

IFRS Annual Report and Accounts 2016



Company Information

YEAR ENDED 31 DECEMBER 2016

DIRECTORS:	A J Langley – Chairman B J Langley B A Watson
SECRETARY:	B A Watson
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REGISTERED IN ENGLAND NUMBER:	1321615
AUDITOR:	Nexia Smith & Williamson Chartered Accountants Statutory Auditor Portwall Place Bristol BS1 6NA England
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Key Highlights

YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December 2016 €'000	Year ended 31 December 2015 €'000
REVENUE	900,925	874,506
OPERATING PROFIT	121,472	104,866
PROFIT BEFORE TAXATION	122,730	106,688
NET ASSETS	587,377	623,639
CASH AND CASH EQUIVALENTS	296,923	329,634
ORDERS ON HAND	288,589	301,221
	No.	No.
EMPLOYEES	4,320	4,266

Chairman's Review

YEAR ENDED 31 DECEMBER 2016



Pre-tax profits up
15% to €122.7m –
a new record.

In the year to 31 December 2016 the group recorded revenues of €900.9 million (2015: €874.5 million) and generated an operating profit of €121.5 million (2015: €104.9 million), resulting in a profit before tax of €122.7 million (2015: €106.7 million). A shareholder dividend of €90.0 million was paid in April. The group has nil debt (2015: nil) and at year end the consolidated cash balance stood at €296.9 million (2015: €329.6 million). Orders on hand were €288.6 million (2015: €301.2 million) at the year end and the group's net assets, €587.4 million (2015: €623.6 million).

2016 saw profits before tax increase by 15%, when compared with 2015, to set a new record. Earnings from our businesses in the US accounted for approximately 20% of the group's profits before tax in 2016. The UK also accounted for about 20%, although only a quarter of that was derived from the UK based businesses, the majority coming from the UK subsidiaries of our German and French divisions. Earnings in other currencies accounted for some 15% of profits, but with 45%, euros remained the principal currency in which the group generated its profits and is the principal reason we report in euros.

BREXIT AND TRUMP

In 2016, much was made in the UK and Europe and beyond, of the UK's decision to leave the European Union (EU) and I am often asked how the so-called 'Brexit' will impact our businesses. Immediately following the Brexit decision in June, the value of sterling fell significantly against all major currencies and currently remains at relatively low levels, particularly so against the US dollar. This must be seen as good news for UK exporters, such as Bradman Lake. The other side of the equation of course is that a weaker pound will ultimately fuel inflation in the UK, as imported goods become more expensive in pound terms, but it is not so long ago that the pound / euro was last at the current level – and lower.

Although the majority of the group's UK profits arose from the UK subsidiaries of our German and French divisions, those businesses compete entirely with other EU based companies, so their relative competitiveness remains unchanged and I think it unlikely that the UK will impose import tariffs on the EU, post Brexit. Even if this did happen there are other more fundamental factors affecting investment decisions, not least business confidence and so far this has remained high in the UK since last June.

The other significant political event in 2016, the election of Donald Trump as 45th President of the United States of America, does have some potential to negatively impact our group's performance going forward, if protectionist rhetoric materialises in the form of trade barriers with the EU. Our US manufacturing operations would no doubt lessen any impact, and as the equipment manufactured by our European companies is market leading for technological reasons, I do expect our earnings in the US to remain reasonably robust in the Trump era.

NEW ACQUISITION

The group today is largely defined by a series of acquisitions completed over the previous fifteen years and since 2001 these have been focused on continental European capital equipment producers. In 2016 we widened the search for further potential targets to the US and in September agreed terms to acquire the business and assets of Active Power Inc, a NASDAQ listed company. This was the group's first transaction effectively taking over a listed company and was completed in November, following regulatory and shareholder approvals. Active Power operates in a similar, but essentially non-competing area, to our Piller division and has been merged into Piller's US subsidiary. Based in Austin, Texas, Active Power produces kinetic energy storage devices, an area with significant growth potential.

MANROLAND SHEETFED DIVISION

Revenue: €314.8m. (2015: €291.9m). Orders on hand: €52.8m. (2015: €79.5m).

Headquarters: Germany. Employees: 1,562.

