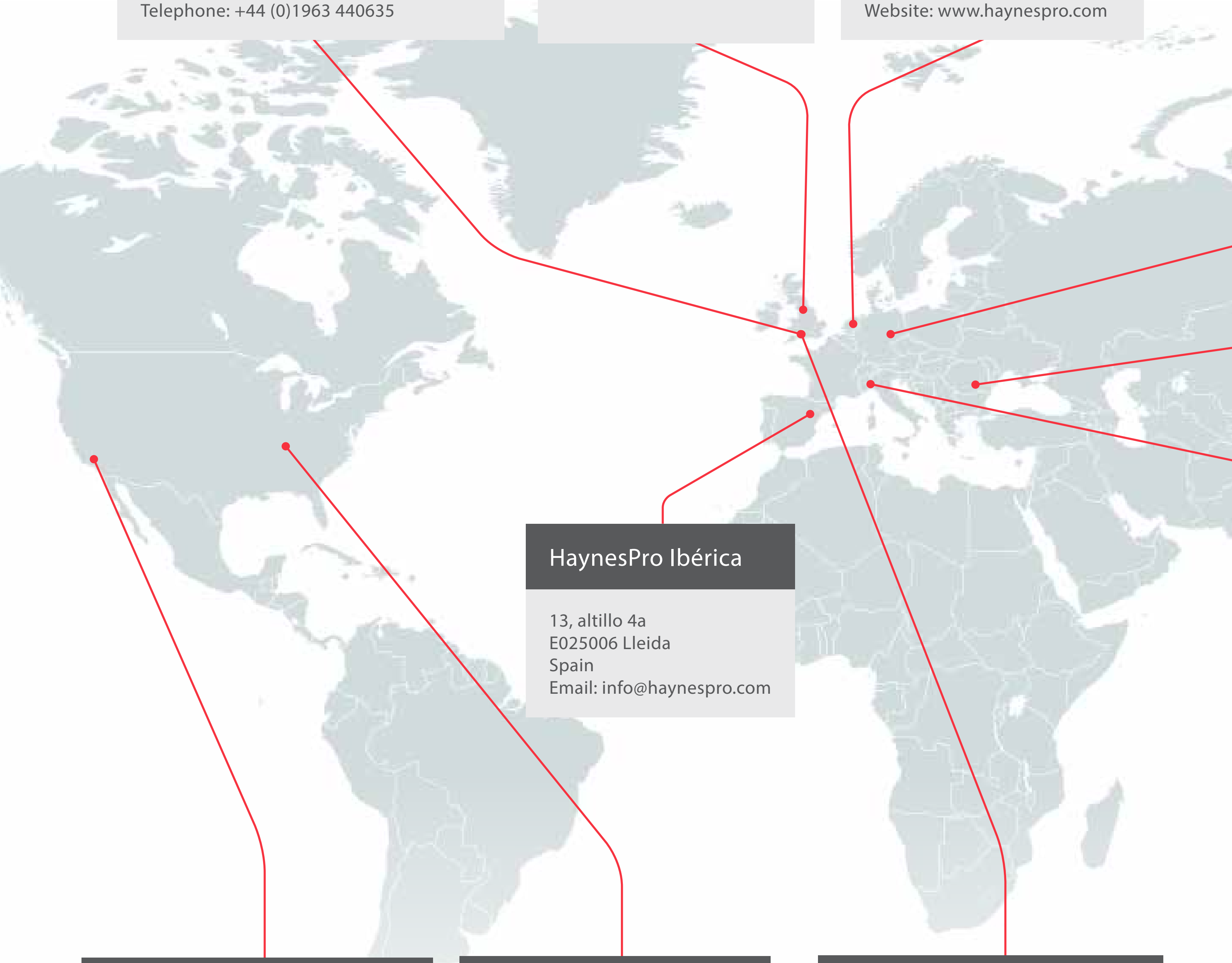
Report & Accounts for the year ending May 2016

# Haynes Publishing Group P.L.C. Annual Report 2016

# Haynes Worldwide Offices



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# Contents





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## Haynes Publishing Group P.L.C. (“the Group”) creates and supplies practical and informative content to consumers and professional mechanics in print and digital formats.

Our consumer content is delivered via both print and digital channels throughout the world. Through our Haynes, Chilton and Clymer brands, the Group is the worldwide market leader in automotive and motorcycle repair manual sales.

HaynesPro is a leading supplier of technical information to the professional trade. Content is delivered entirely digitally on a subscription basis to over 40,000 workstations in over 25 languages across Europe.

The Group also publishes an extensive range of practical and DIY titles covering a wide variety of subjects, as well as a range of light entertainment manuals styled on the iconic Haynes Manual.

