Morgan Advanced Materials PLC - MGAM Full-Year Results
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Morgan Advanced Materials PLC
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FULL-YEAR RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2016

Results summary

£ million unless otherwise stated	**2016**	2015	Change %	Constant Currency[(1)] Change %
Headline performance				
Revenue	**989.2**	911.8	8.5%	-1.5%
Group headline operating profit[(1)]	**116.9**	106.0	10.3%	-2.5%
Group headline operating profit margin[(1)]	**11.8%**	11.6%		
Headline EPS (pence) [(1)]	**22.7p**	20.8p		
Total dividend per share (pence)	**11.0p**	11.0p		
Cash flow from operations[(1)(2)]	**128.3**	139.4		
Free cash flow before acquisitions and dividends[(1)(2)]	**48.0**	30.1		
Statutory reporting				
Operating profit	**107.3**	82.9		
Profit before tax	**87.9**	59.0		
Basic EPS (pence)	**18.4p**	11.9p		

1. Further information on the use of these non-GAAP measures is provided on page 9.
2. 2015 has been re-presented for the reclassification of £3.8 million of dividends paid to non-controlling interests from 'Cash flow from operations' to 'Net cash flows from other investing and financing activities'.

Group highlights

- Financial performance is in line with management expectations, despite trading conditions remaining challenging in the second half of the year, with the full year book-to-bill ratio at 0.99 times (2015: 0.99 times).
- Strategy implementation on track - two divestments recently announced, which will simplify the Electrical Carbon and Technical Ceramics global business units, with an aggregate gross consideration of ca. £80 million.
- Good progress in improving operational execution, which is providing the funds for increased investment in research and development.
- Group headline operating profit margin* improved to 11.8% (2015: 11.6%).
- Headline EPS* increased to 22.7 pence (2015: 20.8 pence). Proposed final dividend of 7.0 pence per share (2015: final 7.0 pence per share), which would result in a full-year dividend of 11.0 pence (2015: 11.0 pence).
- Balance sheet strengthened with completion of US private placement refinancing. Free cash flow before dividends improved to £48.0 million (2015: £30.1 million).

Divisional highlights

- Thermal Products revenue was £456.8 million (2015: £412.1 million), an increase of 10.8% compared to 2015. Constant currency revenue* increased by 0.1% compared to 2015. EBITA* for Thermal Products was £61.7 million (2015: £60.5 million), EBITA margin* was 13.5% (2015: 14.7%).
- Carbon and Technical Ceramics revenue was £502.0 million (2015: £472.0 million), an increase of 6.4% compared to 2015. Constant currency revenue* decreased by 3.5% compared to 2015. EBITA* was £60.5 million (2015: £55.3 million), EBITA margin* was 12.1% (2015: 11.7%).
- Composites and Defence Systems revenue was £30.4 million (2015: £27.7 million), an increase of 9.7% compared to 2015. EBITA* was £1.1 million (2015: £(1.0) million), EBITA margin* was 3.6% (2015: -3.6%).

Strategy implementation on track

We have made good progress with the implementation of our strategy, against the execution priorities we defined in February 2016:

1. ***Move to a global structure***. We successfully completed the move to a global structure in March 2016 with the establishment of six global business units: Thermal Ceramics, Molten Metal Systems, Electrical Carbon, Seals & Bearings, Technical Ceramics, and Composites and Defence Systems.
2. ***Extend our technology leadership.*** We have increased technology investment by £3.8 million in 2016 (to 3.0% of sales) and established two new Centres of Excellence in Carbon Science and Metals and Joining to support the longer term development of new materials and production processes, and enhance the technical differentiation of the group. We will increase investment by a further £3 million in 2017 against our three to four-year goal of increasing R&D investment to around 4% of sales.
3. ***Improve operational execution.*** We are driving improvements in global procurement, in particular in Thermal Ceramics, through lean and continuous improvement activity in our production plants, through targeted improvements in yield and scrap, and through further investments in automation. Our operational improvement activity is ahead of plan with £6 million of net savings now planned for 2017 that funds £3 million of investment in R&D and £3 million investment in sales and business development capability.
4. ***Drive sales effectiveness and market focus.*** We have completed the global mapping of our sales resources to understand the roles and capabilities of our people and following this we will be sharpening roles and accountabilities and training our sales teams. We have two pilot projects underway to assess and improve our sales approach in the automotive and separately the Chinese market in our Thermal business. This will establish the right structures, capabilities, sales processes and incentives for those teams.
5. ***Increase investment in people management and development.*** During 2016 we have strengthened the senior leadership population in the group and made good progress in understanding the capabilities of our scientists and started to define the roles and career paths for our materials science personnel. We have defined the leadership behaviours we need across the group to deliver the strategy and deliver more resilient financial performance and faster growth, and will be introducing these in the first quarter of 2017.
6. ***Simplify the business.*** We have recently announced two divestments that will materially simplify the Electrical Carbon and Technical Ceramics global business units. Additionally, the Group will close a small electro-ceramics site in the USA. These divestments see the group exiting businesses where we are sub-scale and where there is limited synergy with the remainder of the group and enable a sharpened focus on our core business areas in both of these global business units.

Commenting on the results for Morgan Advanced Materials, Chief Executive Officer, Pete Raby said:

"We are making good progress with the implementation of our strategy and have delivered a solid set of results in a difficult market.

Looking forward to 2017, we are expecting the challenging market conditions to continue and we have planned prudently as a result. However, we are making operational improvements across our business as part of our strategy execution and this is creating the funds to increase research and development, strengthen our selling capability and add business development resources, all aimed at supporting future growth in key business areas."

For further enquiries:

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There will be an analyst and investor presentation at 09.00 (UK time) today at The Lincoln Centre, 18 Lincoln's Inn Fields WC2A 3ED. A live video webcast and slide presentation of this event will be available on www.morganadvancedmaterials.com. We recommend you register by 08:45 (UK time).

Basis of preparation

Non-GAAP measures

Throughout this report adjusted measures are used to describe the Group's financial performance. These are not recognised under IFRS or other generally accepted accounting principles (GAAP).

The Group Executive and the Board manage and assess the performance of the business on these measures and believe that they are more representative of ongoing trading, facilitate year-on-year comparisons, and hence provide additional useful information to shareholders.

Throughout this report these non-GAAP measures are clearly identified by an asterisk (*) where they appear in text, and by a footnote when they appear in tables and charts. Definitions of these non-GAAP measures can be found in the glossary of terms.

Operating review

	Revenue		**EBITA(1)**		**Margin %**	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 %**	2015 %
Thermal Ceramics	**413.3**	372.4	**55.0**	55.2	**13.3%**	14.8%
Molten Metal Systems	**43.5**	39.7	**6.7**	5.3	**15.4%**	13.4%
Thermal Products Total	**456.8**	412.1	**61.7**	60.5	**13.5%**	14.7%
Electrical Carbon	**156.2**	145.6	**19.7**	19.3	**12.6%**	13.3%
Seals and Bearings	**97.7**	88.6	**14.2**	9.9	**14.5%**	11.2%
Technical Ceramics	**248.1**	237.8	**26.6**	26.1	**10.7%**	11.0%

Carbon and Technical Ceramics Total	**502.0**	472.0	**60.5**	55.3	**12.1%**	11.7%
Composites and Defence Systems	**30.4**	27.7	**1.1**	(1.0)	**3.6%**	(3.6)%
	989.2	911.8				
Divisional EBITA(1)			**123.3**	114.8		
Corporate costs			**(5.4)**	(5.2)		
Group EBITA(1)			**117.9**	109.6	**11.9%**	12.0%
Restructuring costs and other items			**(1.0)**	(3.6)		
Group headline operating profit(1)			**116.9**	106.0	**11.8%**	11.6%
Amortisation of intangible assets			**(7.9)**	(7.1)		
Operating profit before specific adjusting items			**109.0**	98.9		
Specific adjusting items included in operating profit			**(1.7)**	(16.0)		
Operating profit			**107.3**	82.9	**10.8%**	9.1%
Net financing costs			**(20.0)**	(18.1)		
Loss on disposal of business			**-**	(6.1)		
Share of profit of associate (net of income tax)			**0.6**	0.3		
Profit before taxation			**87.9**	59.0		

1. Definitions of these non-GAAP measures are provided on page 9.

Thermal Products

Revenue for Thermal Products for 2016 was £456.8 million (2015: £412.1 million), an increase of 10.8% compared with 2015. At constant currency revenue* increased by 0.1% compared to 2015.

