Marel Limited

Annual report and financial statements

Registered number 05772856

31 December 2016

Contents

Strategic Report

The director presents the strategic report, director's report and financial statements for the year ended 31 December 2016.

Principal activities

The company is a subsidiary of Marel hf. The company's principal activity is the manufacture and sale of specialised proprietary equipment for the food processing industry.

Business review

Consolidation of food processors is reducing customer numbers and creating an increasingly competitive and price-sensitive equipment supply market. With processor margins under pressure from retailers, the food hall production environment is driven by the quest for higher yields and processing speeds and less labour. This in turn is pressing equipment manufacturers to increase the pace of R&D and provide advanced automation and new solutions. The fast moving nature of food production results in the need for swift payback from new technology. Another important factor is food safety and therefore, equipment hygiene. The scope for new business opportunities is therefore significant for equipment manufacturers that invest heavily in the development of new products. The position is tempered though, by relative low earnings that limit re-investment in certain parts of the food sector.

The Marel group vision is to be an international leader in developing and marketing high-technology processing equipment for the food processing industry in order to increase the productivity of its customers. The core strategy is to grow and be profitable.

Marel Limited continues to operate successfully and profitably from its base location in Colchester.

The key elements of the company's strategy for growth are:

- A continued focus on technical support / service and consultation with customers.
- A focus on exports, leveraging off opportunities across the Marel global network.

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the company are set out below:

Competition

The company operates in a highly competitive market particularly around price, product availability and product quality. The equipment supply sector is consolidating, resulting in competitors getting bigger and offering more complete solutions. In order to mitigate this risk, the sales team monitors competitors product offerings and market prices on an ongoing basis and the sales, marketing and product development teams play a key role in identifying new product opportunities.

Economic conditions

Current economic conditions inevitably impact on the food processing sector. To mitigate this risk, the company's products are clearly targeted at improving customers' processing efficiency.

The value of sterling against other global currencies is favouring exports and supports our key strategy for growth.

Key performance indicators ('KPIs')

The director monitors progress on the company strategy by reference to the following financial KPIs.

Strategic Report *(continued)*

Performance during the year is set out in the table below:

	2016	2015	Definition, method of calculation and analysis
Gross margin (%)	34.2%	24.6%	Gross margin is the ratio of gross profit to sales expressed as a percentage. Gross margin is in line with expectations given the current competitive environment.
Operating margin before R & D costs (%)	21.3%	14.0%	Operating margin is the ratio of operating profit/(loss) and R & D costs to sales expressed as a percentage. This is continuing to grow year on year through operational excellence as seen below
Operating margin (%)	9.4%	5.5%	Operating margin is the ratio of operating profit/(loss) to sales expressed as a percentage. Operating margin is in line with expectations given the current market conditions.

Whilst the director recognises that fierce competition has continued to put pressure on prices and margins, he believes that continued investment in the product range, with particular emphasis on new technology, will enable the company to maintain and grow its customer base. The director feels the company is well placed to take advantage of the Marel group's presence in the global market place. This will enable the company to be profitable in the years ahead. The key to maintaining a technological lead in the ever increasingly competitive market places in which the company operates is the continued investment in research and development. Whilst this cost is high, the director believes the investment in research and development is integral to the continuing success of the business. The company will continue to introduce and apply new generations of technology to its advanced range of weigh price labellers and checkweighers. This promises greatly increased production performance for processors of poultry, meat, fish, cheese, cured, cooked meats, and a variety of other products and will support their continuing response to the ever increasing demands of customers.

Future Developments
The company have an imminent release of a new product, M360 labelling machine. This new technology will enable us to sell into a new market for universal labellers, using lineless label technology, resulting in zero waste over traditional labellers. The Company is also developing the 9000+ Weigh Price Labeller, which is the next generation of the current 9000 series. The new machines will have advanced features and will allow access into other global markets. The company is constantly reviewing and developing their products with their corporate social responsibilities.