# Group Highlights

## FOR THE YEAR ENDED 31 MAY 2016



## Financial highlights

- Revenue down 2% at £25.7 million (2015: £26.1 million)
- Adjusted EBITDA[1] of £8.4 million, down 3% (2015: £8.7 million)
- Adjusted operating profit[1] of £2.5 million, down 19% (2015: £3.1 million)
- Adjusted profit before tax[1] of £1.9 million, down 24% (2015: £2.5 million). Reportable loss before tax and after exceptional items of £2.5 million (2015: loss of £7.2 million)
- Adjusted basic earnings[1] per share of 7.6 pence (2015: 10.7 pence)
- Final dividend declared of 4.0 pence per share, giving a total dividend of 7.5 pence per share (2015: 7.5 pence)
- Revenue from the Group's digital product ranges up 23% at £7.9 million (2015: £6.4 million)
- Net cash[2] of £0.4 million (2015: £0.1 million) with 1.2 million shares still held in treasury
- Operating cash flow of £7.8 million (before product development) (2015: £8.7 million)
- Exceptional charge during the year of £4.4 million (2015: 9.8 million) in relation to the operational, cost and structure review completed in 2015/16.

## Business highlights

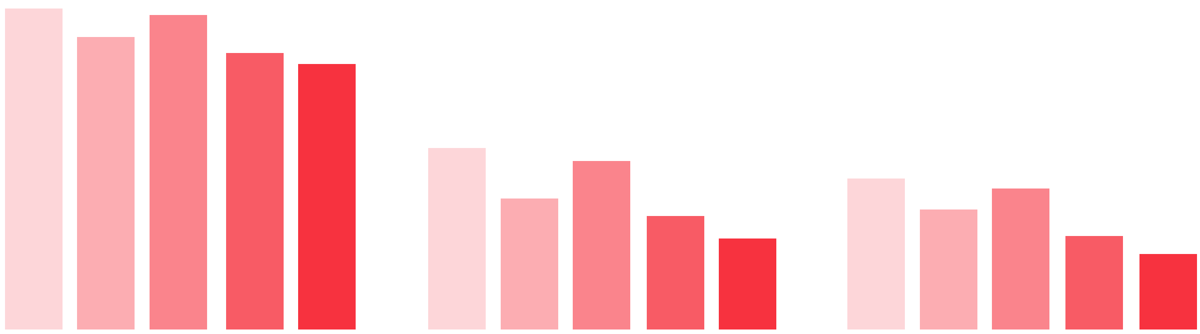
- Following the global operational, cost and structure review announced in September 2015, US production and distribution is to be outsourced, US operations to be consolidated in California and Nashville freehold properties to be marketed for sale.
- New global digital director recruited October 2015 with new digital team in place by May 2016.
- Implementation of new global website progressing to plan with launch of new UK site in August 2015 and new US website launched in July 2016.
- Investment in new product development increased to £6.4 million, up 14% (2015: £5.6 million)
- New Board roles and appointments following retirements of former Chief Executive Officer and Group Finance Director.

Notes to the Financial Highlights

[1] Adjusted to exclude £4.4 million of exceptional costs (2015: exceptional costs of £9.8 million). Reported operating loss of £2.0 million (2015: loss of £6.7 million). Reported loss per share was 11.8 pence (2015: loss per share of 39.2 pence). EBITDA including exceptional items was £4.0 million (2015: £8.6 million).

[2] Net cash defined as cash at bank net of bank overdrafts and bank loans.

# Five year summary
## OF KEY FINANCIAL PERFORMANCE



| | 31 May Turnover £ million | | | | | 31 May Adjusted operating profit £ million | | | | | 31 May Adjusted profit before tax £ million | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2012 | 2013 | 2014 | 2015 | 2016 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | 29.8 | 27.6 | 29.3 | 26.1 | 25.7 | 5.1 | 3.6 | 4.8[1] | 3.1[1] | 2.5[1] | 4.7 | 3.2 | 4.2[1] | 2.5[1] | 1.9[1] |

[1] Adjusted to exclude exceptional costs of £4.4 million in 2016, £9.8 million in 2015 and £2.2 million in 2014

[2] Adjusted to exclude exceptional items after tax of £2.9 million in 2016, £7.5 million in 2015 and £1.7 million in 2014





## 2012

**In November 2011, the Group launches the first of its iconic Haynes Manuals in an online electronic format. The conversion programmes from printed to digital files and the development of the digital platforms were all developed in-house by Haynes automotive technicians and IT specialists.**
**Weak sales in the US during the first half of the financial year and softer trading in UK markets during the second half of the year adversely impact Group profits for the full year.**
**The financial instability in Europe deepens during 2011/12 but revenue from the sale of technical data to the European professional automotive aftermarkets ends the year up 8% boosted by new contract gains.**

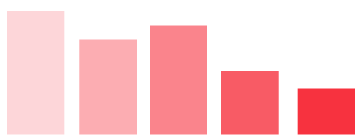
## 2013

**In September 2012, the Group rebrands its European technical data business as 'HaynesPro' (formerly Vivid Automotive) and in November 2012, becomes one of the first UK publishers to sell eBooks from their own website, with both the text to digital file conversion and the multimedia delivery platform developed through HaynesPro. During the year, softer sales of the Group's traditional printed manual products puts pressure on revenue and despite 13% revenue growth from sales of technical data in Europe and 9% sales growth in Australia, overall Group revenue ends the twelve month period 7% down against the prior year. The Board undertakes a strategic review to help return the Group to revenue and profit growth.**