Thermal Products EBITA* for 2016 was £61.7 million (2015: £60.5 million), with an EBITA margin* of 13.5% (2015: 14.7%).

Revenue for Thermal Ceramics for the year was £413.3 million (2015: £372.4 million), an increase of 11.0% compared with 2015. Constant currency revenue* increased by 0.1% compared with 2015. The increase was driven by growth in Asia, in particular in Japan, and in Europe, driven by applications in consumer products and medical, as well as projects in iron and steel, and ceramics.

The growth in Asia and Europe was offset by significantly lower activity levels in North America in most industrial markets, a continuation of the environment seen at the end of 2015.

Thermal Ceramics 2016 EBITA* was £55.0 million (2015: £55.2 million) with EBITA margin* declining to 13.3% (2015: 14.8%), driven by geographical mix effects.

Revenue for Molten Metals Systems for the year was £43.5 million (2015: £39.7 million), an increase of 9.6% compared with 2015. Constant currency revenue* remained unchanged year-on-year, due to weak activity in the automotive (aluminium) and construction (copper) end markets.

Molten Metal Systems 2016 EBITA* was £6.7 million (2015: £5.3 million) with EBITA margin* of 15.4% (2015: 13.4%), reflecting the benefits from operational improvements.

Carbon and Technical Ceramics

Revenue for 2016 was £502.0 million (£472.0 million), an increase of 6.4% compared with 2015. Constant currency revenue* decreased by 3.5% year-on-year.

Carbon and Technical Ceramics EBITA* for 2016 was £60.5 million (2015: £55.3 million), with an EBITA margin* of 12.1% (2015: 11.7%).

Revenue for Electrical Carbon for the year was £156.2 million (£145.6 million), an increase of 7.3% compared with 2015. Constant currency revenue* decreased by 2.4%.

The North American business was impacted by weak demand from the mining, traction and industrial sectors in particular, general industrial demand was also weaker relative to 2015. Asian revenues were marginally lower against prior year, growth in rail collector revenues was offset by continued weakness in the China wind and general industrial markets.

Electrical Carbon EBITA* was £19.7 million (2015: £19.3 million) with an EBITA margin* of 12.6% (2015: 13.3%). The impact of the reduced volumes was largely, but not fully, offset by operational improvements and other cost savings.

Revenue for Seals and Bearings for the year was £97.7 million (2015: £88.6 million) an increase of 10.3% compared with 2015. Constant currency revenue* increased by 0.4%, with strong sales into the aerospace, automotive and water markets more than offset the impact of the weaker oil and gas market.

Seals and Bearings EBITA* for the year was £14.2 million (2015: £9.9 million) with an EBITA margin* of 14.5% (2015: 11.2%), driven by increased revenue and continued operational improvements.

Revenue for Technical Ceramics was £248.1 million (2015: £237.8 million) an increase of 4.3% compared with 2015. Constant currency revenue* declined by 5.6%, primarily as a result of the completion of a contract to supply electro ceramic components to the hard disk drive market.

Technical Ceramics EBITA* was £26.6 million (2015: £26.1 million) with an EBITA margin* of 10.7% (2015: 11.0%). The decline in the high margin hard disk drive business was partially offset by operational improvements.

Composites and Defence Systems

Revenue for Composites and Defence Systems for the year was £30.4 million, representing an increase of 9.7% compared with £27.7 million in 2015.

EBITA* for Composites and Defence Systems was £1.1 million (2015: £(1.0) million) with an EBITA margin* of 3.6% (2015: -3.6%). The EBITA* improvement reflects the mix of contracts delivered, as well as the benefits from efficiency improvements.

On a statutory basis Composites and Defence Systems reported an operating loss of £8.7 million (2015: £9.0 million loss), due to an impairment charge of £8.5 million. Following the continued reduction in demand in the defence market, a review of the carrying value of the remaining intangible assets of Composites and Defence Systems was carried out, which resulted in the impairment charge, this reflected the full impairment of the remaining technology intangible asset.

Financial review

Group revenue was £989.2 million (2015: £911.8 million), an increase of 8.5% compared with 2015. The increase was as a result of the decline in value of sterling against other currencies, with much of the Group's businesses being denominated in non-sterling currencies. At constant currency revenue* declined by 1.5%.

Group headline operating profit* was £116.9 million (2015: £106.0 million). Headline operating profit margin* was 11.8%, compared to 11.6% for 2015.

Operating profit was £107.3 million (2015: £82.9 million). Operating profit margin was 10.8%, compared to 9.1% for 2015, reflecting a higher level of restructuring costs and impairments in 2015.

Restructuring costs and other items in 2016 were £1.0 million (2015: £3.6 million). In 2016 these costs represent the conclusion of the significant rationalisation of the Carbon Materials footprint, corporate restructuring and a gain on disposal of property within the Carbon business.

Specific adjusting items

	2016 £m	2015 £m
Specific adjusting items		
Restructuring costs	**-**	1.5
Net pension settlement credit	**(6.8)**	-
Business exit costs	**-**	2.8
Impairment of property, plant and equipment	**-**	5.9
Impairment of intangible assets	**8.5**	5.8
Net loss on disposal of business	**-**	6.1
	1.7	22.1
Income tax charge / (credit) from specific adjusting items	**2.8**	(3.3)
	4.5	18.8

Specific adjusting items were a £1.7 million charge (2015: £22.1 million charge), and consisted of two items:

- £6.8 million net pension settlement credit: during 2016 the Group completed the final termination and payment of all earned benefits for one of its North American Defined Benefit Plans. The Group also completed a one-time lump-sum cash out payment to certain former, deferred and vested employees of the Morgan US Employees' Retirement Plan in settlement of the benefits promised by the Group.
- £8.5 million impairment charge: as a result of the continued reduction in demand in the defence market, a review of the carrying value of the remaining intangible assets of Composites and Defence Systems resulted in an impairment charge of £8.5 million.

The Group amortisation charge for 2016 was £7.9 million (2015: £7.1 million).

The net finance charge was £20.0 million (2015: £18.1 million), comprising the net bank interest and similar charges of £13.2 million (2015: £12.2 million), gain from financial instruments of £0.3 million (2015: £1.0 million) and the finance charge under IAS 19 (revised), being the interest charge on pension scheme net liabilities, which was £7.1 million (2015: £6.9 million).

The Group has completed the refinancing of its private placement debt ahead of the current maturities coming due in 2017. The new private placement provides secure long term debt, with lower interest costs.

The Group taxation charge, excluding specific adjusting items, was £26.6 million (2015: £24.2 million). The effective tax rate, excluding specific adjusting items for 2016 was 29.7% (2015: 29.8%).
Headline EPS* was 22.7 pence (2015: 20.8 pence), and basic earnings per share was 18.4 pence (2014: 11.9 pence).