Research & Development
The company are investing heavily into the research and development of the fundamentals of weighing and printing technologies. In order to maintain its position as a market leader, the company needs to continually strive to develop new technologies and ensure its products are looking to the future.

Financial risk management
The company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, interest rate risk and foreign exchange rate risk. The company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the company.

Given the size of the company, the director has not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Strategic Report *(continued)*

Price risk
The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The director will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk
The company has implemented policies that require appropriate credit checks on potential customers before sales are made.

Liquidity risk
The company retains sufficient facilities including access to short and long term funding from its ultimate parent undertaking if required to ensure it has sufficient available funds for operations and planned expansions.

Interest rate cash flow risk
The company has interest bearing liabilities which include floating rate bank overdrafts. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied. The director will revisit the appropriateness of this policy should the company's operations change in size or nature.

Foreign exchange risk

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

By order of the board

K Thorsteinsson
Director

26th September 2017

Director's Report

Proposed dividend

The director does not recommend the payment of a dividend (2015: £nil)

Directors

The director who held office during the year and subsequent to the year end was as follows:

K Thorsteinsson

Political contributions

There were no political contributions in either the current or prior period.

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 3, 4 and 5.

Disclosure of information to auditor

So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the director has taken all the necessary steps that he ought to have taken as director in order to make himself aware of all relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

K Thorsteinsson
Director

Wyncolls Road
Severalls Ind Park
Colchester
Essex
CO4 9HW

26th September 2017

STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTOR'S REPORT AND THE FINANCIAL STATEMENTS

The director is responsible for preparing the Strategic Report, the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the director 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 these financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAREL LIMITED

We have audited the financial statements of Marel Limited for the year ended 31 December 2016 set out on pages 10 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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

Respective responsibilities of director and auditor

As explained more fully in the Director's Responsibilities Statement set out on page 7, the director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Director's report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAREL LIMITED *(Continued)*

Matters on which we are required to report by exception

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

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

M. Radwell

Matthew Radwell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR

29 September 2017

Profit and Loss Account and Other Comprehensive Income

for the year ended 31 December 2016

	Note	2016 Total £000	2015 Continuing £000	2015 Discontinued £000	2015 Total £000
Turnover	3	**16,241**	15,788	1,817	17,605
Cost of sales		**(10,689)**	(11,673)	(1,605)	(13,278)
Gross profit		**5,552**	4,115	212	4,327
Distribution costs		**(1,134)**	(984)	(313)	(1,297)
Administrative expenses		**(2,941)**	(1,573)	(511)	(2,084)
Other operating income		**55**	14	3	17
Operating profit/(loss)		**1,532**	1,572	(609)	963
Profit on disposal of operations	*2*	**-**	-	426	426
Other interest receivable and similar income	*7*	**3**	15	-	15
Interest payable and similar expenses	*8*	**(47)**	(198)	(38)	(236)
Profit/(loss) before taxation		**1,488**	1,389	(221)	1,168
Tax on profit/(loss)	*9*	**362**	148	-	148
Profit/(loss) for the financial year		**1,850**	1,537	(221)	1,316
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss) for the year		**1,850**	1,537	(221)	1,316

All operations are continued operations in the current year

The notes on pages 13 to 30 form an integral part of these financial statements.

Balance Sheet
at 31 December 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Intangible assets	*10*	2,902		2,724	
Tangible assets	*11*	194		256	
			3,096		2,980
Current assets					
Stocks	*12*	1,448		1,202	
Debtors	*13*	3,652		2,094	
Cash at bank and in hand		3,912		819	
		9,012		4,115	
Creditors: amounts falling due within one year	*14*	(5,864)		(2,468)	
Net current assets			3,148		1,647
Total assets less current liabilities			6,244		4,627
Provisions for liabilities	*15*		(182)		(415)
Net assets			6,062		4,212
Capital and reserves					
Called up share capital	*16*		100		100
Share premium account			11,016		11,016
Profit and loss account			(5,054)		(6,904)
Shareholders' funds			6,062		4,212

These financial statements were approved by the board of directors on 26 September 2017 and were signed on its behalf by:

K Thorsteinsson
Director

Company registered number: 05772856

The notes on pages 13 to 30 form an integral part of these financial statements.

