1,894
Financing activities		
New borrowings	13,013	17,062
Repayment of loans	—	(22,617)
Repayment of finance leases	(541)	(631)
Net cash flow generated from / (used in) financing activities	12,472	(6,186)
(Decrease) / increase in cash and cash equivalents	(1,441)	609
Effect of exchange rates on cash and cash equivalents	66	(84)
Cash and cash equivalents at the beginning of the year	3,985	3,460
Cash and cash equivalents at the end of the year	2,610	3,985

The notes on pages 17 to 36 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. Group accounting policies

Authorisation of financial statements

The group's financial statements for the year ended 31 December 2018 were authorised for issue by the board of directors on 31 July 2019 and the statement of financial position was signed on the board's behalf by Kostantinos Kiriakopoulos, director. API Group plc is a public company limited by shares, incorporated in the United Kingdom and is registered in England and Wales. The registered address of API Group plc is set out in the Directors' Report.

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 2018 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, which is the primary economic environment in which the group operates, and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

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

During 2018 IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) were adopted, with an immaterial impact on the group's accounts.

	Effective date
IFRS 9 – Financial Instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018

IFRS 9 – Financial instruments was adopted on 1 January 2018, replacing IAS 39 Financial Instruments. This standard covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model. IFRS 9 requires the group to recognise expected credit losses and to update these estimates periodically to reflect changes in the credit risk of financial assets. The Group transition to this standard has not had a material impact on the financial statements.

IFRS 15 – Revenue from Contracts with Customers was adopted on 1 January 2018, replacing IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 introduced a 5-step approach to revenue recognition, requiring separation of performance obligations within customer contracts and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. Retrospective application in the comparative year ending 31 December 2017 is optional; however, the Group did not undertake this option. The group transition to this standard has not had a material impact on the financial statements.

New standards, amendments and interpretations issued but not effective or early adopted by the group

The following standard has been issued but is not yet effective and has not been early adopted by the group:

IFRS 16 – Leases applies to annual periods beginning on or after 1 January 2019 and will introduce changes to lessee accounting by removing the distinction between operating and finance leases, requiring the recognition of a right-of-use asset and a lease liability at the commencement of all leases. Leases previously classified as operating leases with lease payments recorded in the Consolidated Income Statement will now be included in the Consolidated Balance Sheet, increasing both non-current assets and financial liabilities. Lease charges are offset by higher interest expense resulting in an insignificant impact on net profit. EBITDA increases due to the replacement of the operating lease expense with interest and amortisation of the lease. The group has completed its impact assessment of this standard and the expected impact of applying IFRS 16 in its first full year of application is detailed below:

- Increase in financial liabilities of £5.1m
- Increase in right-of-use assets of £3.2m
- EBITDA is expected to increase by £1.3m
- Increase in finance costs of £0.2m
- Profit before tax unchanged

The group plans to apply IFRS 16 initially on 1 January 2019 using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparatives.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. Group accounting policies (continued)

Significant judgements and estimates

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (below), that have had a significant effect on the amounts recognised in the financial statements:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant effect on 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 intangible fixed assets are given in note 10.
- **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 2018. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Group accounting policies (continued)

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes value added tax, estimated rebates, returns and settlement discounts. The Group recognises revenue when it transfers control of a product or service to a customer which is completed on dispatch. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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 concern basis in preparing these financial statements. Further details on the going concern basis are given in the Directors' Report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 was a participant of a multi-employer defined benefit pension scheme until July 2019. This scheme was accounted for as a defined contribution scheme until 31 December 2017, as the information available from the scheme administrators was insufficient for it to be accounted for as a defined benefit scheme.

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 to hedge its risks associated with foreign currency 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

2. Revenue analysis

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total revenue by origin		
Laminates Europe	57,566	66,345
Foils Europe	33,906	33,250
Foils Americas	18,790	24,669
Laminates Americas	10,514	15,909
Netherlands	9,723	11,927
	130,499	152,100
Inter-segmental revenue		
Laminates Europe	9	137
Foils Europe	5,300	4,129
Foils Americas	439	568
Laminates Americas	—	4
Netherlands	124	144
	5,872	4,982
External revenue by origin		
Laminates Europe	57,557	66,208
Foils Europe	28,606	29,121
Foils Americas	18,351	24,101
Laminates Americas	10,514	15,905
Netherlands	9,599	11,783
Segment revenue	124,627	147,118
External revenue by destination		
UK	19,807	21,842
Rest of Europe	73,454	83,019
Americas	27,652	36,109
Asia Pacific	3,691	6,075
Africa	23	73
Segment revenue	124,627	147,118

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 loss before exceptional items

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
This is stated after charging/(crediting):		
Research and development expenditure expensed during the year	553	635
Depreciation of property, plant and equipment	4,107	3,024
Amortisation of intangible assets	435	455
Loss on disposal of property, plant and equipment	775	3
Cost of inventories recognised as an expense	79,483	86,040
Including write-down of inventories to net realisable value	835	449
Net foreign currency differences	(86)	(124)
Operating lease payments – minimum lease payments	1,662	1,691
Fees payable to the company's auditor for audit of the company's accounts	40	30
Fees payable to the company's auditor and its associates for other services	—	7
– audit of the UK defined benefit pension scheme	—	—
– audit of the accounts of subsidiaries	110	80

Deloitte LLP were appointed as auditor in the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. Staff costs and directors' emoluments

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Wages and salaries	24,609	26,307
Social security costs	2,741	2,689
Defined contribution pension costs	950	1,027
	28,300	30,023

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

	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number
Laminates Europe	121	119
Foils Europe	220	231
Foils Americas	130	147
Laminates Americas	44	51
Netherlands	46	54
Central	29	28
	590	630

Directors' emoluments

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total		
Aggregate emoluments	34	33

None of the directors in the year ended 31 December 2018 (2017: nil) were members of any of the defined benefit pension schemes or defined contribution pension schemes.