February 2017 marks the fifth anniversary of our acquiring the sheetfed division of German printing press builder, Manroland AG, together with its worldwide network of more than forty sales and service subsidiaries. Much has been achieved under our stewardship and rather than commenting only on 2016, I would like to also reflect a little on the last five years:

During this period, the business has gone through a deep process of transformation, changing the company's structure, processes and, most importantly, its culture. None of the former Manroland AG board were retained and more than half of the managing directors of the forty-plus sales and service subsidiaries have been replaced. All committees, boards, working groups, steering meetings etc at the headquarters were eliminated on day one and substituted by direct responsibilities from department heads, thereby creating a more direct and streamlined decision making process. Satellite locations have been closed and sold off and production rationalised on to a single site. This has greatly improved efficiency and, although significant headcount reductions have been made, the training of apprentices and graduate intake has continued annually, steadily improving the age profile of the workforce.

During the last five years the business has installed around 500 'Roland' presses around the world, maintained an installed base of several thousands more and applied for 169 new patents. In November 2014 the company launched its next-generation printing press, the Roland 700 *Evolution*.



Roland 700 *Evolution* – the business has installed around 500 presses since 2012.

Developed in just over two years, this was a record time for developing a new press and one previously thought impossible in the industry. The Roland 700 *Evolution* confounded those that said the company had ceased to develop new products and astonished pundits to become the most technologically advanced printing press in the world today, re-affirming Manroland's long-held reputation as the technology leader in offset litho printing.

During this transformation the division has consistently stood on its own feet, generating sufficient cash resources to not only fund the reorganisation of the business and develop new products, but also to do this without any further financial injection, either from Langley or external sources, and in the process, returning the group's initial outlay in its entirety.

The printing industry continues to face many challenges and in 2016 a slow-down in the Chinese market was high amongst them. Increasingly over previous years, China's economic expansion became a pillar upon which all press builders, Manroland included, had become dependent. The Chinese market has slowed in recent years and the slowdown increased further in 2016. In addition, the crisis in the Brazilian economy all but extinguished this emerging market. Other markets for new presses around the world, in some cases dormant for many years, picked up much of the slack and a remarkably strong performance from the company's US and Canadian subsidiaries, together with a very solid performance in Germany, meant that overall the division was profitable in 2016, as it has been in each of the five years under our stewardship.

CHAIRMAN'S REVIEW (CONTINUED) YEAR ENDED 31 DECEMBER 2016

PILLER DIVISION

Revenue: €225.8m (2015: €190.8m). Orders on hand: €112.7m. (2015: €100.5m).
 Headquarters: Germany. Employees: 956.

Piller, our German producer of uninterruptible power supply (UPS) systems, principally for major data centers, was once again the strongest contributor to the group's result. The division, which also produces aircraft ground power equipment and naval military electrical systems, recorded its strongest year, not only since we acquired the business in 2004, but also in its more than 100 years history. Revenues climbed from €190.8 million in 2015 to €225.8 million in 2016 and profits increased accordingly. The division's production facilities in Osterode and Bilshausen were heavily loaded throughout the year. The Bilshausen factory, which received substantial investment a few years ago to increase its capacity for the assembly and test of the very largest UPS systems, fulfilled much of its potential in 2016.

Piller's largest markets, Europe and the USA, continued to see strong growth whereas Russia, the Middle East and Brazil languished. Piller UK did less well than previously, citing a slow down in IT investment in the banking sector, its traditional main-stay. However, Piller Australia had a remarkably strong year and the recently formed subsidiary in India, completed its first large-scale data center project.

The data center sector globally was at its most lively before the crash of 2008, with much of the activity focused on IT hosting and the Cloud. Over half of 2016 projects were in this area and there is some concern amongst Piller management that the sector may be heading towards a correction.

Towards the end of the year Piller acquired Active Power a producer of similar technology, which has an established outpost in China and going forward as part of the Piller group, the Chinese market will continue to be developed and serviced through this subsidiary.

Shanghai Stock Exchange:
 Piller protected.



Piller's successes to date have been without any material level of business from China, the UPS market there, being served mainly by local producers and relatively crude equipment. However, there is an increasing trend in China to invest in leading technology and in 2016 the company secured a cornerstone project to install its UPS technology at the Shanghai Stock Exchange, via its Piller Singapore subsidiary.

In March last year the division launched its new Critical Power Module product in the USA and Europe simultaneously at trade fairs in Las Vegas and Hannover. Healthcare projects also featured in 2016, with a major installation in Sweden, whilst ground power and naval military performed profitably in line with expectations.



Data centers were Piller's main driver in 2016. Healthcare projects also featured: Karolinska in Stockholm is Europe's largest university hospital.