Cash Flow

	2016 £m	2015[(2)] £m
Cash generated from operations	**121.7**	133.9[(2)]
Add back cash flows from restructuring costs and other items	**6.6**	5.5
Cash flow from operations[(1)]	**128.3**	139.4
Net capital expenditure	**(38.4)**	(62.7)
Net interest paid	**(13.1)**	(11.2)
Tax paid	**(22.2)**	(29.9)
Restructuring costs and other items	**(6.6)**	(5.5)
Free cash flow before acquisitions and dividends[(1)]	**48.0**	30.1
Dividends paid to external plc shareholders	**(31.4)**	(31.4)
Net cash flows from other investing and financing activities	**(15.6)**	(2.9)[(2)]
Exchange movement	**(27.5)**	(4.8)
Movement in net debt[(1)] in period	**(26.5)**	(9.0)
Opening net debt[(1)]	**(216.0)**	(207.0)
Closing net debt[(1)]	**(242.5)**	(216.0)

1. Definitions of these non-GAAP measures are provided on page 9.
2. 2015 has been re-presented for the reclassification of £3.8 million of dividends paid to non-controlling interests from 'cash generated from operations' to 'net cash flows from other investing and financing activities'.

Cash flow from operations* was £128.3 million (2015: £139.4 million) reflecting a working capital outflow following a strong end of year performance in 2015; significantly lower net capital expenditure, primarily due to the one-off purchase of the Swansea site in the first half of 2015; and lower tax paid as a result of the shift in profit expectations from the business in the second half of 2015.

Free cash flow before acquisitions and dividends* was £48.0 million (2015: £30.1 million). Net debt* at 31 December 2016 was £242.5 million (31 December 2015: £216.0 million) representing a net debt to EBITDA ratio* of 1.6 times (2015: 1.6 times).

Defined benefit pension plans

The Group pension deficit has increased by £66.6 million since last year end to £271.1 million on an IAS 19 basis due to lower discount rates and the weakening of sterling against the US dollar and the euro.

- The UK schemes deficit increased by £63.1 million to £180.5 million (2015: £117.4 million), mainly as a result of the discount rate reducing to 2.62% (2015: 3.70%).
- The US schemes deficit decreased by £6.1 million to £49.0 million (2015: £55.1 million), as settlement gains, employer contributions and investment gains more than offset changes in assumptions and exchange rate adjustments. The discount rate on US schemes reduced to 4.16% (2015: 4.50%).
- The European schemes deficit increased by £9.2 million to £37.5 million (2015: £28.3 million), with approximately 50% of the deterioration due to exchange rate adjustments, with the remainder due to changes in assumptions, service costs and interest charges. The discount rate on European schemes reduced to 1.6% (2015: 2.3%).

Foreign exchange

The principal exchange rates used in the translation of the results of overseas subsidiaries were as follows:

	2016		2015	
GBP to:	**Closing rate**	**Average rate**	Closing rate	Average rate
US dollar	**1.23**	**1.35**	1.47	1.53
Euro	**1.17**	**1.22**	1.36	1.38

For illustrative purposes, the table below provides details of the impact on 2016 revenue and Group EBITA* if the actual reported results, calculated using 2016 average exchange rates, were restated for GBP weakening by 10 cents against USD in isolation and 10 cents against the Euro in isolation:

Increase in 2016 revenue/Group EBITA(1) if:	**Revenue £m**	**Group EBITA(1) £m**
GBP weakens by 10c against the US dollar in isolation	+29.0	+3.7
GBP weakens by 10c against the Euro in isolation	+20.6	+2.8

1. A definition of this non-GAAP measure is provided on page 9.

Final dividend

The Board is recommending a final dividend, subject to shareholder approval, of 7.0 pence per share on the ordinary share capital of the Group, payable on 26 May 2017 to ordinary shareholders on the register at the close of business on 5 May 2017. Together with the interim dividend of 4.0 pence per share paid on 25 November 2016, this final dividend, if approved by shareholders, brings the total distribution for the year to 11.0 pence per share (2015: 11.0 pence). A total dividend of 11.0 pence per share represents a dividend cover of headline EPS* 2.1 times in 2016.

Glossary of terms

Book-to-bill ratio	The Book-to-bill ratio is the ratio of orders received to sales in the period.
Cash flow from operations*	Cash generated from operations before cash flows from restructuring costs and other items.
Constant currency	Constant currency revenue and Group headline operating profit is derived by translating the prior year results at current year average exchange rates.
Corporate costs	Corporate costs consist of the cost of the central head office.
Free cash flow before acquisitions and dividends*	Cash generated from operations less net capital expenditure, net interest paid and tax paid.
Group earnings before interest, tax and amortisation (EBITA)*	EBITA is defined as operating profit before specific adjusting items and amortisation of intangible assets. Segment - Divisional and global business unit - EBITA is stated before unallocated corporate costs.
Group earnings before interest, tax, depreciation and amortisation (EBITDA)*	EBITDA is defined as operating profit before specific adjusting items, amortisation of intangible assets, restructuring costs and other items, and depreciation.
Group headline operating profit*	Operating profit adjusted to exclude specific adjusting items and amortisation of intangible assets.
Headline earnings per share (EPS)*	Headline earnings per share is defined as operating profit adjusted to exclude specific adjusting items and amortisation of intangible assets, plus share of profit of associate less net financing costs, income tax expense and non-controlling interests, divided by the weighted average number of ordinary shares during the period.
Net debt*	Interest-bearing loans and borrowings, bank overdrafts less cash and cash equivalents.
Net debt to EBITDA ratio*	This is calculated as net debt divided by EBITDA for the year.
Restructuring costs and other items	Include the costs of restructuring activity and gain on disposal of property.
Specific adjusting items	Items disclosed separately due to their nature and value to allow the reader to obtain a proper understanding of the

financial information and the best indication of underlying performance of the Group.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Note	Results before specific adjusting items 2016 £m	Specific adjusting items[1] 2016 £m	Total 2016 £m	Results before specific adjusting items 2015 £m	Specific adjusting items[1] 2015 £m	Total 2015 £m
Revenue	2	**989.2**	**-**	**989.2**	911.8	-	911.8
Operating costs before restructuring costs and other items and amortisation/impairment of intangible assets		**(871.3)**	**-**	**(871.3)**	(802.2)	-	(802.2)
Profit from operations before restructuring costs and other items and amortisation/impairment of intangible assets		**117.9**	**-**	**117.9**	109.6	-	109.6
Restructuring costs and other items:							
Restructuring costs		**(1.5)**	**-**	**(1.5)**	(4.1)	(1.5)	(5.6)
Net pension settlement credit		**-**	**6.8**	**6.8**	-	-	-
Business exit costs		**-**	**-**	**-**	-	(2.8)	(2.8)
Impairment of property, plant and equipment		**-**	**-**	**-**	-	(5.9)	(5.9)
Gain on disposal of properties		**0.5**	**-**	**0.5**	0.5	-	0.5
Profit from operations before amortisation/impairment of intangible assets	2	**116.9**	**6.8**	**123.7**	106.0	(10.2)	95.8
Amortisation of intangible assets		**(7.9)**	**-**	**(7.9)**	(7.1)	-	(7.1)
Impairment of intangible assets		**-**	**(8.5)**	**(8.5)**	-	(5.8)	(5.8)
Operating profit	2	**109.0**	**(1.7)**	**107.3**	98.9	(16.0)	82.9
Finance income		**2.3**	**-**	**2.3**	2.5	-	2.5
Finance expense		**(22.3)**	**-**	**(22.3)**	(20.6)	-	(20.6)
Net financing costs	4	**(20.0)**	**-**	**(20.0)**	(18.1)	-	(18.1)
Loss on disposal of business	3	**-**	**-**	**-**	-	(6.1)	(6.1)
Share of profit of associate (net of income tax)		**0.6**	**-**	**0.6**	0.3	-	0.3
Profit before taxation		**89.6**	**(1.7)**	**87.9**	81.1	(22.1)	59.0
Income tax expense	5	**(26.6)**	**(2.8)**	**(29.4)**	(24.2)	3.3	(20.9)
Profit for the period		**63.0**	**(4.5)**	**58.5**	56.9	(18.8)	38.1
Profit for period attributable to:							
Owners of the parent		**56.8**	**(4.5)**	**52.3**	52.3	(18.4)	33.9
Non-controlling interests		**6.2**	**-**	**6.2**	4.6	(0.4)	4.2
		63.0	**(4.5)**	**58.5**	56.9	(18.8)	38.1