## 2014

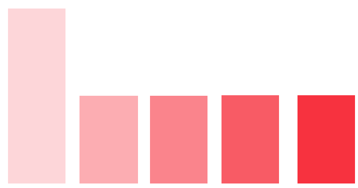
**Following the completion of the strategic review, in September 2013 the Board announced the restructuring of its UK operations. Also in September 2013, the Group acquired the Clymer and Intertec manuals business in the US, cementing its position as global market leader for the publication and sale of motorcycle repair manuals. In November 2013, a special one-off contribution of**

31 May
**Adjusted basic earnings per share**
pence



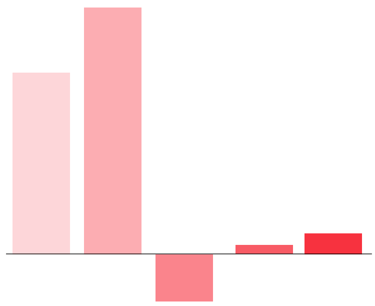
| 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| 20.0 | 14.2 | 18.7[2] | 10.7[2] | 7.6[2] |

31 May
**Dividends per share**
pence

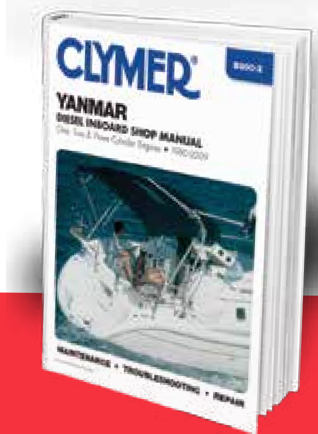


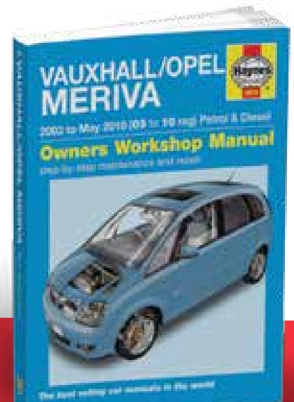
| 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| 15.7 | 7.5 | 7.5 | 7.5 | 7.5 |

31 May
**Net funds/debt**
£ million



| 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| 4.8 | 6.1 | (1.1) | 0.1 | 0.4 |




**£0.5 million was made to the UK pension scheme to help accelerate the pay down of the UK past service deficit. In January 2014, major re-merchandising programmes with key US customers, significantly improved the in-store display of Haynes manuals and in February 2014, HaynesPro relocated to larger offices in Leusden, near Utrecht consolidating its Netherlands based staff into one location.**

## 2015

**Trading during the first six months of the financial year was dominated by inventory reduction programmes by the Group's key retail customers in the US, UK and Australia. In February 2015, the Group acquired Teon Media Limited, owners of an online platform delivering digital repair information on over 700 vehicle makes and models. New product development and expansion of existing data coverage helped HaynesPro secure new contract gains, most notably in Scandinavia. In September 2014, HaynesPro launched their new touch interface for use on tablets and smart phones which will be available on desktop PC's and laptops during 2015/16 and in May 2015, HaynesPro opened a new office in Germany taking its total number of European offices to seven.**

## 2016

**Group revenue ended the financial year down 2% as stronger trading from the Group's professional operations in Europe were offset by weaker trading from its consumer businesses in the US and Australia. Following completion of a global operational, cost and structure review announced in September 2015, the Board confirms group wide production and US distribution will be outsourced leading to the closure of the Nashville production and distribution facilities. Eric Oakley and Dan Benhardus retire from the business on 31 May 2016. E Bell is appointed Group Chairman with J HC Haynes and J Bunkum confirmed as the new CEO and CFO respectively. The Board also announces new roles for J Yates-Round as MD of Consumer Publishing and A Kwarts as CTO.**

# Chairman's Statement

**Eddie Bell**
Chairman

"The Haynes Group is currently in transition and both the Board and executive management are fully committed to tackling the challenges which lie ahead and focussing on the long term growth of the business."

In this my opening Annual Report as Haynes Group Chairman, and as the first non-Haynes family member to hold this position in the Group's 56 year history, I would like to begin by saying how much of an honour it is to be chairing the Board at such a crucial time for the business. I take the reins at a time when there are clear challenges to the fundamentals of the business. Yet, despite these challenges, I am confident that through the actions outlined in this report the Group is on course to becoming a leaner, fitter and financially stronger business.

In September 2015, I was asked by the Board to undertake an operational cost and structure review of the Haynes Group companies. During this review process, I gained a valuable insight into the detailed workings of the Haynes business. This involved spending time with management in the underperforming areas of the business where we have experienced revenue and profit decline in recent years and also meeting with management and key employees in the growth parts of the business where I was able to see at first hand the cultures which have helped to facilitate this growth and development.


Having headed up similar corporate restructuring programmes in the past, it soon became apparent that direct action was required to address the high structural cost base in our North American business where the rate of sales decline has accelerated over the last two years. Whilst, manifestly, a review like this focuses on the areas of the business in decline, it was also important for the review to evaluate the growing parts of our business, such as our digital product ranges, to ensure investment and resource levels were adequate to facilitate future expansion and growth.