No share options were issued or exercised in the year ended 31 December 2018 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

5. Exceptional items

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit on the sale of Rahway property	—	3,096
Profit on the sale of Salford	—	1,208
Consolidation of US manufacturing operations	(2,563)	(2,133)
Withdrawal liability from US multi-employer pension plan	—	(3,365)
Reorganisation of Foils Europe distribution network	(518)	(642)
Impairment of intangible fixed assets – Laminates Americas	(4,555)	—
Impairment of intangible fixed assets – Netherlands	(1,274)	—
Goodwill impairment for Foils Europe - Germany	—	(964)
Reorganisation of API Netherlands and closure of manufacturing	(2,930)	(405)
GMP equalisation liability	(1,970)	—
Other exceptional items	—	(147)
	(13,810)	(3,352)

Year ended 31 December 2018

The consolidation of US foils manufacturing operations was completed in the year ended 31 December 2018 with the closure of the manufacturing facility in Rahway, New Jersey.

Following the closure of the foils sales company in Germany in 2017, in the year ended 31 December 2018 there were reorganisations within the foils sales company in France.

Reflecting the financial performance of certain parts of the business, impairment provisions were made in the year ended 31 December 2018 against several intangible fixed assets; £4,555,000 for the intangibles fixed assets of Laminates Americas (a division of API Americas Inc.) and £1,274,000 for the intangible fixed assets of API Netherlands BV.

In the year ended 31 December 2018, the reorganisation of API Netherlands BV was completed. This involved several aspects including (i) the transfer of the Laminates business to other group undertakings and the associated closure of Laminates manufacturing operations in the Netherlands (ii) the establishment of a foils sales operation and (iii) the relocation of the remaining activities to another facility close to Amsterdam.

A High Court ruling in October 2018 held that UK pension funds with Guaranteed Minimum Pensions ("GMPs") built up from 17 May 1990 to 5 April 1997 must equalise benefits for the different effects of these GMPs between men and women. The 'one off' cost for the equalisation of these past service benefits has been estimated at £1,970,000.

Year ended 31 December 2017

In January 2017 the Rahway property was sold realising a profit on sale of £3,096,000 and in May 2017 the Salford property was sold realising a profit on sale of £1,208,000. Both of these properties had been disclosed as 'assets classified as held for sale' at 31 December 2016.

In the year ended 31 December 2017 costs of £2,133,000 were incurred for the consolidation of US manufacturing operations. This included estimated employee termination costs of £785,000 which were expected to be paid out in 2018.

A non-contributory pension scheme was operated for members of the North New Jersey Teamsters 11 Union employed at the group's site in Rahway, New Jersey. This scheme was a multi-employer defined benefit scheme which had been accounted for as a defined contribution scheme, as the information available from the scheme administrators was insufficient for it to be accounted for as a defined benefit scheme. Under the rules of the scheme, the employer was not liable for any deficit of the scheme unless it withdrew from the scheme. Due to the expected closure of the Rahway site in 2018, a discounted withdrawal liability was provided for in the year ended 31 December 2017 of £3,365,000.

The closure of the foils sales company in Germany was announced in November 2017. Costs to close the German operation amounted to £642,000. In addition, the goodwill of £964,000 relating for Foils Germany was provided for in the year ended 31 December 2017.

In the year ended 31 December 2017 costs were incurred for the reorganisation of API Netherlands BV; that reorganisation was expected to be completed by the end of 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

6. Finance costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Finance costs		
Interest payable on bank loans, overdrafts and finance leases	(1,297)	(1,129)
Other interest payable	(23)	(2)
Finance cost in respect of defined benefit pension plans	(234)	(419)
	(1,554)	(1,550)

Included within interest payable on bank loans, overdrafts and finance leases is £9,000 (2017: £109,000) 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 2018 £'000	Year ended 31 December 2017 £'000
Current income tax		
UK corporation tax	569	555
Overseas tax	109	292
Adjustment to prior periods	(356)	(265)
Total current income tax expense	322	582
Deferred tax		
Origination and reversal of temporary differences		
– defined benefit pension plan	(251)	54
– capital allowances	139	84
Total deferred tax (credit) / expense	(112)	138
Total tax expense in the income statement	210	720

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Deferred tax		
Re-measurement gains and losses on defined benefit pension schemes	356	1,022
Change in fair value of effective cash flow hedges	(10)	133
	346	1,155

(c) Reconciliation of the total tax charge

The tax rate in the income statement for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Accounting loss before tax	(22,057)	(1,210)
Accounting loss multiplied by the UK standard rate of corporation tax of 19% (2017: 19.25%)	(4,191)	(233)
Adjustments to tax charge in respect of prior periods	(356)	(265)
Adjustments in respect of foreign tax rates	31	98
Decrease in deferred tax asset recognised on losses and capital allowances	—	(334)
Losses for which deferred tax is not recognised	3,514	523
Losses utilised	—	(460)
Other temporary differences for which deferred tax is not recognised	—	(69)
Effect of change in tax rate	30	—
Expenses not deductible for tax purposes	1,182	1,460
Total tax expense reported in the income statement	210	720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. Taxation (continued)

(d) Deferred tax

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

	31 December 2018 £'000	31 December 2017 £'000
Deferred tax liability		
Revaluation of fixed assets	(156)	(156)
Capital allowances	(144)	(59)
	(300)	(215)
Deferred tax asset		
Defined benefit pension plans	1,349	1,454
Fair value of cash flow hedges	14	4
Capital allowances	48	102
	1,411	1,560

The movement in deferred tax included in the year comprises:

	31 December 2018 £'000	31 December 2017 £'000
At the start of the year	1,345	2,638
Income statement credit / (charge)	112	(138)
Tax on items relating to other comprehensive income	(346)	(1,155)
At the end of the year	1,111	1,345

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) has been substantively enacted. This will impact the group's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2018 have been calculated based at the rates of tax substantively enacted at the date of the statement of financial position.