1. Details of 'Specific adjusting items' are given in note 3.

CONSOLIDATED INCOME STATEMENT (continued)

for the year ended 31 December 2016

		Note	Total 2016	Total 2015
Basic earnings per share		6		
Continuing operations			**18.4p**	11.9p
Diluted earnings per share				
Continuing operations			**18.3p**	11.9p
Dividends				
Interim dividend	Pence		**4.00p**	4.00p
	£m		**11.4**	11.4
Proposed final dividend	Pence		**7.00p**	7.00p
	£m		**20.0**	20.0

The proposed final dividend is based upon the number of shares outstanding at the balance sheet date.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total parent comprehensive income £m	Non-controlling interests £m	Total comprehensive income £m
2015						
Profit for the period	-	-	33.9	33.9	4.2	38.1
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement gain on defined benefit plans	-	-	1.3	1.3	-	1.3
Tax effect of components of other comprehensive income not reclassified	-	-	(0.9)	(0.9)	-	(0.9)
	-	-	0.4	0.4	-	0.4
Items that may be reclassified subsequently to profit or loss:						
Foreign exchange translation differences	(5.0)	-	-	(5.0)	0.6	(4.4)
Net gain on hedge of net investment in foreign subsidiaries	2.0	-	-	2.0	-	2.0
Cash flow hedges:						
Change in fair value	-	(0.1)	-	(0.1)	-	(0.1)
	(3.0)	(0.1)	-	(3.1)	0.6	(2.5)
Total comprehensive income, net of tax	(3.0)	(0.1)	34.3	31.2	4.8	36.0
2016						
Profit for the period	**-**	**-**	**52.3**	**52.3**	**6.2**	**58.5**
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement loss on defined benefit plans	**-**	**-**	**(68.1)**	**(68.1)**	**-**	**(68.1)**
Tax effect of components of other comprehensive income not reclassified	**-**	**-**	**0.6**	**0.6**	**-**	**0.6**
	-	**-**	**(67.5)**	**(67.5)**	**-**	**(67.5)**
Items that may be reclassified subsequently to profit or loss:						
Foreign exchange translation differences	**37.4**	**-**	**-**	**37.4**	**5.5**	**42.9**
Net loss on hedge of net investment in foreign subsidiaries	**(17.7)**	**-**	**-**	**(17.7)**	**-**	**(17.7)**
Cash flow hedges:						
Change in fair value	**-**	**(3.7)**	**-**	**(3.7)**	**-**	**(3.7)**
Transferred to profit or loss	**-**	**0.8**	**-**	**0.8**	**-**	**0.8**
	19.7	**(2.9)**	**-**	**16.8**	**5.5**	**22.3**
Total comprehensive income, net of tax	**19.7**	**(2.9)**	**(15.2)**	**1.6**	**11.7**	**13.3**

CONSOLIDATED BALANCE SHEET
as at 31 December 2016

	Note	**2016 £m**	2015 £m
Assets			
Property, plant and equipment		**303.7**	256.7
Intangible assets		**240.4**	229.8
Investments		**6.0**	5.4
Other receivables		**4.7**	5.3
Deferred tax assets		**6.1**	4.4
Total non-current assets		**560.9**	501.6
Inventories		**148.2**	129.2
Derivative financial assets		**2.1**	2.0
Trade and other receivables		**205.7**	174.4
Cash and cash equivalents	7	**122.4**	49.8
Total current assets		**478.4**	355.4
Total assets		**1,039.3**	857.0
Liabilities			
Interest-bearing loans and borrowings	7	**204.0**	257.4
Employee benefits: pensions	8	**271.1**	204.5
Provisions		**2.3**	1.6
Non-trade payables		**1.8**	0.7
Derivative financial liabilities		**0.3**	-
Deferred tax liabilities		**8.3**	2.3
Total non-current liabilities		**487.8**	466.5
Interest-bearing loans and borrowings and bank overdrafts	7	**160.9**	8.4
Trade and other payables		**192.5**	168.6
Current tax payable		**16.6**	14.4
Provisions		**5.8**	10.4
Derivative financial liabilities		**11.0**	2.3
Total current liabilities		**386.8**	204.1
Total liabilities		**874.6**	670.6
Total net assets		**164.7**	186.4
Equity			
Share capital		**71.8**	71.8

	2016	2015
Share premium	**111.7**	111.7
Reserves	**46.8**	30.0
Retained earnings	**(109.5)**	(63.7)
Total equity attributable to equity owners of parent Company	**120.8**	149.8
Non-controlling interests	**43.9**	36.6
Total equity	**164.7**	186.4

The financial statements were approved by the Board of Directors on 23 February 2017 and were signed on its behalf by:

Pete Raby, Chief Executive Officer **Peter Turner**, Chief Financial Officer

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

	Share capital £m	Share premium £m	Translation reserve £m	Hedging Reserve £m	Fair value reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2015	71.8	111.7	(13.5)	0.5	(1.0)	35.7	11.4	(65.4)	151.2	36.5	187.7
Profit for the year	-	-	-	-	-	-	-	33.9	33.9	4.2	38.1
Other comprehensive income	-	-	(3.0)	(0.1)	-	-	-	0.4	(2.7)	0.6	(2.1)
Transactions with owners:											
Dividends	-	-	-	-	-	-	-	(31.4)	(31.4)	(3.8)	(35.2)
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	1.7	1.7	-	1.7
Own shares acquired for share incentive schemes	-	-	-	-	-	-	-	(2.9)	(2.9)	-	(2.9)
Adjustment arising from change in non-controlling interest	-	-	-	-	-	-	-	-	-	(0.9)	(0.9)
Balance at 31 December 2015	71.8	111.7	(16.5)	0.4	(1.0)	35.7	11.4	(63.7)	149.8	36.6	186.4
Balance at 1 January 2016	**71.8**	**111.7**	**(16.5)**	**0.4**	**(1.0)**	**35.7**	**11.4**	**(63.7)**	**149.8**	**36.6**	**186.4**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**52.3**	**52.3**	**6.2**	**58.5**
Other comprehensive income	**-**	**-**	**19.7**	**(2.9)**	**-**	**-**	**-**	**(67.5)**	**(50.7)**	**5.5**	**(45.2)**
Transactions with owners:											
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(31.2)**	**(31.2)**	**(4.4)**	**(35.6)**
Equity-settled share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.8**	**0.8**	**-**	**0.8**
Own shares acquired for share incentive schemes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**(0.2)**
Balance at 31 December 2016	**71.8**	**111.7**	**3.2**	**(2.5)**	**(1.0)**	**35.7**	**11.4**	**(109.5)**	**120.8**	**43.9**	**164.7**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Note	2016 £m	2015[1] £m
Operating activities			
Profit for the period		**58.5**	38.1
Adjustments for:			
Depreciation	2	**29.5**	27.1
Amortisation	2	**7.9**	7.1
Net financing costs	4	**20.0**	18.1
Loss on disposal of business	3	**-**	6.1
Share of profit from associate (net of income tax)		**(0.6)**	(0.3)
Profit on sale of property, plant and equipment		**(0.4)**	(0.4)
Income tax expense	5	**29.4**	20.9
Non-cash operating costs relating to restructuring		**-**	0.2
Non-cash specific adjusting items included in operating profit		**1.1**	15.5
Equity-settled share-based payment expenses		**0.8**	1.4
Cash generated from operations before changes in working capital and provisions		**146.2**	133.8
(Increase)/decrease in trade and other receivables		**(6.1)**	15.5
Decrease/(increase) in inventories		**1.4**	(4.7)
(Decrease)/increase in trade and other payables		**(0.1)**	5.7[1]
Decrease in provisions		**(5.2)**	(3.4)
Payments to defined benefit pension plans		**(14.5)**	(13.0)
Cash generated from operations		**121.7**	133.9
Interest paid		**(15.3)**	(13.4)
Income tax paid		**(22.2)**	(29.9)
Net cash from operating activities		**84.2**	90.6