In all it was a monumental year for Piller, but it is sensible to have concerns that the IT sector may be heading towards another Dot-Com style bubble. We acquired the loss making business in the aftermath of the last bubble burst and it took quite some reorganising to restore Piller to good health. However, the division today is not the same as then and much of Piller's success since 2004, is that it has not increased overhead costs unnecessarily as the business has expanded. From today's perspective, 2017 looks set to be another successful year, whether it is quite as monumental as 2016 remains to be seen, but if not, and a market correction does come, I am confident that the business would manage any slow down efficiently.

ARO DIVISION

Revenue: €120.9m. (2015: €127.3m). Orders on hand: €44.0m. (2015: €32.4m).

Headquarters: France. Employees: 531.

ARO is the leading producer of automotive welding equipment in Europe and the US. Based near Le Mans in France and Detroit in the US, this division also experienced another remarkably successful year in 2016, with both European and US automobile producers continuing to invest heavily in new production lines. ARO's presence in China also went from strength to strength and the factories in France, the US and China were all heavily loaded in 2016. Other ARO subsidiaries in Germany, Belgium, Slovakia, Spain and Mexico all contributed to the excellent division result, only ARO Brazil recording a small loss.

So far a downturn in demand for ARO's products has not yet materialised and the division has experienced strong demand for its technology since the early part of the decade. No doubt at some point the investment cycle will turn but there is an increasing trend amongst automobile manufacturers to shorten new model development times and, in striving to reduce vehicle weight, to design in more complex structural assemblies. Aluminium is also increasingly being used in the quest to reduce vehicle weight. Traditionally aluminium components are joined by riveting rather than welding, the metal being notoriously difficult to weld. ARO have been developing aluminium welding technology for several years and 2016 the process was used in full production.

During our tenure of ARO since 2007 this has all translated into strong demand for welding stations. If there is a downturn, ARO is structured such that capacity can be adjusted quickly and without major cost implications. In the meantime the business continues to enjoy remarkable success.

CHAIRMAN'S REVIEW (CONTINUED) YEAR ENDED 31 DECEMBER 2016

CLAUDIUS PETERS DIVISION

Revenue: €106.3m. (2015: €123.7m). Orders on hand: €50.3m (2015: €57.7m).

Headquarters: Germany. Employees: 536.

Claudius Peters, our German plant machinery specialist, performed profitably in line with expectations, albeit on a relatively low level of activity. The sectors in which it operates, principally cement, gypsum, steel and alumina, remain at a low point in their cycle and there is generally a dearth of capital investment in these sectors. A malaise in Brazil and Russia and a slowing of the Chinese economy also continue to affect the division. However, Claudius Peters China performed quite well, buoyed by export projects with Chinese contractors. Claudius Peters France, with projects in North Africa, also performed satisfactorily, Claudius Peters in the US did well and the smaller outposts in the UK, Spain and Italy all generated small profits with only the Brazilian outpost in negative territory. The division's order intake did improve in the final quarter and with commodity prices coming off the bottom there are signs that the climate is improving, although it is too early to call a recovery. In all, the results were satisfactorily in a still much subdued sector.

Claudius Peters' aerospace division, which produces stringers for the Airbus programme, also performed in line with expectations. The company has produced these components for Airbus for over 35 years and is currently discussing a renewed contract.

OTHER BUSINESSES (OBD)

Revenue: €133.1m. (2015: €140.8). Orders on hand: €28.8m. (2015: €31.1m).

Located: United Kingdom, Europe & United States. Employees: 735.

OBD comprises principally of: Druck Chemie, the German print chemicals producer; Bradman Lake, the UK/US food packaging specialist; Clarke Chapman, a UK specialist crane builder, Reader, a blender and packer of cementitious products in the UK and Oakdale Homes, a small UK house builder.

Druck Chemie (DC), which accounts for roughly half of OBD in revenue terms, had a satisfactory year overall, it's subsidiaries in Belgium, Italy, Switzerland, the Czech Republic and Poland all in positive territory. DC in the UK was just short of break even and DC Brazil made a small loss.

Bradman Lake, which represents 25% of OBD revenues, also had a good year overall, although the US operation has consecutively underperformed and management was changed towards the end of the year. Until the Brexit decision in June, Bradman Lake's UK business had struggled somewhat with a strong pound against its mainly European competitors and the second half saw a marked improvement in order intake, following sterling's fall against the euro. The company operates from two locations in the UK and one in the US. The UK location in Bristol has long been inadequate for the business's growing needs and in December a larger factory, just a few miles away, was acquired by the group. The business will move mid-2017, following refurbishment works.