(e) Unrecognised tax losses

The group has unrecognised tax losses arising in the UK of £2,388,000 (2017: £2,388,000) 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 £242,000 (2017: £283,000) available to offset against future taxable profits at the rate of 17%/19% (2017: 17/19%) a year on a reducing balance basis. The group has unrecognised US federal tax losses available for carry forward of \$18,813,000 (2017: \$6,040,000), which are available for offset against future profits for a period of between 4 and 20 years.

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 December 2016	1,033	11,270	1,990	59,699	10,268	84,260
Additions	—	1,594	104	5,641	662	8,001
Disposals	—	—	—	(1,351)	(607)	(1,958)
Foreign currency adjustment	46	(1,069)	1	(1,839)	(285)	(3,146)
At 31 December 2017	1,079	11,795	2,095	62,150	10,038	87,157
Additions	—	1,307	158	2,375	874	4,714
Disposals	(109)	—	(23)	(11,096)	(1,322)	(12,550)
Foreign currency adjustment	46	792	2	1,094	166	2,100
At 31 December 2018	1,016	13,894	2,232	54,523	9,756	81,421
Depreciation						
At 31 December 2016	—	4,631	1,092	43,287	6,832	55,842
Provided during the year	—	291	120	1,940	673	3,024
Disposals	—	—	—	(1,002)	(597)	(1,599)
Foreign currency adjustment	—	(505)	1	(1,365)	(230)	(2,099)
At 31 December 2017	—	4,417	1,213	42,860	6,678	55,168
Provided during the year	—	461	85	2,798	763	4,107
Disposals	—	—	(22)	(10,099)	(1,121)	(11,242)
Foreign currency adjustment	—	280	—	680	55	1,015
At 31 December 2018	—	5,158	1,276	36,239	6,375	49,048
Net book value at 31 December 2018	1,016	8,736	956	18,284	3,381	32,373
Net book value at 31 December 2017	1,079	7,378	882	19,290	3,360	31,989
Net book value at 31 December 2016	1,033	6,639	898	16,412	3,436	28,418

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

8. Property, plant and equipment (continued)

Finance leases

Included in the net book value of plant and machinery is £1,566,000 (2017: £1,710,000) relating to assets acquired under finance leases.

Construction work-in-progress

Included in the cost of property, plant and equipment is £8,819,000 (2017: £5,444,000) relating to construction work-in-progress.

Commitments

Amounts contracted in respect of property, plant and equipment (including construction work-in-progress) amounted to £439,000 (2017: £758,000). See note 22.

Security

The group's UK borrowings were £nil at 31 December 2018 (2017: £nil). The US loans of £28,326,000 (2017: £16,250,000) are pledged against certain property, plant and equipment to the value of £17,185,000 (2017: £15,925,000).

9. Intangible assets

	Goodwill £'000	Customer relationships £'000	Trade name £'000	Total £'000
Cost				
At 31 December 2016	9,768	3,034	374	13,176
Additions - reclassifications	127	(125)	(2)	—
Foreign currency adjustment	(206)	(161)	15	(352)
At 31 December 2017	9,689	2,748	387	12,824
Disposals	(3,541)	(762)	(392)	(4,695)
Foreign currency adjustment	245	143	5	393
At 31 December 2018	6,393	2,129	—	8,522
Impairment / amortisation				
At 31 December 2016	451	130	—	581
Amortisation in the year	—	414	41	455
Impairment provision	964	—	—	964
Foreign currency adjustment	—	(24)	1	(23)
At 31 December 2017	1,415	520	42	1,977
Amortisation in the year	—	396	39	435
Impairment provision	4,202	1,322	305	5,829
Disposals	(2,399)	(227)	(392)	(3,018)
Foreign currency adjustment	194	118	6	318
At 31 December 2018	3,412	2,129	—	5,541
Net book value at 31 December 2018	2,981	—	—	2,981
Net book value at 31 December 2017	8,274	2,228	345	10,847
Net book value at 31 December 2016	9,317	2,904	374	12,595

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 2018 £'000	31 December 2017 £'000	31 December 2016 £'000
Foils Europe – UK	2,538	2,538	2,538
Foils Europe – Germany	—	—	964
Laminates Americas	—	3,198	3,501
Laminates Europe	443	—	—
API Netherlands	—	2,538	2,314
	2,981	8,274	9,317

The goodwill in Laminates Europe of £443,000 has arisen as part of the Laminates business in API Netherlands BV was transferred to API Laminates Limited in the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

10. Impairment of non-financial assets

The directors have reviewed impairment tests at 31 December 2018 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 other intangible fixed assets (customer relationships and trade names) and 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
- Laminates Americas; and
- Laminates Europe – UK (as a result of goodwill transferred from API Netherlands B.V.).

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 9.

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 2019 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. 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 11% (2017: 12%) has been used, which was considered a best estimate for the current risk-adjusted cost of capital for the group.

Goodwill relating to Foils Europe – Germany was provided for in the year ended 31 December 2017 as a result of the decision to closure the operations of API Foils Deutschland GmbH.