Statement of Changes in Equity

	Called up Share capital	Share Premium account	Profit and loss account	Total equity
	£000	**£000**	**£000**	**£000**
Balance at 1 January 2015	100	11,016	(8,220)	2,896
Total comprehensive income for the year				
Profit for the year	-	-	1,316	1,316
Total comprehensive income for the year	-	-	1,316	1,316
Balance at 31 December 2015	**100**	**11,016**	**(6,904)**	**4,212**
Balance at 1 January 2016	100	11,016	(6,904)	4,212
Total comprehensive income for the year				
Profit for the year	-	-	1,850	1,850
Total comprehensive income for the year	-	-	1,850	1,850
Balance at 31 December 2016	**100**	**11,016**	**(5,054)**	**6,062**

The notes on pages 13 to 30 form an integral part of these financial statements.

Notes
(forming part of the financial statements)

1 Accounting policies

Marel Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 05772856 and the registered address is Wyncolls Road, Severalls Industrial Park, Colchester, CO4 9HW.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*) as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The following exemptions have been taken in these financial statements:

- Lease arrangements – in order to determine whether an arrangement contains a lease, the Company has analysed facts and circumstances existing at 1st January 2014 rather than commencement date of the arrangement.
- Lease incentives – for leases commenced before 1st January 2014 the Company continued to account for lease incentives under adopted IFRS.

The Company's parent undertaking, Marel hf includes the Company in its consolidated financial statements. The consolidated financial statements of Marel hf are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Austurhraun, 9, Gardabaer IS 210, Iceland. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Marel hf include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments;* and,
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the director, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report.

The financial statements have been prepared on the going concern basis which the director believes is appropriate for the following reasons.

The company is funded by the inter-company loans, and future cash flow projections have been prepared which demonstrate that the company has sufficient cash inflows to satisfy the continued growth strategy. The director is confident of hitting the sales forecast which will enable the company to operate within these projections.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued with changes taken to other comprehensive income, which are recognised in other comprehensive income.

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.14 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Plant and equipment - 3 - 10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Capitalised development costs - 5 years

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.8 *Discontinued operations*

Discontinued operations are components of the company that have been disposed of at the reporting date and previously represented a separate major line of business or geographical area of operation.

They are included in the profit and loss account in a separate column for the comparative year, including the gain or loss on sale or impairment loss on abandonment.

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.10 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised for other assets is reversed only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.12 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

1.13 Turnover

Turnover represents the invoiced value of goods supplied during the year, excluding value added tax, and is stated net of sales returns, trade discounts and rebates. Revenue is recognised either upon shipment of products or on delivery of the products, depending on when title to the product is transferred to the customer. This varies from customer to customer according to the terms of sale. Turnover relating to long term contracts is recognised over the period of the contract. When the outcome of a production contract cannot be estimated reliably, contract revenue is recognised only to the extent of production costs incurred that are likely to be recoverable. When the outcome of a production contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract.

1.14 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Expenses (continued)

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Differences between accumulated depreciation and tax allowances for the cost of a fixed asset are provided for only if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the assets, except when the investment property has a limited useful life and the objective of the company's business model is to consume substantially all of the value through use. In the latter case the tax rate that is expected to apply to the reversal of the related difference is used. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*

2 Disposal of businesses in the prior year

Discontinued operation

On 7th April 2015, the company disposed of a portion of its trade and assets for a consideration of £8,314k, where the net book value of assets disposed of was £7,888k, realising a profit on disposal of £426k. The HSS, IPL and Bandsaw divisions which were disposed of in the prior year have been classified as a discontinued operation.