## Financial highlights

This has been a mixed year of trading for the Haynes Group, with strong revenue and profit growth from our professional product ranges in Europe offset by lower sales of our consumer print manuals in North America and Australia. In our UK business, we continue to make steady progress following the extensive restructuring in 2013/14 and, whilst this part of the business is still loss making, the losses have reduced each year since the restructuring and in 2015/16 we had our first year-on-year increase in printed automotive manual revenue since 2008.

The impact of the lower North American and Australian revenue led to an overall reduction of 2% in Group revenue to £25.7 million (2015: £26.1 million) and a reduction in profit before tax and exceptional items of 24% to £1.9 million (2015: £2.5 million).

## Operational, cost and structure review

At the time of reporting our half year results in January 2016, the Board were still evaluating the review's findings. I can now confirm that following a full evaluation and discussion, the Board endorsed all the recommendations in my report and in May 2016 we announced to the market that implementation of the recommendations had begun.

When the founder, John Haynes, set up the Haynes business 56 years ago with a vertically integrated structure, it allowed the business to internally control the editorial process, design, printing and distribution of the iconic Haynes manuals which, at that time, was an important factor in the growth and international expansion of the business. However, with the steady decline of print automotive manual sales in recent years and the access to specialist printing and distribution partners, the fundamentals have changed. Seven years ago, when we sold our UK print operation and moved all group printing to Nashville, based on our volume sales at that time, we could print our manuals in the US and distribute to the UK and Australia cheaper than we could source externally. Today, this is no longer the case and it was very evident during my review that quick action was required to help protect the margins in our print products from further erosion. Following extensive due diligence, in May 2016 we signed a three year print deal with Times Offset in Malaysia and the first of the new outsourced print manuals for publication in August 2016 were delivered on time in July.

Following the decision to outsource UK distribution in 2013/14 and with clear parallels between the UK and US distribution operations, I also evaluated the rationale for maintaining a US in-house distribution facility. With declining print manual sales and the Group investing heavily in new digital platforms for both our professional and consumer markets, it no longer made commercial sense to fund capital expenditure programmes in an operation which could cost effectively be outsourced. For these reasons the decision was taken to close the US distribution operation and outsource this part of our business.

In our European consumer business we evaluated the Group's sales operation in Sweden and concluded that the Scandinavian and Nordic customer base no longer required a permanent establishment in Sweden and could just as efficiently be supported directly from the UK. Accordingly, in May 2016, we took the decision to close our Swedish sales company, Haynes Nordiska AB.

## Exceptional item

Included within this set of results are one-off exceptional costs of £4.4 million which relate to the restructuring costs associated with the operational, cost and structure review. The costs primarily relate to severance packages for employees affected by the restructuring, asset write-downs in our US production and distribution operations and a sales returns reserve.

## Board

On 31 May 2016, Eric Oakley and Dan Benhardus retired from the Board after 62 years of combined service to the Group and, on behalf of the Board, I would like to thank both Eric and Dan for their considerable contribution and loyal service during their time in office.

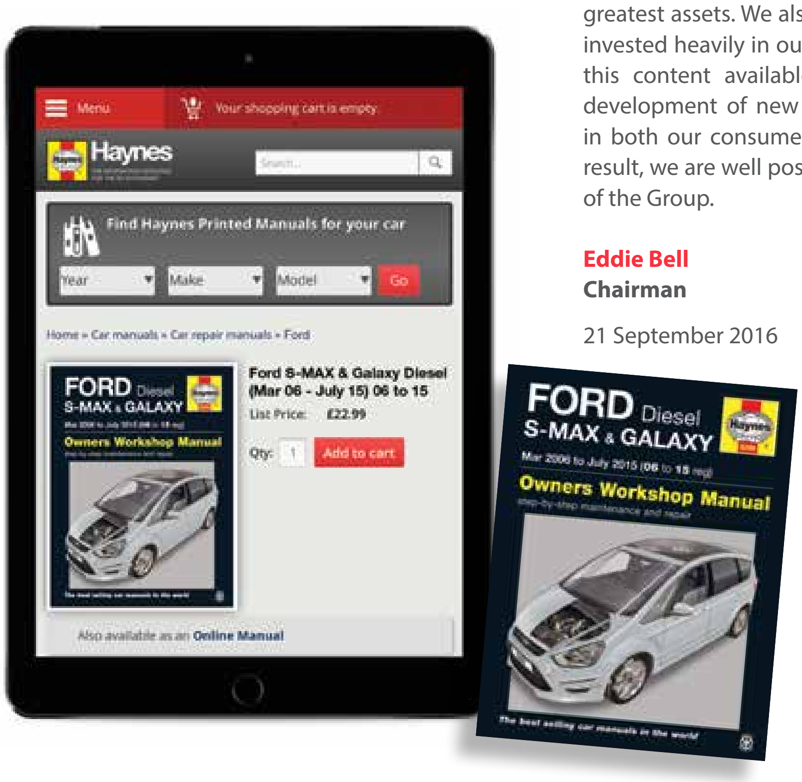
# Chairman's Statement

(CONTINUED)

I am pleased to welcome J Haynes in his new role as Chief Executive Officer, having served as Group Chairman since June 2010. J's understanding of the history and cultures within the Group, his drive and energy and his vision for the future make him ideally placed to take on this role. I also welcome James Bunkum who takes over as Chief Financial Officer. James assisted me on the recent operational, cost and structure review and I have no doubts that the experience gained in this exercise will be invaluable to James in his new role.