Clarke Chapman, had another satisfactory year on the back of a major nuclear order secured in 2015, whilst Reader stepped up volumes significantly at its new three hectares location, where state-of-the-art plant was commissioned in June. Oakdale Homes was just short of an operating break-even.

OUR PEOPLE

As is customary, no review would be complete without mention of our employees, at year end numbering 4,320 worldwide and I would like to take this opportunity to welcome the good people of Active Power who joined our group in November, together with all other newcomers, to our family of businesses. It is the hard work and diligence of all our employees, that makes the group the success it is today. The results produced by our companies, often substantially exceeding corporate and private equity owned peers, are no accident. They come about by our community knowing that the Langley culture is forged not from short-term profits, or from creating 'shareholder value' by buying and selling companies, but from long-term development of our businesses. I believe that this not only gives our people the will to excel, but also fosters confidence amongst our many customers, suppliers and other stakeholders.

In 2015 we introduced a policy whereby the group equally match any charitable donations made by employees. During the year the divisions matched €60,637 of employee donations to a variety of causes. I have now extended the match funding to include money raised for charity by the immediate family of our employees.

I reported last year, that Manroland in Germany had been approached by the local government to house refugees from Syria, in surplus office accommodation adjacent to the facility. It was a delicate situation: If I agreed to, or declined the request, there were always going to be those who disagreed with my decision. Therefore, I instructed a ballot to be held of all 800 people working at the location. 75% voted in favour and last year the accommodation was modified and the company welcomed 80 refugees displaced by conflict in their home country, to a place of safety.

CONCLUSION & OUTLOOK

2016 was the best performing year since I founded the group in 1975 and is stronger now than at any time in its history. We will continue to operate our existing businesses for the long term, and will continue to seek out acquisition opportunities to develop the group further. Identifying good businesses, that for one reason or another, are under-performing and nurturing them to good health has been the recipe for the group's success so far and I see no reason to change the formula.

Although in 2016 the group derived around a fifth of its profits from operations in the US, these operations are all subsidiaries of our European divisions. Last year we extended the search area for acquisition opportunities to include, as well as Europe, the US.

Whether we secure suitable additions in 2017 remains to be seen. In the meantime I am optimistic that 2017 will be another very satisfactory trading year for the group.

Anthony J Langley

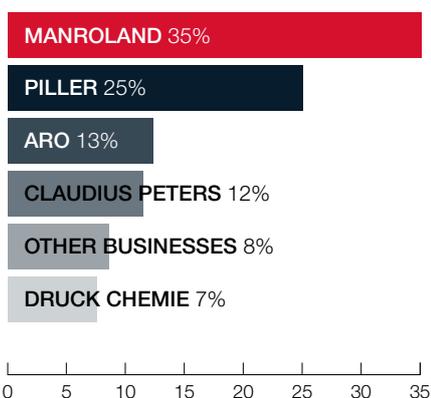
Chairman

9 February 2017

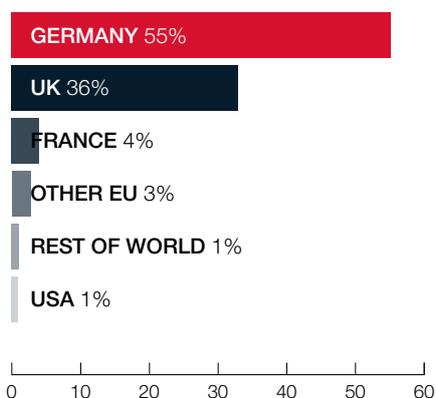
Geographical Distribution

YEAR ENDED 31 DECEMBER 2016

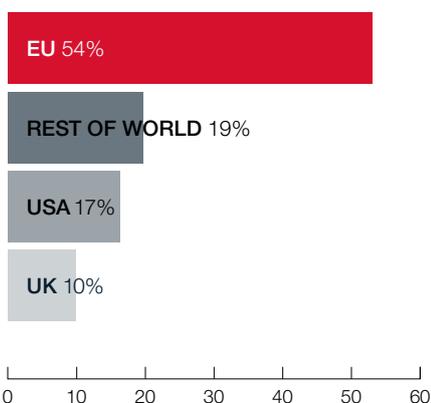
REVENUE BY DIVISION



SITU OF FIXED ASSETS



REVENUE BY ORIGIN



REVENUE BY DESTINATION