11. 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 2018 £'000	31 December 2017 £'000
Non-current assets	251	279
Current assets	216	200
Current liabilities	(31)	(30)
	436	449

The aggregate amount of the capital and reserves of APIO is £872,000 (2017: £898,000). The net loss for the year ended 31 December 2018 is £57,000 (2017: profit of £4,000). The registered capital of APIO is 25,200,000 Czech crowns.

A decision was made in the year ended 31 December 2018 to sell the investment in APIO. Accordingly this has been disclosed as an 'asset classified as held for sale' in the Consolidated Statement of Financial Position at 31 December 2018.

12. Assets classified as held for sale

In the year ended 31 December 2018, it was decided to sell the 50% interest in API Optix s.r.o. ("APIO"). Accordingly the investment in APIO has been classified as held for sale in the Consolidated Statement of Financial Position. The sale proceeds less costs to sell are expected to be less than the carrying value of the investment and a provision has been made in the year ended 31 December 2018 to write down the carrying value of the investment to estimated sale proceeds less costs to sell of £254,000.

	31 December 2018 £'000	31 December 2017 £'000
50% interest in API Optix s.r.o	254	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Amounts falling due within one year		
Trade receivables	19,074	24,145
Prepayments	921	1,819
Other debtors and accrued income	2,942	2,090
	22,937	28,054

Trade and other receivables are measured at amortised cost. The directors consider that the carrying value of trade and other receivables is approximately equal to their fair value. 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 2018, trade receivables at a nominal value of £244,000 (2017: £157,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	31 December 2018 £'000	31 December 2017 £'000
Opening provision	157	77
Charge for the year	106	90
Amounts written off	(23)	(13)
Foreign currency adjustment	4	3
Closing provision	244	157

Of the total trade receivables shown above, £5,922,000 (2017: £6,272,000) are past due, but not impaired. An analysis of these trade receivables is as follows:

	31 December 2018 £'000	31 December 2017 £'000
0-30 days overdue	4,724	5,099
31-60 days overdue	559	699
61-90 days overdue	434	141
91+ days overdue	205	333
	5,922	6,272

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, including, payment before the order is accepted. 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 2018, the maximum exposure to credit risk in respect of trade receivables, after taking account of credit insurance, was £3,047,000 (2017: £3,683,000). Provisions for credit risk are assessed on a regular basis with the focus on overdue receivables.

14. Inventories

	31 December 2018 £'000	31 December 2017 £'000
Raw materials	7,739	9,106
Work in progress	350	751
Finished goods	8,309	7,179
	16,398	17,036

See note 3 for inventories consumed.

15. Cash and cash equivalents

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

	31 December 2018 £'000	31 December 2017 £'000
Cash at bank and in hand	3,448	4,667
Bank overdrafts (note 17)	(838)	(682)
	2,610	3,985

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 are measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Current		
Trade payables	14,236	18,276
Other payables	5,810	9,218
Owed to parent undertaking	13,272	10,382
	33,318	37,876

Trade and other payables are measured at amortised cost. The directors consider that the carrying value of trade and other payables is approximately equal to their fair value.

On 14 November 2017, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a new five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC'). Cedar 2015 Limited, the parent undertaking of API Group plc, is a Borrower under that Credit Agreement. At 31 December 2018, Cedar 2015 Limited had borrowed £12,991,000 (2017: £10,386,000) under the Credit Agreement and provided those funds to API Group plc and its subsidiary undertakings. The average interest rate for the amount borrowed from Cedar 2015 Limited at 31 December 2018 of £12,991,000 was 3.0%.

17. Other financial liabilities

	31 December 2018 £'000	31 December 2017 £'000
Current		
Bank overdrafts	838	682
Current instalments due on finance leases	—	541
Forward foreign exchange contracts (note 21)	177	140
	1,015	1,363
Non-current		
Non-current instalments due on bank loans	28,326	16,250
	28,326	16,250

Bank loans

Bank loans comprise the following:

	31 December 2018 £'000	31 December 2017 £'000
Revolving loans (US)	28,326	16,250
	28,326	16,250
Less: current instalments due on bank loans	—	—
	28,326	16,250

Bank loans and bank overdrafts are measured at amortised cost. The group's banking facilities comprise:

UK facilities

On 14 November 2017, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC'). Cedar 2015 Limited, the parent undertaking of API Group plc, is a Borrower under that finance facility and the UK facilities are provided through Cedar 2015 Limited.

US facilities

On 14 November 2017, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC') which replaced all of the previous API US facilities. API Americas Inc. is a Borrower under that Credit Agreement and at 31 December 2018 had taken out loans of £28,326,000 (2017: £16,250,000). At 31 December 2018, interest rates were 5.0% (2017: 3.5%). As a Borrower to the Credit Agreement, at 31 December 2018, API Americas Inc has given security over assets amounting to £26,917,000 (2017: £24,823,000) and the total amount owed by the Borrowers under the Credit Agreement was £372,719,000 (2017: £300,843,000).

Finance leases

Finance leases comprise the following:

	31 December 2018 £'000	31 December 2017 £'000
Within one year	—	549
	—	549
Less: interest allocated to future periods	—	(8)
	—	541

The finance lease has a period to November 2018 at an interest rate of 3.1%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 was operated for members of the North New Jersey Teamsters 11 Union employed at the group's site in Rahway, New Jersey. This scheme was a multi-employer defined benefit scheme which had been accounted for as a defined contribution scheme, as the information available from the scheme administrators was insufficient for it to be accounted for as a defined benefit scheme. Under the rules of the scheme the employer was not liable for any deficit of the scheme unless it withdrew from the scheme. Due to the expected closure of the Rahway site in 2018, a discounted withdrawal liability was provided for at 31 December 2017 of £3,205,000. The Rahway site was closed during 2018 resulting in a withdrawal liability of \$5,198,000. That liability is being settled by 240 monthly payments of \$23,006 and the first payment was made in October 2018. The withdrawal liability has been discounted at a rate of 3.10%.