In March 2016, we announced new roles for two Group Board Directors. Jeremy Yates-Round became Managing Director Consumer Publishing, adding global publishing, production and responsibility for the Australian business to his existing role as UK Managing Director. Alex Kwarts, takes on a new role for the Group as Chief Technology Officer, reflecting the importance new technology now plays for the Haynes Group. We also announced that Richard Barker had taken over the role of UK and European Finance Director and Group Company Secretary from James Bunkum following James's promotion to the Board.

Previously we have stated our intention of recruiting two new Non-Executive Directors to the Board. I am pleased to confirm this process has been successfully completed with the appointments of Steve Daykin and Nina Wright from 1 August 2016. Steve is a chartered accountant with a wealth of experience in media, digital and turnaround businesses and is well placed to take on the role as Chairman of the Audit Committee. Nina works for UBM plc and has held a number of positions within the UBM Group. Nina is a talented media executive with first-hand experience of driving structural and cultural change and takes on the role as Chairman of the Remuneration Committee. I am delighted to welcome both Steve and Nina to the Board and look forward to working with them both in the coming months.




## Our employees

Over the last six months, all parts of the Group have been affected to some degree by the restructuring announced in May. Change is by its very nature disruptive and unsettling; not only for those who are directly affected but also for the employees remaining in the business. During these challenging times, our employees have pulled together to help implement the necessary changes and, on behalf of the Board, I would like to thank all our staff for their past, present and future anticipated contribution to the success of the Haynes Group.

## Dividend

The Board recommends an unchanged final dividend for the year of 4.0 pence which, together with the interim dividend paid in April 2016, maintains the total dividend for the year at 7.5 pence (2015: 7.5 pence). Subject to approval by shareholders, the final dividend will be paid on 17 November 2016 to shareholders on the register at the close of business on 28 October 2016 (with an ex-dividend date of 27 October 2016).

## Outlook

The Haynes Group is currently in transition and both the Board and executive management are fully committed to tackling the challenges which lie ahead and focussing on the long term growth of the business.

In conclusion, the Haynes Group has an iconic brand which is globally recognised and trusted and one of the business' greatest assets. We also have unrivalled content and have invested heavily in our talent to ensure that we can make this content available to new audiences through the development of new technologies and digital products, in both our consumer and professional businesses. As a result, we are well positioned to improve the overall value of the Group.

**Eddie Bell**
**Chairman**

21 September 2016

# Group Background and Strategy

In 1956 John Haynes wrote his first Haynes manual on the Austin 7 Special. In 1960, the Haynes Group was formed and following organic expansion into the US in 1974, France in 1993, Sweden in 1996 and Australia in 1997, the Haynes Group was firmly established as a global business. In 2001 the Group acquired Chilton Manuals, its major competitor in the US and this was followed in 2002 by the acquisition of the Gregory's manual business in Australia. Through the combination of organic growth and acquisition, the business had grown into the worldwide market leader for the publication and sale of automotive and motorcycle repair manuals. Nevertheless, there were parts of the Group which were underperforming or loss making and which were negatively impacting on the profitable core of the business.

Following a change in the senior management of the Group in 2002, the Board embarked on a period of restructuring and re-focusing the business onto its core profitable operations, with loss making or non-core operations either sold or closed down. In 2003 the UK Garage Equipment business was sold, in 2006 the loss making French operation was closed and in early 2007 the Group disposed of its loss making historical publisher Sutton Publishing.

In 2007, aware of a changing global market place where end users were starting to demand content through a variety of media channels, the Board set an objective of establishing the Haynes Group as the global industry experts for the supply of automotive and motorcycle repair, servicing and technical information. While at the time Haynes were the leading supplier of servicing and repair information to DIY consumers in the English speaking world, the objective was to broaden the base of the business to cover both the professional and consumer DIY markets and to develop into new geographic territories. The principal strategies identified by the Board to achieve this objective were :

- To develop new platforms and formats to deliver content to the end consumer
- To develop new product initiatives from our extensive Haynes knowledge database
- To identify and expand into new geographic markets for our established core products
- To expand the tried, tested and trusted Haynes philosophy by applying it to other areas where a practical approach to DIY could add value
- To establish a significant presence in the supply of information to professional mechanics

With a clear forward looking strategy and a desire to broaden the base of the business to also include professional technical information, in mid-2007 the Group acquired 'Bookworks & Rellim' a small Australian book distributor and publisher of technical material for vehicle manufacturers and professional mechanics.