3 Turnover

	2016 £000	2015 £000
Sale of goods	**16,241**	17,605
Total turnover	**16,241**	17,605

By geographical market		
Europe	**12,668**	12,909
North America	**2,761**	3,231
Rest of World	**812**	1,465
	16,241	17,605

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 £000	2015 £000
Audit of these financial statements	**29**	70
Taxation compliance services	**8**	11
Depreciation on tangible assets	**88**	228
Amortisation of Intangible assets	**245**	621
Operating lease rentals:		
- Motor Vehicles	**45**	101
- Land and Building	**177**	190

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the Company (including the director) during the year, analysed by category, was as follows:

	Number of employees 2016	2015
Sales	**8**	5
Production	**54**	57
Technical and service	**17**	19
Research and development	**27**	28
Administration	**14**	10
	120	119

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**4,731**	4,975
Social security costs	**415**	506
Contributions to defined contribution plans	**234**	294
	5,380	5,775

6 Director's remuneration

The remuneration of the sole director of the company is borne by the parent company Marel hf, registered in Iceland and is disclosed in the parent company's publicly available accounts. Any amount for directors services to the company would be £nil (2015: £nil)

Notes *(continued)*

7 Other interest receivable and similar income

	2016 £000	2015 £000
Interest receivable	**3**	15
Total interest receivable and similar income	**3**	15

8 Interest payable and similar expenses

	2016 £000	2015 £000
On bank loans and overdrafts	**26**	1
On all other loans – payable to group undertakings	**21**	235
Total other interest payable and similar expenses	**47**	236

Interest payable and similar expenses includes interest payable and similar on bank loans and overdrafts of £25,524 (2015: £1,052) and on all other loans of £21,141 (2015: £235,124). Of the above amount £21,141 (2015: £235,124) was payable to group undertakings.

Notes *(continued)*

9 Taxation

Total tax credit recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	2016 £000	2015 £000	2015 £000
Current tax				
Current tax on income for the period	-		148	
Total current tax		-		148
Deferred tax				
Origination due to tax losses	362		-	
Total deferred tax		362		-
Total tax		362		148

	2016 £000 Current tax	2016 £000 Deferred tax	2016 £000 Total tax	2015 £000 Current tax	2015 £000 Deferred tax	2015 £000 Total tax
Recognised in Profit and loss account	-	362	362	148	-	148
Total tax	-	362	362	148	-	148

Notes *(continued)*

9 Taxation *(continued)*

	2016 £000	2015 £000
Profit before tax	**1,488**	1,168
Tax using the UK corporation tax rate of 20% *(2015: 20.25%)*	**298**	236
Tax rate differences	**22**	119
Non-deductible expenses	**42**	54
Tax exempt revenues	**-**	(29)
Fixed asset differences	**-**	(45)
Deferred tax not recognised	**-**	(187)
Total tax credit included in profit or loss	**362**	148

The company has tax losses of £4,093,086 *(2015: £5,605,387)* available for offset against future taxable profits (subject to agreement with the tax authorities). A deferred tax asset was recognised of £666,156 (2015: £304,029) at year end, due to the fact that the Company has future taxable profits, and it is expected that the tax losses will be utilised within the next three years.

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A further reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015.

An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Deferred tax assets movement

	2016 £000	2015 £000
At 1 January 2016	**304**	304
Increase in deferred tax asset	**362**	-
At 31 December 2016	**666**	304

The deferred tax asset was made up as follow:

	2016 £000	2015 £000
Deferred tax asset due to tax losses	**767**	304
Short term timing difference on capital allowances	**(101)**	-
	666	304

Notes *(continued)*

10 Intangible assets and goodwill

	Development costs £000	Total £000
Cost		
Balance at 1 January 2016	4,958	4,958
Additions	423	423
Balance at 31 December 2016	5,381	5,381
Amortisation and impairment		
Balance at 1 January 2016	(2,234)	(2,234)
Amortisation for the year	(245)	(245)
Balance at 31 December 2016	(2,479)	(2,479)
Net book value		
At 1 January 2016	2,724	2,724
At 31 December 2016	**2,902**	**2,902**