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 Trustees of the API Group Pension and Life Assurance Scheme are responsible for the management of the pension scheme and utilise several third party advisors to assist them.

A High Court ruling in October 2018 held that UK pension funds with Guaranteed Minimum Pensions ("GMPs") built up from 17 May 1990 to 5 April 1997 must equalise benefits for the different effects of these GMPs between men and women. The 'one off' cost for the equalisation of these past service benefits has been estimated at £1,970,000.

Pension and other post-retirement benefits comprise:

	31 December 2018 £'000	31 December 2017 £'000
UK defined benefit pension scheme	7,938	8,554
US defined benefit pension scheme	831	827
Discounted withdrawal liability from Teamsters 11 plan	3,213	3,205
	11,982	12,586

The assets and liabilities of the defined benefit schemes are:

At 31 December 2018	United Kingdom £'000	United States £'000	Total £'000
Equities	30,616	827	31,443
Bonds	10,732	1,130	11,862
Liability driven investments	30,480	—	30,480
Private markets	10,683	—	10,683
Property	10,615	61	10,676
Cash	5,911	—	5,911
Fair value of scheme assets	99,037	2,018	101,055
Present value of scheme liabilities	(106,975)	(2,849)	(109,824)
Net pension liability before deferred tax	(7,938)	(831)	(8,769)

At 31 December 2017	United Kingdom £'000	United States £'000	Total £'000
Equities	50,492	1,033	51,525
Bonds	10,876	1,145	12,021
Liability driven investments	23,128	—	23,128
Private markets	10,273	—	10,273
Property	9,824	67	9,891
Cash	334	—	334
Fair value of scheme assets	104,927	2,245	107,172
Present value of scheme liabilities	(113,481)	(3,072)	(116,553)
Net pension liability before deferred tax	(8,554)	(827)	(9,381)

Equities have a quoted price in an active market (Level 1 hierarchy). The fair value of bonds, liability driven investments and property are determined using observable market prices (Level 2 hierarchy). The private markets assets are Level 3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Recognised in arriving at operating profit:			
Scheme expenses borne by employers	475	70	545
Past service cost – GMP equalisation liability	1,970	—	1,970
Total recognised in operating profit	2,445	70	2,515
Interest income on scheme assets	2,580	80	2,660
Interest cost on scheme liabilities	(2,785)	(109)	(2,894)
Other finance cost	(205)	(29)	(234)
Taken to the Statement of Comprehensive Income			
Actual return on scheme assets	(2,477)	(94)	(2,571)
Less: interest income on scheme assets	(2,580)	(80)	(2,660)
Less: investment management fees	(198)	—	(198)
	(5,255)	(174)	(5,429)
Other re-measurement gains and losses	7,126	210	7,336
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	1,871	36	1,907
Year ended 31 December 2017	United Kingdom £'000	United States £'000	Total £'000
Recognised in the Income Statement			
Recognised in arriving at operating profit:			
Scheme expenses borne by employers	759	13	772
Interest income on scheme assets	2,514	83	2,597
Interest cost on scheme liabilities	(2,899)	(117)	(3,016)
Other finance cost	(385)	(34)	(419)
Taken to the Statement of Comprehensive Income			
Actual return on scheme assets	11,797	233	12,030
Less: interest income on scheme assets	(2,514)	(83)	(2,597)
Less: investment management fees	(256)	—	(256)
	9,027	150	9,177
Other re-measurement gains and losses	(3,267)	(245)	(3,512)
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	5,760	(95)	5,665

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

	United Kingdom		United States	
	December 2018	December 2017	December 2018	December 2017
Rate of increase in pensions in payment	2.22%	2.23%	n/a	n/a
Rate of increase to deferred pensions	2.20%	2.20%	n/a	n/a
Inflation – CPI	2.20%	2.20%	n/a	n/a
Discount rate	2.90%	2.50%	4.30%	3.70%
Post-retirement mortality (in years):				
Member age 65 (current life expectancy) – male	20.6	20.7	n/a	n/a
Member age 65 (current life expectancy) – female	22.5	22.6	n/a	n/a
Member age 45 (life expectancy at 65) – male	21.9	22.1	n/a	n/a
Member age 45 (life expectancy at 65) – female	24.0	24.1	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 2018, the relevant inflation rate based on the RPI for the duration of the UK Scheme was 3.20% (2017: 3.20%). 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% (2017: 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 £0.9m (2017: £1.1m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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 (2017: 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 £1.6m (2017: £1.9m).

In the UK, the mortality assumptions for the current year are based on nationally published tables using 120% of the S2P*A YOB CMI 2017 model with 1.25% long-term trend rate and smoothing factor of 7.5 (2017: 120% of the S2P*A YOB CMI 2016 model with 1.25% long-term trend rate and smoothing factor of 7.5). 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 £2.2m (2017: £2.3m). In the US, mortality assumptions are in accordance with the RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2018 (2017: RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2017).

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 2023 in order to make up the funding shortfall. The agreed contributions for the year ended 31 December 2019 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 2019 of \$192,000.