Investing activities

Purchase of property, plant and equipment		**(39.5)**	(63.5)
Forward contracts used in net investment hedging		**(12.3)**	4.9
Purchase of investments		**(1.0)**	-
Proceeds from sale of property, plant and equipment		**1.1**	0.8
Loan repaid by associate		**2.1**	-
Interest received		**2.2**	2.2
Loan made to purchaser of business		**-**	(1.5)
Disposal of subsidiaries, net of cash disposed		**-**	(0.1)
Investment made by non-controlling interests		**-**	0.5
Net cash from investing activities		**(47.4)**	(56.7)
Financing activities			
Purchase of own shares for share incentive schemes		**(0.2)**	(2.9)
Net increase/(decrease) in borrowings	7	**63.4**	(8.5)
Payment of finance lease liabilities	7	**(0.3)**	(0.2)
Dividends paid to external plc shareholders		**(31.4)**	(31.4)
Proceeds from unclaimed dividends		**0.2**	-
Dividends paid to non-controlling interests		**(4.4)**	(3.8)[1]
Net cash from financing activities		**27.3**	(46.8)
Net increase in cash and cash equivalents		**64.1**	(12.9)
Cash and cash equivalents at start of period		**49.8**	63.0
Effect of exchange rate fluctuations on cash held		**8.5**	(0.3)
Cash and cash equivalents at period end	7	**122.4**	49.8

A reconciliation of cash and cash equivalents to net borrowings is shown in note 7.

1. 2015 has been re-presented for the reclassification of £3.8 million of dividends paid to non-controlling interests from '(decrease)/increase in trade and other payables' to 'dividends paid to non-controlling interests'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The preliminary announcement for the year ended 31 December 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as issued by the International Accounting Standards Board. There has been no significant impact arising from new accounting policies adopted in the year.

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 31 December 2015. Statutory accounts for the year ended 31 December 2015 have been delivered to the registrar of companies, and those for the year ended 31 December 2016 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006 in respect of the accounts for 2016 and 2015.

Going Concern

The Group meets its day-to-day working capital requirements through local banking arrangements underpinned by the Group's £200 million unsecured multi-currency revolving credit facility maturing October 2019. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and exchange rates, show the Group operating comfortably within its debt financial covenants for the next 12 months.

The current economic climate continues to have an impact on the Group, its customers and suppliers. The Board fully recognises the challenges that lie ahead but, after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated statements for the year ended 31 December 2016.

Non-GAAP measures

Where non-GAAP measures have been referenced these have been identified by an asterisk (*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Segment reporting

The Group reports as two Divisions and six global business units, which have been identified as the Group's reportable operating segments. These have been identified on the basis of internal management reporting information that is regularly reviewed by the Group's Board of Directors (the Chief Operating Decision Maker) in order to allocate resources and assess performance.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related income, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

	Segment totals		**Corporate costs**		**Group**	
	2016 £m	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m
Revenue from external customers	**989.2**	911.8	**-**	-	**989.2**	911.8
Divisional EBITA*	**123.3**	114.8	**-**	-	**123.3**	114.8

Corporate costs			(5.4)	(5.2)	(5.4)	(5.2)
Group EBITA*					117.9	109.6
Restructuring costs and other items	0.2	(2.2)	(1.2)	(1.4)	(1.0)	(3.6)
Group headline operating profit*					116.9	106.0
Amortisation of intangible assets	(7.9)	(7.1)	-	-	(7.9)	(7.1)
Operating profits before specific adjusting items					109.0	98.9
Specific adjusting items included in operating profit[1]	(8.5)	(16.0)	6.8	-	(1.7)	(16.0)
Operating profit/(loss)	107.1	89.5	0.2	(6.6)	107.3	82.9
Finance income					2.3	2.5
Finance expense					(22.3)	(20.6)
Loss on disposal of business					-	(6.1)
Share of profit of associate (net of income tax)					0.6	0.3
Profit before taxation					87.9	59.0
Segment assets	904.9	795.9	134.4	61.1	1,039.3	857.0
Segment liabilities	189.1	169.4	685.6	501.2	874.7	670.6
Segment capital expenditure	39.5	63.5	-	-	39.5	63.5
Segment depreciation	29.5	27.1	-	-	29.5	27.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Segment reporting (continued)

	Thermal Ceramics		Molten Metal Systems		**Thermal Products Division**		Electrical Carbon		Seals and Bearings		Technical Ceramics		**Carbon & Technical Ceramics Division**		Composites & Defence Systems		**Segment totals**	
	2016 £m	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m	**2016 £m**	2015[2] £m
Revenue	413.3	372.4	43.5	39.7	456.8	412.1	156.2	145.6	97.7	88.6	248.1	237.8	502.2	472.0	30.4	27.7	989.2	911.8
Divisional EBITA*	55.0	55.2	6.7	5.3	61.7	60.5	19.7	19.3	14.2	9.9	26.6	26.1	60.5	55.3	1.1	(1.0)	123.3	114.8
Restructuring costs and other items	0.1	(0.1)	-	-	0.1	(0.1)	(0.1)	(0.7)	0.1	(0.7)	-	(0.4)	-	(1.8)	0.1	(0.3)	0.2	(2.2)
Amortisation of intangible assets	(1.5)	(1.8)	(0.1)	(0.2)	(1.6)	(2.0)	(0.4)	(0.3)	(0.3)	(0.2)	(4.2)	(2.7)	(4.9)	(3.2)	(1.4)	(1.9)	(7.9)	(7.1)
Specific adjusting items included in operating profit[1]	-	(2.8)	-	-	-	(2.8)	-	(3.9)	-	(3.5)	-	-	-	(7.4)	(8.5)	(5.8)	(8.5)	(16.0)
Operating profit/(loss)	53.6	50.5	6.6	5.1	60.2	55.6	19.2	14.4	14.0	5.5	22.4	23.0	55.6	42.9	(8.7)	(9.0)	107.1	89.5
Segment assets	417.8	359.4	42.2	38.1	460.0	397.5	154.9	132.4	86.1	74.0	188.1	169.4	429.1	375.8	15.8	22.6	904.9	795.9
Segment liabilities	88.5	74.6	7.5	7.0	96.0	81.6	30.0	27.4	18.2	16.0	37.0	35.0	85.2	78.4	7.9	9.4	189.1	169.4
Segment capital expenditure	17.7	24.4	2.1	2.3	19.8	26.7	8.3	19.8	4.4	5.8	6.5	10.7	19.2	36.3	0.5	0.5	39.5	63.5
Segment depreciation	10.8	9.7	1.7	1.5	12.5	11.2	4.9	4.5	4.3	4.1	7.3	6.9	16.5	15.5	0.5	0.4	29.5	27.1

1. Details of 'specific adjusting items' are given in note 3.
2. The information presented above represents the operating segments of the Group. The tables above show restated comparative figures for the operating segments for 2015. The restatements reflect the impact of the changes the Group made to its internal organisation during 2016, which caused the composition of its reportable segments to change.