This was followed in 2008, by the acquisition of Vivid Holding BV, a Netherlands based group supplying technical data to the professional automotive aftermarket. Vivid's database had been developed using market leading digital technology and was available in 19 European languages. The synergistic skill sets possessed by Vivid were a key factor in the decision to acquire the business. Their in-house skills covering heavily automated language translation, web development, DVD production, digital security and overall IT development were all complementary to the way in which Haynes was planning to develop its own product offerings going forward. Being part of the Haynes Group also opened up the opportunity to take the Vivid products to new geographies. The acquisition of Vivid not only provided the Haynes Group with a major foothold in the European professional automotive aftermarket but also provided it with the capability to develop its own in-house multimedia platforms from which it could deliver its content to the end consumer.

In 2011, the Haynes Group produced its first electronic version of the iconic Haynes manual. The online manual included all the information contained in a printed manual but, through the benefits of an electronic platform, also included audio and video clips, colour pictures and diagrams, hyperlinks and word search capability. In 2012, Vivid was rebranded as HaynesPro, strengthening its links to the Haynes Group and providing the Group with a clear identity for future expansion plans into new geographical markets for its professional product ranges.

In 2013/14 the Group restructured its UK general publishing division to concentrate future publishing activity on the non-automotive Haynes manual style titles where the profit margins are greater and the Group's core expertise lies. The Group also acquired the Clymer and Intertec manuals business in the US which complemented the Group's existing successful motorcycle manuals business and further strengthened the Haynes Group as the global market leader in this sector. The acquisition gave the Group access into the new markets of marine, snowmobiles and farm equipment.

In February 2015 the Group acquired Teon Media Limited, owners of an online platform delivering free to view digital repair information on over 700 vehicle makes and models which will form the basis for the Group's new consumer repair information platform.

## Group strategy

Going forward the Group will be concentrating on the following key areas:

- The development and implementation of new consumer digital platforms which will allow the Haynes Group to interact with its global end users and to drive new product innovation.
- The geographic expansion of both the professional and consumer product ranges. This could be through the development of new product initiatives and through geographic expansion into new markets by utilising the Group's in-house multilingual translation skills.
- To identify further strategic acquisitions which could provide synergistic efficiencies to the Group's data production process or which will expand or open up new revenue and profit enhancing opportunities for the Haynes Group.

# The Haynes Business Model

The Haynes Group comprises two geographical business segments :

- UK & Europe
- North America & Australia

The UK & European business has headquarters in Somerset, England and subsidiaries in the Netherlands, Italy, Spain, Romania and Germany. The core business of the UK and European operations is the supply of automotive and motorcycle servicing and repair information to the DIY aftermarkets in both a print and digital format as well as the supply of technical data to the European professional automotive aftermarket which is delivered digitally in over 25 different languages. There are currently over 180 online digital manuals available together with over 600 automotive print titles in publication and in excess of 40,000 subscribers to the HaynesPro professional data throughout Europe. The business also publishes over 360 general DIY titles which are practical, instructional, easy to read and aimed at those with an interest in more general non-automotive related activities.

The North American & Australian business has headquarters near Los Angeles, California and publishes DIY repair manuals for cars and motorcycles in both a print and digital format. The US business publishes titles under the Haynes, Chilton, Clymer and Intertec brands in both English and Spanish. It has a branch operation in Sydney, Australia which publishes similar products under the Haynes and Gregory brands. Through its Rellim range, the Australian business also publishes information for the professional automotive market. The North American and Australian business currently publishes over 470 online digital manuals and close to 1,500 printed manuals.

## The Haynes philosophy

The success of the Haynes business is underpinned by an attention to detail and a passionate dedication to providing independent and trustworthy instructional advice. This simple but important philosophy lies at the heart of what we do. The fact that all Haynes Manuals are based on a complete vehicle strip-down and rebuild in one of our workshops, so that the written and photographic instructions for our customers are inherently practical and easy to follow, can sometimes come as a surprise to those new to the Group but for those accustomed to Haynes, this renowned attention to detail will be a familiar concept. With over 50 years of experience in this market sector, we have deeply embedded processes, inbuilt expertise and procedure driven efficiencies which help to give Haynes its unique identity.


## A professional approach

For our professional product ranges the data collection process is slightly different but the uncompromising Haynes approach to detail remains unchanged. The technical and maintenance data produced by HaynesPro is of necessity based on the Original Equipment Manufacturers (OEM's) information and servicing schedules. Under European regulations independent garages are legally entitled to carry out normal maintenance and repairs during a vehicle's warranty period, without invalidating the warranty conditions, provided such work is carried out in accordance with the OEM's servicing schedules. It is therefore essential that the same level of detail also applies to our range of professional products to ensure the technical data is clear, concise, accurate and conforming to the relevant OEM's instructions. Using our in-house digital expertise and knowledge of vehicle electronics we are also able to offer our data to automotive parts manufacturers for use in their diagnostic product ranges.

## Our distribution channels

Over the years, the Haynes Group has built up a strong network of established distribution channels. In our main consumer markets, direct supply relationships have been established with all the large automotive aftermarket retail chains and independent retail buying groups, as well as with wholesale distributors who service the smaller independent retailers. The Group also has direct supply arrangements with the major general book retailers and wholesalers. The fact that the majority of the Group's print products are sold through automotive retail outlets as well as through traditional book stores helps to differentiate the Haynes Group from other publishers. On the professional side of the business, the products are primarily used by independent garages and sold through a network of distributors. The HaynesPro data carries generic article numbering, with all principal data categories linked to generic part codes, facilitating quick and efficient ordering of parts by the garage workshops. This is a key factor contributing to the strong relationships HaynesPro has built with its network of leading European automotive aftermarket distributors over recent years.