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

	United Kingdom £'000	United States £'000	Total £'000
At 1 January 2017	111,463	3,220	114,683
Interest cost	2,899	117	3,016
Benefits paid	(4,148)	(238)	(4,386)
Re-measurement gains from changes in financial assumptions	3,267	245	3,512
Foreign currency differences	—	(272)	(272)
At 31 December 2017	113,481	3,072	116,553
Past service cost – GMP equalisation liability	1,970	—	1,970
Interest cost	2,785	109	2,894
Benefits paid	(4,135)	(316)	(4,451)
Re-measurement gains from changes in financial assumptions	(7,126)	(210)	(7,336)
Foreign currency differences	—	194	194
At 31 December 2018	106,975	2,849	109,824

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

	United Kingdom £'000	United States £'000	Total £'000
At 1 January 2017	96,578	2,309	98,887
Interest income	2,514	83	2,597
Return on scheme assets excluding interest income	9,283	150	9,433
Employer contributions	700	139	839
Benefits paid	(4,148)	(238)	(4,386)
Foreign currency differences	—	(198)	(198)
At 31 December 2017	104,927	2,245	107,172
Interest income	2,580	80	2,660
Return on scheme assets excluding interest income	(5,057)	(174)	(5,231)
Employer contributions	722	104	826
Administrative costs paid by the pension scheme	—	(61)	(61)
Benefits paid	(4,135)	(316)	(4,451)
Foreign currency differences	—	140	140
At 31 December 2018	99,037	2,018	101,055

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

19. Called-up share capital

Authorised, allotted, called-up and fully paid

	31 December 2018 thousands	31 December 2017 thousands	31 December 2018 £'000	31 December 2017 £'000
Ordinary shares of 1p	76,749	76,749	767	767

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

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.

20. Reserves

Other reserves

Other reserves of £9,415,000 (2017: £9,415,000) comprise the capital redemption reserve of £8,846,000 (2017: £8,846,000) and a surplus of £569,000 (2017: £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 2018 and 31 December 2017, the Trust had no assets.

Foreign exchange reserve

The foreign exchange reserve of £1,488,000 surplus (2017: £1,966,000 surplus) is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

21. 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 2018	Within one year £'000	One to two years £'000	Two to five years £'000	After five years £'000	Total £'000
Non-derivative financial liabilities	838	—	28,326	—	29,164
Interest on financial liabilities	1,416	1,416	2,715	—	5,547
Trade and other payables	32,402	—	—	—	32,402
Forward foreign exchange contracts:					
Payable	18,433	—	—	—	18,433
Receivable	(18,310)	—	—	—	(18,310)
At 31 December 2017	Within one year £'000	One to two years £'000	Two to five years £'000	After five years £'000	Total £'000
Non-derivative financial liabilities	1,223	—	16,250	—	17,473
Interest on financial liabilities	569	569	1,644	—	2,782
Trade and other payables	36,676	—	—	—	36,676
Forward foreign exchange contracts:					
Payable	30,529	—	—	—	30,529
Receivable	(30,514)	—	—	—	(30,514)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. Financial instruments (continued)

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 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 2018	+1%	(422)
31 December 2017	+1%	(279)

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 2018		
10% weakening of sterling versus US dollar	61	29
10% strengthening of sterling versus US dollar	(61)	(29)
10% weakening of sterling versus Euro	(571)	(1,412)
10% strengthening of sterling versus Euro	571	1,412
31 December 2017		
10% weakening of sterling versus US dollar	(20)	(420)
10% strengthening of sterling versus US dollar	16	344
10% weakening of sterling versus Euro	(729)	1,261
10% strengthening of sterling versus Euro	597	(1,031)

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

Fair value foreign currency forward contracts

The group has taken out foreign currency forward contracts for 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 2018, there were forward contracts in respect of fair value hedges to buy sterling and sell euros to the value of €9.8m (2017: €10.0m). These contracts have maturity dates extending to June 2019 (2017: May 2018). Contracts with a positive fair value amounted to £14,000 and contracts with a negative fair value amounted to £62,000 at 31 December 2018 (2017: positive fair value of £44,000 and negative fair value of £36,000). Losses on fair value hedges amounting to £27,000 (2017: loss of £253,000) are included in the amounts disclosed for net foreign currency differences in note 3. These foreign currency forward contracts are measured at fair value through profit and loss account ('FVTPL').

Hedges

Cash flow hedges – forward foreign exchange contracts

The group has taken out foreign currency forward contracts to hedge a proportion of the value of future forecast sales in 2019 denominated in euros to the value of €10.3m (2017: €20.2m) and future forecast purchases in 2019 denominated in US dollars to the value of \$0.5m (2017: \$4.9m). These contracts have maturity dates extending to December 2019 (2017: December 2018). At 31 December 2018, contracts with a positive value amounted to £40,000 (2017: £80,000) maturing within one year. Contracts with a negative value amounted to £115,000 (2017: £104,000) 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 loss recognised in other comprehensive income in respect of foreign exchange contracts is £52,000 (2017: gain of £692,000). A gain of £190,000 (2017: loss of £1,013,000) was recycled from other comprehensive income to revenue in the income statement. These foreign currency forward contracts are measured at fair value through other comprehensive income ('FVTOCI').

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. Capital commitments

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

	31 December 2018 £'000	31 December 2017 £'000
Property, plant and equipment	439	758

23. Obligations under leases and hire purchase contracts

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

	31 December 2018 £'000	31 December 2017 £'000
Not later than one year	897	1,347
After one year but not more than five years	1,631	957
After more than five years	5,750	5,865
	8,278	8,169

Included in the above commitments, there is a long lease property which expires in 2073 for which the present annual payment is £115,000 (2017: £115,000).

24. Related party transactions

Compensation of key management personnel

The key management personnel comprise the General Management Team of the company.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Short-term employee benefits	1,120	1,454
Post-employment benefits	41	41
	1,161	1,495

Transactions with APIO

Transactions during the year with APIO, a joint operation, are purchases of £1,000 (2017: £14,000) and research and development charges of £171,000 (2017: £79,000). The amount owed to APIO was £178,000 (2017: £98,000).