During 2016 the Group recognised impairment losses totalling £8.5 million in the Composite and Defence Systems reportable operating segment, which has been recognised in the 'Impairment of intangible assets' line of the income statement. During 2015 the Group recognised impairment losses totalling £3.5 million in the Seals & Bearings reportable operating segment and £2.4 million in the Electrical Carbon reportable operating segment, which has been recognised in the 'Impairment of property, plant and equipment' line of the income statement, impairment losses totalling £5.8 million in the Composite and Defence Systems reportable operating segment, which has been recognised in the 'Impairment of intangible assets' line of the income statement and further impairment losses totalling £0.7 million in the Electrical Carbon reportable operating segment, which has been recognised in 'Restructuring costs' line of the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Segment reporting (continued)

	Revenue from external customers		Non-current assets (excluding tax and financial instruments)	
	2016 £m	2015 £m	**2016 £m**	2015 £m
USA	342.5	323.8	215.0	186.5
China	82.9	75.7	66.1	56.8
Germany	74.5	64.6	50.5	44.5
UK (the Group's country of domicile)	67.6	64.0	120.6	129.7
France	31.2	29.9	14.9	17.3
Other Asia, Australasia, Middle East and Africa	186.2	162.9	50.8	30.4
Other Europe	140.8	130.8	21.3	18.4
Other North America	31.6	32.2	5.6	5.4
South America	31.9	27.9	10.0	8.2
	989.2	911.8	554.8	497.2

Revenue from external customers is based on geographic location of the end-customer. Segment assets are based on geographical location of the assets. No customer represents greater than 10% of revenue.

Segment revenue by product

	2016	2015
	£m	£m
Industrial	**449.2**	398.3
Transportation	**214.3**	197.9
Petrochemical	**84.2**	79.5
Energy	**66.2**	61.7
Security and Defence	**62.6**	58.6
Electronics	**57.2**	63.7
Healthcare	**55.5**	52.1
	989.2	911.8

Intercompany sales to other segments

	Thermal Ceramics		Molten Metal Systems		**Thermal Products Division**		Electrical Carbon		Seals and Bearings		Technical Ceramics		**Carbon & Technical Ceramics Division**		Composites & Defence Systems	
	2016	2015[1]	**2016**	2015[1]	**2016**	2015[1]	**2016**	2015[1]	**2016**	2015[1]	**2016**	2015[1]	**2016**	2015[1]	**2016**	2015[1]
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Intercompany sales	**0.1**	0.3	**0.1**	0.1	**0.2**	0.4	**1.0**	0.8	**0.4**	0.5	**0.2**	0.3	**1.6**	1.6	**-**	-

1. The information presented above represents the operating segments of the Group. The tables above show restated comparative figures for the operating segments for 2015. The restatements reflect the impact of the changes the Group made to its internal organisation during 2016, which caused the composition of its reportable segments to change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Specific adjusting items

The Group separately presents specific adjusting items in the consolidated income statement which, in the Directors' judgment, need to be disclosed separately by virtue of their size and incidence in order for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. These include the financial effect of items which occur infrequently, such as major individual restructuring projects.
In 2016 and 2015 restructuring costs related to a major individual project, net pension settlement credit, business exit costs, impairment of plant, property and equipment, impairment of intangible assets and net loss on disposal of businesses are included as specific adjusting items as they meet this criteria.

	2016	2015
	£m	£m
Specific adjusting items:		
Restructuring costs	**-**	1.5
Net pension settlement credit	**(6.8)**	-
Business exit costs	**-**	2.8
Impairment of property, plant and equipment	**-**	5.9
Impairment of intangible assets	**8.5**	5.8
Net loss on disposal of businesses	**-**	6.1
Total specific adjusting items before income tax charge/(credit)	**1.7**	22.1
Income tax charge/(credit) from specific adjusting items	**2.8**	(3.3)
Total specific adjusting items after income tax charge/(credit)	**4.5**	18.8

2016
Net pension settlement credit
The Group has completed the final termination and payment of all earned benefits for one of its North American Defined Benefit Plans.
The Group has also completed a one-time lump-sum cash out payment to certain former, deferred and vested employees of the Morgan US Employees' Retirement Plan in settlement of the benefits promised by the Group.
As a result of these changes the Group has recognised a net pension settlement credit of £6.8 million, after deduction of transaction costs. An income tax charge of £2.8 million was recognised in respect of the net pension settlement credit.

Impairment of intangible assets
As a result of the continued reduction in demand in the defence market, a review of the carrying value of the remaining intangible assets of Composites and Defence Systems resulted in an impairment charge of £8.5 million, relating to a full impairment of the Composites and Defence Systems technology intangible asset. This impairment was calculated by looking at the fair value of the assets less cost of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Specific adjusting items (continued)

2015
Restructuring costs
As reported in 2014, the strategic objective to drive the performance of the Electrical Carbon and Seals and Bearings businesses to mid-teen margins and beyond has resulted in the Group undertaking a significant rationalisation of the carbon material footprint. This started in 2014 with the downsizing of activities at the Swansea, UK site. This footprint rationalisation has continued in 2015 with the decision to and the announcement of the cessation of carbon material manufacturing at the Shanghai, China site. These operations will be consolidated into other Group locations, mainly the USA. This decision has resulted in a charge of £1.5 million in 2015, £0.7 million of which relates to the impairment loss on plant and equipment and the balance to site clean-up costs and other write-offs. An income tax credit of £0.2 million was recognised in respect of these restructuring costs.

Business exit costs
The business exit costs in 2015 relate to the deconsolidation of Thermal Ceramics Sukhoy Log Limited Liability Company ('Sukhoy') and the subsequent remeasurement to fair value of the retained investment. In April 2006 the Group acquired a 51% shareholding in Sukhoy, a fibre business based near Yekaterinburg, Russia. The results and assets of Sukhoy have previously been consolidated on the basis that the Group was satisfied that it exercised management control. During 2015 there has been a deterioration in the relationship between Morgan and the minority partner, exacerbated by the increasingly difficult market conditions in Russia. As a result, it became clear to the Group towards the end of 2015 that it no longer had effective control of the business and that it was no longer appropriate to consolidate. Based on the recent financial performance and the Group's view of the future prospects of the business it was concluded that the value of the Group's investment in Sukhoy is nil. As a result the Group has recognised a £2.8 million charge in business exit costs in the 2015 accounts.

Impairment of property, plant and equipment
The impairment of property, plant and equipment in 2015 is as a result of a review of the carrying value of assets that support the Group's North America vehicle and personal protection and high-temperature furnace-lining businesses. Both of these businesses saw significant growth and investment in previous years but more recently they have been in decline. The Group has compared its expected future cash flows from these businesses with the book value of the property, plant and equipment that is dedicated to them and determined that a total impairment charge of £5.9 million is required. An income tax credit of £2.1 million was recognised in respect of the impairment charge. The £5.9 million of impairment loss forms part of the total plant and equipment impairment loss of £6.6 million.

Impairment of intangible assets
As a result of the continued reduction in demand on Composites and Defence Systems from UK MoD, the review of the carrying value of the remaining intangible assets of Composites and Defence Systems resulted in a further impairment charge of £5.8 million in 2015, relating to a full impairment of the customer relationships. Following this impairment charge, the carrying value of the Composites and Defence Systems intangibles was £9.8 million, all in respect of technology. This was supported by the current expectations of the future trading performance of the Composites and Defence Systems business. An income tax credit of £1.0 million was recognised in respect of the impairment charge.