Whilst there are areas of our business model which are common to other companies and groups, it is the sum of the parts which differentiates Haynes from these other businesses and defines the Haynes Group as the business it is today. Our methodology of unique step by step content creation, our publication of technical information to both consumer and professional end users, the high proportion of our titles still in publication, our low level of returns compared to industry standards, the highly visible subscription/contract nature of our revenue from sales of our professional products, our distribution channels, our international network of offices and our in-house IT, web development and language translation skills all form part of the unique Haynes core and evolving business model.

# Chief Executive's Review

**J Haynes**
Chief Executive Officer

"As a Board we understand that the turnaround of the Haynes business will not happen overnight. However, through the actions taken over the course of the last 12 months and the clarity of our future plans, I firmly believe we are on the right path to deliver future success. This will be reflected in revenue and profit growth over the coming years."

## Trading Performance FYE 2016

Overall Group revenue ended the year down 2% against the prior year at £25.7 million (2015: £26.1 million) leading to a reduction in profit before tax and exceptional items of 24% to £1.9 million (2015: £2.5 million).

When reporting our half-year results in January 2016, we commented that trading in our North American and Australian businesses had been difficult with local currency revenue in this part of the business down 11%. This trend continued into the second half with year-end revenue down 12% at £12.5 million (2015: £14.2 million).

In the UK and Europe, sales of our non-automotive titles ended the year down 5%. Sales of our automotive manuals ended the year 4% up on the prior year. This is the first sales increase for this product category in five years, and reflects the successful delivery of new initiatives with key retailers.

European revenues increased significantly following another strong performance by HaynesPro. Our European operations achieved local currency revenue growth of 29%, clearly illustrating the continued commercial value of HaynesPro's ability to integrate automotive technical data. Significant commercial gains were achieved in the diagnostic equipment market and we remain the preferred supplier for three of the five international trading groups in Europe. Overall UK and European revenues ended the year up 11% at £13.2 million (2015: £11.9 million).

## First Quarter Trading

Strong first quarter trading from our professional product ranges in Europe helped offset continued weaker trading in North America. Revenue from the UK operation is slightly ahead of the prior year. Excluding the positive impact of exchange rate movements, like-for-like Group revenue through the first quarter of 2016/17 is tracking 3% ahead of last year.

## Operational, Cost and Structure Review ("the Review")

During the year, a Group wide operational, cost and structure review was completed which evaluated and prioritised the areas that need to be addressed to place the Group on a stronger footing. I am pleased to report that the recommendations of the Review are progressing to plan.

### Executive Management Team (EMT)

As recommended by the Review, a global Executive Management Team with responsibility for the operational day-to-day running of the business, and the implementation of the Group's strategic vision, has been created. This team has been created with senior management from all parts of the business represented. The members of the team will be attending the Haynes AGM on Wednesday 9th November 2016 and I invite all our shareholders to join us and take the opportunity to meet them.

# Chief Executive's Review
(CONTINUED)

### North America and Australia
Jim Nicholson, who has held the position of Vice President of Finance since 1999, has taken over as Senior Vice President of Haynes North America. Jim has overall operational responsibility for the US business, including the delivery of the print and distribution restructuring. He will be working closely with the US sales teams to improve sales performance.

In May 2016, we announced plans to close our Nashville print facility. The first manuals were delivered from Times Offset in Malaysia in July 2016 and we expect the last manuals to be printed in Nashville during December 2016, at which time we will decommission and sell the production equipment.

In July 2016, a contract was signed with Ware-Pak, a Chicago based book distributor. Inventory is presently being transferred to their facility from our Nashville warehouse and we expect that this process will be completed by the half year in November. The decision to outsource US distribution led to the closure of our West Coast warehouse in June 2016, as a result of which, all US staff will relocate to a single office at our present facility in Newbury Park, California.

Once internal production and distribution have ceased, we will no longer require the two freehold buildings in Nashville, and will look to sell these properties in a timely manner.

In Australia, Ian Whitefield, who has been part of the management team since 2007, has taken over as General Manager. The Review identified a management heavy structure, and a lack of sales and marketing resource that left the business unable to manage sales channels proactively. The Review also identified that the location of the existing freehold premises was not suitable for our needs. Following the Review, the Australian business has a new management structure, additional sales resource and in June 2016 we exchanged contracts on the freehold property with completion expected in mid-December 2016.

### UK and Europe
Following the UK restructuring in 2013/14, we put the UK freehold site in Sparkford on the market. Although the property has been on the market since this time, no commercial expressions of interest were received. Therefore an application to change the use to residential was made, and I can confirm that in July this year this application was approved. We are currently re-marketing the property with outline planning for residential development.

In our UK operations, we are increasing the number of vehicles we strip down in our workshops. This will generate increased sales opportunities for our printed and digital manuals, and also deliver additional video content for our digital platforms.