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.

For details of the ultimate parent undertaking and controlling company see note 12 of the company financial statements.

COMPANY BALANCE SHEET
as at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Assets			
Non-current assets			
Investments	2	6,314	7,485
Trade and other receivables	3	101	4,806
Deferred tax assets	6	1,349	1,454
		7,764	13,745
Current assets			
Trade and other receivables	3	2,111	8,544
Cash and cash equivalents		11,414	14,224
		13,525	22,768
Total assets		21,289	36,513
Liabilities			
Current liabilities			
Trade and other payables	4	6,734	4,822
		6,734	4,822
Non-current liabilities			
Other financial liabilities	7	—	—
Deficit on defined benefit pension scheme	5	7,938	8,554
		7,938	8,554
Total liabilities		14,672	13,376
Net assets		6,617	23,137
Equity			
Called-up share capital	8	767	767
Share premium		7,136	7,136
Other reserves	9	9,415	9,415
Retained (loss) / profit		(10,701)	5,819
Equity shareholders' funds		6,617	23,137

A loss of £18,035,000 for the year ended 31 December 2018 (2017: profit of £3,698,000) has been transferred to reserves. As permitted by Section 408 of the Companies Act 2006 the company has not presented its own profit and loss account.

The financial statements have been approved by the board of directors.
Signed on behalf of the board


Kostantinos Kiriakopoulos
Director

31/7/2019

Company number: 00169249

The notes on pages 39 to 45 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Called-up share capital £'000	Share premium £'000	Other reserves £'000	Retained (loss) / profit £'000	Shareholders' equity £'000
At 31 December 2016	767	7,136	9,415	383	17,701
Profit for the year	—	—	—	3,698	3,698
Re-measurement gains on defined benefit pension scheme (note 5)	—	—	—	5,760	5,760
Tax on items relating to components of other comprehensive income (note 6)	—	—	—	(1,022)	(1,022)
Waiver on loan from subsidiary undertaking	—	—	—	(3,000)	(3,000)
Total comprehensive income for the year	—	—	—	5,436	5,436
At 31 December 2017	767	7,136	9,415	5,819	23,137
Loss for the year	—	—	—	(18,035)	(18,035)
Re-measurement gains on defined benefit pension scheme (note 5)	—	—	—	1,871	1,871
Tax on items relating to components of other comprehensive income (note 6)	—	—	—	(356)	(356)
Total comprehensive loss for the year	—	—	—	(16,520)	(16,520)
At 31 December 2018	767	7,136	9,415	(10,701)	6,617

For the years ended 31 December 2018 and 31 December 2017, there was no interim or final dividend.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

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 financial statements have been prepared under the historical cost convention.

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 2018. 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 do 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 6.
- **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 5.
- **Impairment of investments**
The group assesses whether there are any indicators of impairment for investments. Investments are tested for impairment when there are indicators that the carrying values may not be recoverable. When value-in-use calculations are undertaken, management estimate expected cash flows from the investment and choose a suitable discount rate to calculate the net present value of those cash flows. Further details regarding impairment of investments assets are given in note 2.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

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.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

2. Investments

Subsidiary undertakings

	£'000
Cost	
At 31 December 2017	7,485
Investment in API Netherlands	2,633
At 31 December 2018	10,118
Impairment	
At 31 December 2017	—
Impairment provision	3,804
At 31 December 2018	3,804
Net book value at 31 December 2018	6,314
Net book value at 31 December 2017	7,485

In the year ended 31 December 2018 there was injection of capital into API Netherlands B.V. of €3,000,000. An impairment provision of £3,804,000 was made of which £3,504,000 related to the cost of the investment in API Netherlands B.V. using a discount rate of 11%.

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 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-Rež, Czech Republic	Ordinary shares
API Netherlands B.V. *	Tufsteen 7, 2132 NT Hoofddorp, 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

3. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Amounts falling due within less than one year		
Amounts due from subsidiary undertakings	1,781	8,155
Group relief receivable	299	353
Other debtors	31	36
	2,111	8,544
Amounts falling due after more than one year		
Amounts due from subsidiary undertakings	101	4,806
Total trade and other receivables	2,212	13,350

Amounts due from subsidiary undertakings within less than one year are stated after an impairment provision of £6,994,000 (2017: £nil). Amounts due from subsidiary undertakings after more than one year are stated after an impairment provision of £5,326,000 (2017: £600,000). Interest is charged on amounts due from subsidiary undertakings falling due after more than one year.

The directors consider that the carrying value of trade and other receivables is approximately equal to their fair value.

4. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Amounts due to subsidiary undertakings	2,237	372
Amounts due to parent undertaking	4,491	4,438
Accruals	6	12
	6,734	4,822

On 14 November 2017, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a new five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC'). Cedar 2015 Limited, the parent undertaking of API Group plc, is a Borrower under that Credit Agreement. At 31 December 2018, Cedar 2015 Limited had borrowed £4,491,000 (2017: £4,438,000) under the Credit Agreement and provided those funds to API Group plc. The interest rate of the amount borrowed from Cedar 2015 Limited at 31 December 2018 Limited of £4,491,000 was 2.5%.

The directors consider that the carrying value of trade and other payables is approximately equal to their fair value.

5. 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 Trustees of the API Group Pension and Life Assurance Scheme are responsible for the management of the pension scheme and utilise several third party advisors to assist them.