Loss on disposal of business
As reported in the 2014 Annual Report and Accounts, on 30 January 2015 the Group completed the sale of a Thermal Ceramics business in Wissembourg, France. This business manufactures low-temperature fibre boards used mainly in the building industry. The Group has incurred a loss on the disposal of this business of £6.1 million in 2015, in addition to the £1.9 million of business exit costs recognised in the 2014 accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Net finance income and expense

	2016	2015
	£m	£m
Recognised in profit or loss		
Amounts derived from financial instruments	**0.3**	1.0
Interest income on bank deposits measured at amortised cost	**2.0**	1.5
Finance income	**2.3**	2.5
Interest expense on financial liabilities measured at amortised cost	**(15.2)**	(13.7)
Net interest on IAS 19 obligations	**(7.1)**	(6.9)
Finance expense	**(22.3)**	(20.6)
Net financing costs recognised in profit or loss	**(20.0)**	(18.1)
Recognised directly in equity		
Cash flow hedges:		
Effective portion of changes in fair value of cash flow hedges	**(3.7)**	(0.1)
Transferred to profit or loss	**0.8**	-
Effective portion of change in fair value of net investment hedge	**(17.7)**	2.0
Foreign currency translation differences for foreign operations	**37.4**	(5.0)
	16.8	(3.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Taxation - income tax expense

Recognised in the income statement

	2016	2015
	£m	£m
Current tax		
Current year	**27.8**	22.2
Adjustments for prior years	**(3.3)**	(4.9)
	24.5	17.3
Deferred tax		
Current year	**1.6**	1.7
Adjustments for prior years	**3.3**	1.9
	4.9	3.6
Total income tax expense in income statement	**29.4**	20.9

Reconciliation of effective tax rate	**2016**	**2016**	2015	2015
	£m	**%**	£m	%
Profit before tax	**87.9**		59.0	
Income tax using the domestic corporation tax rate	**17.6**	**20.0**	11.9	20.2
Effect of different tax rates in other jurisdictions	**8.8**	**10.0**	6.9	11.7
Local taxes including withholding tax suffered	**3.3**	**3.7**	3.1	5.3
Permanent differences	**1.5**	**1.7**	1.6	2.7
Movements related to unrecognised temporary differences	**(1.5)**	**(1.7)**	1.6	2.7
Adjustments in respect of prior years	**-**	**-**	(3.0)	(5.1)
Other	**(0.3)**	**(0.3)**	(1.2)	(2.0)
	29.4	**33.4**	20.9	35.5
Income tax recognised directly in equity				
Tax effect on components of other comprehensive income:				
Deferred tax associated with defined benefit schemes and share schemes	**(0.6)**		0.9	
Total tax recognised directly in equity	**(0.6)**		0.9	

The effective rate of tax before specific adjusting items is 29.7% (2015: 29.8%).

The prior year adjustments in 2016 principally relate to the true up of tax provisions to tax returns and includes the release of a tax provision whilst the prior year adjustments in 2015 are mainly in respect of true up of tax provisions to tax returns and settlement of tax audits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Earnings per share

The calculation of basic/diluted earnings per share from continuing operations at 31 December 2016 was based on the net profit attributable to equity shareholders of £52.3 million (2015: £33.9 million), and a weighted average number of shares outstanding during the year of 284.9 million (2015: 285.1 million). The calculation of the weighted average number of shares excludes the shares held by The Morgan General Employee Benefit Trust, on which the dividends are waived.

Headline earnings per ordinary share* is defined as operating profit adjusted to exclude specific adjusting items and amortisation of intangible assets, plus share of profit of associate less net financing costs, income tax expense and non-controlling interests, divided by the weighted average number of ordinary shares during the period. This measure of earnings is shown because the Directors consider that they give a better indication of headline performance.

The diluted earnings per share calculation takes into account the dilutive effect of share incentives. The diluted, weighted average number of shares is 285.1 million (2015: 285.5 million). Diluted earnings per share is 18.3 pence (2015: 11.9 pence).

	2016 £m	2015 £m
Profit for the period attributable to equity shareholders	**52.3**	33.9
Specific adjusting items	**1.7**	22.1
Amortisation of intangible assets	**7.9**	7.1
Tax effect of the above	**2.8**	(3.3)
Non-controlling interests' share of the above adjustments	**-**	(0.4)
Adjusted profit for the period	**64.7**	59.4

	2016 pence	2015 pence
Earnings per ordinary share	**18.4p**	11.9p
Specific adjusting items	**0.6p**	7.7p
Amortisation of intangible assets	**2.7p**	2.5p
Tax effect of the above	**1.0p**	(1.2)p
Non-controlling interests' share of the above adjustments	**-**	(0.1)p
Headline earnings per share*	**22.7p**	20.8p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Cash and cash equivalents

	2016 £m	2015 £m
Bank balances	**61.4**	38.8
Cash deposits	**61.0**	11.0
Cash and cash equivalents	**122.4**	49.8

Reconciliation of cash and cash equivalents to net debt*

	2016 £m	2015 £m
Opening borrowings	**(265.8)**	(270.0)
Net (increase)/decrease in borrowings[1]	**(63.4)**	8.5
Payment of finance lease liabilities	**0.3**	0.2
Effect of movements in foreign exchange on borrowings	**(36.0)**	(4.5)
Closing borrowings	**(364.9)**	(265.8)
Cash and cash equivalents	**122.4**	49.8
Closing net debt*	**(242.5)**	(216.0)

1. The increase in borrowings in 2016 principally comprises the currency equivalent of £146 million of new private placement debt received in October 2016 less £76 million repaid under the Group's revolving credit facility.

In October 2016 the Group completed a new US private placement amounting to $112 million and €60 million. The new debt extends the Group's debt maturity profile and the proceeds will be used for repayment of the Notes falling due in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2016 £m	**Fair value 2016 £m**	Carrying amount 2015 £m	Fair value 2015 £m

Financial assets and liabilities at amortised cost				
4.32% Euro Senior Notes 2017	**(17.3)**	**(17.5)**	(14.9)	(15.5)
6.12% US Dollar Senior Notes 2017	**(142.1)**	**(146.3)**	(118.8)	(125.5)
6.26% US Dollar Senior Notes 2019	**(60.8)**	**(65.4)**	(50.9)	(56.0)
1.18% Euro Senior Notes 2023	**(21.3)**	**(21.0)**	-	-
3.17% US Dollar Senior Notes 2023	**(12.2)**	**(11.7)**	-	-
1.55% Euro Senior Notes 2026	**(21.4)**	**(20.8)**	-	-
3.37% US Dollar Senior Notes 2026	**(79.0)**	**(73.1)**	-	-
1.74% Euro Senior Notes 2028	**(8.6)**	**(8.3)**	-	-
Bank and other loans	**(1.3)**	**(1.3)**	(80.2)	(80.2)
Obligations under finance leases	**(0.9)**	**(0.9)**	(1.0)	(1.0)
Trade and other payables	**(100.5)**	**(100.5)**	(96.1)	(96.1)
Loans and receivables	**184.5**	**184.5**	155.9	155.9
Cash and cash equivalents	**122.4**	**122.4**	49.8	49.8
	(158.5)	**(159.9)**	(156.2)	(168.6)
Available-for-sale financial instruments				
Available-for-sale financial assets	**0.5**	**0.5**	0.5	0.5
Derivatives and other items at fair value				
Forward exchange contracts used for hedging	**(2.0)**	**(2.0)**	0.5	0.5
Cross-currency swaps used for hedging	**(7.2)**	**(7.2)**	(0.8)	(0.8)
	(167.2)	**(168.6)**	(156.0)	(168.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Employee benefits: pensions