Notes *(continued)*

11 Tangible fixed assets

	Plant and Equipment £000	Total £000
Cost		
Balance at 1 January 2016	1,184	1,184
Additions in the year	67	67
Disposals	(912)	(912)
Balance at 31 December 2016	339	339
Depreciation and impairment		
Balance at 1 January 2016	928	928
Depreciation charge for the year	88	88
Disposals	(871)	(871)
Balance at 31 December 2016	145	145
Net book value		
At 1 January 2016	256	256
At 31 December 2016	**194**	**194**

Notes *(continued)*

12 Stocks

	2016 £000	2015 £000
Raw materials and consumables	**35**	453
Work in progress	**1,105**	289
Finished goods and goods for resale	**308**	460
	1,448	1,202

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £10,689k (2015: £13,278k).

13 Debtors

	2016 £000	2015 £000
Trade debtors	**1,030**	1,293
Amounts owed by group undertakings	**1,328**	88
Other debtors	**328**	216
Prepayments and accrued income	**300**	193
Deferred Tax (Note 9)	**666**	304
	3,652	2,094

14 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank overdraft	**3,320**	374
Trade creditors	**678**	865
Amounts owed to group undertakings	**790**	85
Taxation and social security	**258**	142
Other creditors	**109**	345
Accruals and deferred income	**709**	657
	5,864	2,468

Notes *(continued)*

15 Provisions

	Warranty provision £000
Balance at 1 January 2016	415
Released in the year	(77)
Utilised in the year	(156)
Balance at 31 December 2016	**182**

The warranty provision is to cover the potential liabilities relating to products sold to third parties.

The provision has been based on historic claims information and level of sales.

16 Capital and reserves

Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
100,000 ordinary shares of £1each	**100**	100
	100	100

Notes *(continued)*

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Motor Vehicles		Land and building	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Less than one year	**35**	45	**29**	177
Between one and five years	**68**	68	**-**	29
More than five years		-	**-**	-
	103	113	**29**	206

During the year the company recognised an expense in the profit and loss account in respect of operating leases of £222k (2015: £291k).

After year end, the company signed a new lease agreement which will result in an annual commitment of £177k. The lease commenced on 1st March 2017 and extends over a period of 5 years.

18 Capital Commitments

The Company's contractual commitments to purchase tangible fixed assets at the year end were £nil (2015: £839k).

After year end, the company signed a contract worth £1.5m to refurbish their office in Colchester.

19 Related parties

There have not been any transactions in the year with related parties outside of wholly owned members of the wider group (2015: nil).

20 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Marel hf. The ultimate controlling party is Marel hf as parent undertaking.

The largest and smallest group in which the results of the Company are consolidated is that headed by Marel hf, Austurhraun 9, Gardabaer IS210, Iceland.

21 Accounting estimates and judgements

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

Recoverability of intangible assets and impairment calculations

Management make an assessment of whether the value of capitalised intangible assets can be sustained by the present value of the future associated cash flows associated with the assets. To do this, management makes an assessment over the net expected future cash derived directly from the capitalised asset, these are based both on historic sales experience and forecast consumer demand.

Intangible and tangible fixed assets

The assessment of useful economic lives and the method of depreciating intangible and tangible fixed assets requires judgment. Depreciation and amortisation are charged to the income statement based on the useful economic lives selected. The useful economic lives require an estimation of the period and the profile over which the Company expected to consume the future economic benefits associated with the assets.

Notes *(continued)*

21 Accounting estimates and judgements *(continued)*

Warranty provision

The warranty provision is to cover the potential liabilities relating to products sold to third parties. Management must make an estimate for the value of the provision based on historic claims experience, level of sales made and expected levels of future claims.

Stock provision

Stock valued at the lower of cost and net realisable values. Net realisable value includes, where necessary, provisions for slow moving and obsolete stocks. Calculation of these provisions requires judgments to be made based on forecast consumer demand and the competitive and economic environment the business trades in.