The assets and liabilities of the defined benefit scheme are:

	31 December 2018 £'000	31 December 2017 £'000
Equities	30,616	50,492
Bonds	10,732	10,876
Liability driven investments	30,480	23,128
Property	10,615	9,824
Private markets	10,683	10,273
Cash	5,911	334
Fair value of scheme assets	99,037	104,927
Present value of scheme liabilities	(106,975)	(113,481)
Net pension liability before deferred tax	(7,938)	(8,554)

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 private markets assets are Level 3 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

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

	31 December 2018 £'000	31 December 2017 £'000
Recognised in the Income Statement		
Recognised in arriving at operating profit		
Scheme expenses borne by employer	475	759
Past service cost – GMP equalisation liability	1,970	—
Total recognised in operating profit	2,445	759
Interest income on scheme assets	2,580	2,514
Interest cost on scheme liabilities	(2,785)	(2,899)
Other finance cost	(205)	(385)
Taken to the Statement of Comprehensive Income		
Actual return on scheme assets	(2,477)	11,797
Less: interest income on scheme assets	(2,580)	(2,514)
Less: investment management fees	(198)	(256)
	(5,255)	9,027
Other re-measurement gains and losses	7,126	(3,267)
Re-measurement gains and losses recognised in the Statement of Comprehensive Income	1,871	5,760

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

	31 December 2018 £'000	31 December 2017 £'000
Opening defined benefit obligations	113,481	111,463
Past service costs – GMP equalisation liability	1,970	—
Interest cost	2,785	2,899
Re-measurement (gains) / losses from changes in financial assumptions	(7,126)	3,267
Benefits paid	(4,135)	(4,148)
Closing defined benefit obligations	106,975	113,481

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

	31 December 2018 £'000	31 December 2017 £'000
Opening fair value of scheme assets	104,927	96,578
Interest income	2,580	2,514
Return on scheme assets excluding interest income	(5,057)	9,283
Employer contributions	722	700
Benefits paid	(4,135)	(4,148)
Closing fair value of scheme assets	99,037	104,927

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

	31 December 2018	31 December 2017
Discount rate	2.90%	2.50%
Inflation - CPI	2.20%	2.20%
Rate of increase in pensions in payment	2.22%	2.23%
Rate of increase to deferred pensions	2.20%	2.20%
Post-retirement mortality (in years):		
Member age 65 (current life expectancy) - male	20.6	20.7
Member age 65 (current life expectancy) - female	22.5	22.6
Member age 45 (life expectancy at 65) - male	21.9	22.1
Member age 45 (life expectancy at 65) - female	24.0	24.1

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 2018, the relevant inflation rate based on the RPI for the duration of the UK Scheme was 3.20% (2017: 3.20%). 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% (2017: 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 £0.9m (2017: £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 (2017: 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 £1.6m (2017: £1.9m).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

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

The mortality assumptions for the current year are based on nationally published tables using 120% of the S2P*A YOB CMI 2017 model with 1.25% long-term trend rate and smoothing factor of 7.5 (2017: 120% of the S2P*A YOB CMI 2016 model with 1.25% long-term trend rate and smoothing factor of 7.5). 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 £2.2m (2017: £2.3m). 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 2023 in order to make up the funding shortfall. The agreed contributions for the year ended 31 December 2019 are £700,000.

6. Deferred taxation

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

	31 December 2018 £'000	31 December 2017 £'000
Deferred tax asset		
Defined benefit pension plans	1,349	1,454
	1,349	1,454

The movement in deferred taxation in the year comprises:

	31 December 2018 £'000	31 December 2017 £'000
At the start of the year	1,454	2,530
Income statement credit / (charge)	251	(54)
Statement of changes in equity charge	(356)	(1,022)
At the end of the year	1,349	1,454

Reductions in the UK corporation tax rate from 19% to 17% (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 2018 have been calculated based at the rates of tax substantively enacted at the balance sheet date.

There is no unrecognised deferred tax.

7. Other financial liabilities

	31 December 2018 £'000	31 December 2017 £'000
Non-current instalments due on bank loans	—	—

On 14 November 2017, Steel Partners Holdings L.P., through certain consolidated subsidiaries (collectively, 'Borrowers') entered into a new five-year \$600 million revolving credit facility ('Credit Agreement') with PNC Bank NA ('PNC'). Cedar 2015 Limited, the parent undertaking of API Group plc, is a Borrower under that finance facility. No security has been granted by the company for the Credit Agreement.

A UK subsidiary undertaking has a finance lease with HSBC Equipment Finance (UK) Limited of £0.0 million (31 December 2017: £0.5 million). The company is a guarantor to that finance lease.

8. Called-up share capital

Authorised, allotted, called-up and fully paid

	31 December 2018 thousands	31 December 2017 thousands	31 December 2018 £'000	31 December 2017 £'000
Ordinary shares of 1p	76,749	76,749	767	767

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

9. Other reserves

Other reserves of £9,415,000 (2017: £9,415,000) comprise the capital redemption reserve £8,846,000 (2017: £8,846,000) and a surplus of £569,000 (2017: £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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2018

10. Profit attributable to members of the parent company

A loss of £18,035,000 for the year ended 31 December 2018 (2017: profit of £3,698,000) has been transferred to reserves. As permitted by Section 408 of the Companies Act 2006 the company has not presented its own profit and loss account.

The company has no employees. Staff costs are £nil except for directors' remuneration as disclosed in note 4 of the group accounts.

Fees paid to the auditor in respect of audit services provided to the company for the year amounted to £40,000 (2017: £30,000). In the year ended 31 December 2018, there was a change in auditor to Deloitte LLP.

11. Dividends

No interim or final dividend has been paid within the year ended 31 December 2018 (nil in year ended 31 December 2017).

12. Ultimate parent undertaking and controlling company

The immediate parent undertaking is Cedar 2015 Limited, a company registered in England and Wales. The registered address is Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND.

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.

Steel Partners Holdings L.P. is the largest and smallest parent company preparing group financial statements.