	2016 UK £m	**2016 USA £m**	**2016 Europe £m**	**2016 Rest of World £m**	**2016 Total £m**
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	**-**	**(9.4)**	**(35.9)**	**(2.5)**	**(47.8)**
Present value of funded defined benefit obligations	**(588.7)**	**(146.5)**	**(2.0)**	**(9.8)**	**(747.0)**
Fair value of plan assets	**408.2**	**106.9**	**0.4**	**8.2**	**523.7**
Net obligations	**(180.5)**	**(49.0)**	**(37.5)**	**(4.1)**	**(271.1)**
Movements in present value of defined benefit obligation					
At 1 January 2016	**(500.9)**	**(178.9)**	**(28.7)**	**(14.9)**	**(723.4)**
Current service cost	**(1.9)**	**(0.1)**	**(0.7)**	**(1.6)**	**(4.3)**
Interest cost	**(18.1)**	**(7.7)**	**(0.7)**	**(0.3)**	**(26.8)**
Remeasurement gains/(losses)					
Changes in financial assumptions	**14.4**	**4.4**	**(0.3)**	**(2.2)**	**16.3**
Changes in demographic assumptions	**(105.6)**	**(11.2)**	**(3.8)**	**-**	**(120.6)**
Experience adjustments on benefit obligations	**4.9**	**4.8**	**-**	**-**	**9.7**
Benefits paid	**19.2**	**9.1**	**1.1**	**1.6**	**31.0**
Contributions by members	**(0.7)**	**-**	**-**	**-**	**(0.7)**
Curtailments and settlements	**-**	**53.4**	**-**	**6.4**	**59.8**
Exchange adjustments	**-**	**(29.7)**	**(4.8)**	**(1.3)**	**(35.8)**
At 31 December 2016	**(588.7)**	**(155.9)**	**(37.9)**	**(12.3)**	**(794.8)**
Movements in fair value of plan assets					
At 1 January 2016	**383.5**	**123.8**	**0.4**	**11.2**	**518.9**
Interest on plan assets	**14.0**	**5.4**	**-**	**0.3**	**19.7**
Remeasurement gains	**21.1**	**3.4**	**0.1**	**2.0**	**26.6**
Contributions by employer	**9.0**	**8.7**	**1.0**	**2.1**	**20.8**
Contributions by member	**0.7**	**-**	**-**	**-**	**0.7**
Benefits paid	**(19.2)**	**(9.1)**	**(1.1)**	**(1.6)**	**(31.0)**
Administrative expenses	**(0.9)**	**-**	**-**	**-**	**(0.9)**
Curtailments and settlements	**-**	**(45.9)**	**-**	**(6.5)**	**(52.4)**
Exchange adjustments	**-**	**20.6**	**-**	**0.7**	**21.3**
At 31 December 2016	**408.2**	**106.9**	**0.4**	**8.2**	**523.7**
Actual return on assets	**35.1**	**8.8**	**0.1**	**2.3**	**46.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Employee benefits: pensions (continued)

	2015 UK £m	2015 USA £m	2015 Europe £m	2015 Rest of World £m	2015 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	-	(8.3)	(27.2)	(1.9)	(37.4)
Present value of funded defined benefit obligations	(500.9)	(170.6)	(1.5)	(13.0)	(686.0)
Fair value of plan assets	383.5	123.8	0.4	11.2	518.9
Net obligations	(117.4)	(55.1)	(28.3)	(3.7)	(204.5)
Movements in present value of defined benefit obligation					
At 1 January 2015	(512.4)	(178.8)	(32.1)	(14.0)	(737.3)
Current service cost	(2.5)	-	(0.6)	(1.2)	(4.3)
Interest cost	(18.2)	(7.1)	(0.5)	(0.3)	(26.1)
Remeasurement gains/(losses)					
Changes in financial assumptions	6.7	6.6	1.9	-	15.2
Changes in demographic assumptions	-	-	-	(0.2)	(0.2)
Experience adjustments on benefit obligations	8.8	2.1	(0.2)	0.2	10.9
Benefits paid	17.6	8.3	1.2	0.8	27.9
Contributions by members	(0.9)	-	-	-	(0.9)
Exchange adjustments	-	(10.0)	1.6	(0.2)	(8.6)
At 31 December 2015	(500.9)	(178.9)	(28.7)	(14.9)	(723.4)
Movements in fair value of plan assets					
At 1 January 2015	393.6	120.0	0.5	11.4	525.5
Interest on plan assets	14.1	4.9	-	0.2	19.2
Remeasurement losses	(16.1)	(7.5)	-	(1.0)	(24.6)
Contributions by employer	9.4	7.9	1.1	1.2	19.6
Contributions by member	0.9	-	-	-	0.9
Benefits paid	(17.6)	(8.3)	(1.2)	(0.8)	(27.9)
Administrative expenses	(0.8)	-	-	-	(0.8)
Exchange adjustments	-	6.8	-	0.2	7.0
At 31 December 2015	383.5	123.8	0.4	11.2	518.9
Actual return on assets	(2.0)	(2.6)	-	(0.8)	(5.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Employee benefits: pensions (continued)

Actuarial assumptions were:

	2016 UK %	**2016 USA %**	**2016 Europe %**	**2016 Rest of the World %**
Discount rate	**2.62**	**4.16**	**1.60**	**2.90**
Inflation (UK: RPI/CPI)	**3.20/2.10**	**n/a**	**1.70**	**n/a**
Salary increase	**n/a**	**n/a**	**2.20**	**5.00**
Pensions increase	**3.00/3.10/3.70**	**n/a**	**1.70**	**n/a**
Mortality - post retirement:				
Life expectancy of a male aged 60 in accounting year	**26.8**	**25.1**	**23.7**	**n/a**
Life expectancy of a male aged 60 in accounting year + 20	**28.7**	**26.8**	**26.5**	**n/a**

	2015 UK %	2015 USA %	2015 Europe %	2015 Rest of the World %
Discount rate	3.70	4.50	2.30	2.90
Inflation (UK: RPI/CPI)	3.00/1.80	n/a	1.70	n/a
Salary increase	n/a	n/a	2.20	5.0
Pensions increase	2.90/3.10/3.70	n/a	1.70	n/a
Mortality - post retirement:				
Life expectancy of a male aged 60 in accounting year	26.6	26.2	23.6	n/a
Life expectancy of a male aged 60 in accounting year + 20	28.2	28.0	26.4	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Subsequent events

Since the balance sheet date, the Group has announced the following transactions:

The sale of its global Rotary Transfer Systems business was announced on February 17th 2017. The business is principally located at two manufacturing sites; Antweiler, Germany, and Chalon, France. The sale values the business at €40 million on a cash-free, debt-free basis, with consideration payable in cash at completion, subject to customary closing working capital adjustments. Completion is subject to customary conditions of closing, including merger clearance in Germany. In the year to 31 December 2016, the Rotary business generated €4.7 million of operating profit on €19.5 million of sales. Gross assets at 31 December 2016 were €7.1 million.

The sale of its UK electro-ceramics business was announced on February 22nd 2017. The business comprises two sites at Ruabon and Southampton. The transaction is structured as a sale of the business, assets and goodwill for a consideration of £47 million on a cash-free, debt-free basis, payable in cash on completion and subject to customary working capital adjustments.

In the year ended 31 December 2016, UK Electro-Ceramics generated an operating profit of £6.2 million on revenues of £22.7 million. Gross assets at 31 December 2016 were £7.0million.

There have been no further material subsequent events.

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