On 1 April 2016, Peter van der Galiën was appointed the new managing director of HaynesPro, taking over the role from Alex Kwarts. Alex remains on the HaynesPro board as Founder Director. Peter was previously the Sales and Marketing Director in HaynesPro and has been a major driving force behind the recent growth in revenue, which makes him well placed to take on his new role. The HaynesPro board has been strengthened by the appointment of two additional directors. Rob Suikerbuik has been promoted to IT & Technical Director and Dennis de Buck has been appointed Product and Segment Development Director.

In the Netherlands, the Review identified a need to increase resources to ensure that operational functions have adequate resource to drive future growth. As a direct result of the Review, HaynesPro will be actively recruiting to strengthen its team in the Netherlands over the course of the coming year.

### Group
When the above restructuring has been completed, it will result in the loss of approximately 40 job roles, predominately from our North American production and distribution operations. The one-off cost to the Group of the restructuring will be £4.4 million, which, after taking account of anticipated disposal proceeds on decommissioned equipment, will result in a net cash outflow of close to £2.2 million. The savings which will come from outsourcing production will not fully benefit Group profitability until current inventory levels clear down, which we expect to occur over the course of the next two years.

Once all of the recommendations have been fully implemented, the Group expects to realise substantial savings that it will use to invest in the enhancement of our print manuals, the continued development of new consumer facing digital content platforms, and the development of our professional market services.

The main operational elements of the Group restructuring are planned to be completed by early 2017.

## People
The integrity of the information we distribute is at the very core of the Group. The creation, editing and dissemination of reliable and accurate information is the bedrock of our Company. I am grateful for the continued hard work, dedication and creativity of everyone in the Haynes Group, which is particularly appreciated during a period of structural change. In my new role as Chief Executive Officer, I have had the opportunity to spend time with our North American and UK teams and I look forward to visiting our teams in Europe and Australia in the near future.

In order to grow the business we are actively looking to expand our editorial and digital teams. We are building


our content team by bringing on board additional editorial resource, as well as adding new digital expertise to strengthen our consumer and professional businesses.

## Outlook and future developments

The Group's focus is now firmly on developing and growing its two distinct but related content businesses. We are actively evaluating opportunities to integrate our consumer and professional data to create a unique blend of valuable practical content that will further enhance our services and products for both drivers and mechanics.

### Integrating our product offering

We will focus on delivering our content to our customers, both consumer and professional, in a variety of ways through complementary platforms.

In the consumer market, we have made significant progress in our plans to complement the information we provide in our manuals by delivering content through digital channels. Our initial digital strategic objectives are:

- To establish Haynes as a digital brand
- To broaden the distribution of our digital data through existing retail customer and complementary channels
- To enhance our manual product through the inclusion of access to digital content
- To internationalise our digital offering

The initial stage of this strategy was the creation of a robust web-based platform under the group domain of 'haynes.com'. This was achieved following the recently launched new US website, which will be followed by an enhanced UK website in October 2016. An updated Australian site will follow in early 2017.

One of the key drivers underpinning the above strategy is the way in which we organise our content. HaynesPro is highly experienced in 'atomising' data, which enables content to be interrogated in small subsets. A collaborative project between our professional and consumer digital teams is evaluating atomising our consumer information. We want to give our customers choice around how they access our practical information. Our objective is to enable our end users to be able to search with a combination of flexibility and precision, either at a vehicle specific or task specific level.

Our commitment to content creation is demonstrated by the creation, to date, of over 1,000 video clips covering vehicle specific maintenance and repair procedures. These clips will be made available through in-store and online digital manuals, and later in the year through Haynes OnDemand, our new consumer digital platform currently in the final stages of development. We will also be launching our first interactive App, based on our best-selling Zombie Manual, later this year.

### Innovation, integration, partnership and increased efficiency

HaynesPro will remain committed to developing data products that create value in the automotive aftermarket through innovation, integration, partnership and increased efficiency. Future revenue growth will come through new product innovation and further development of customer networks. During the year, we have integrated

# Chief Executive's Review
(CONTINUED)

our diagnostic tools data into an interface that mirrors our Touch screen version for tablets to ensure continuity of the way the information is presented.

Our new Repair Times database will be fully operational later in this calendar year, and will be followed by the launch of our new Comfort Wiring Diagrams database early in 2017.


At the Automechanika professional trade show in Germany in September 2016, we launched VESA Mk II. VESA is our unique step-by-step guided electronics diagnostic solution, and the latest version has been enhanced with nearly 20,000 manufacturer-specific fault codes, and the significant expansion of component-specific information linked to clearer schematics.

We will continue to invest in digital and IT staff, tools and infrastructure. Behind the scenes, we've been improving our software and hardware capabilities: for example, we've changed our database from one based on Sybase to a MS SQL system that will provide better performance and scalability.

We started the new financial year with a healthy appreciation that we have some substantial challenges to overcome. I believe that as a result of implementing the recommendations of the operational, cost and structure review, the creation of a global executive management team, the active encouragement of collaborative working within the Group, and the freeing up of resources to invest in our core activities, we are well placed to grow the business.

As a Board we understand that the turnaround of the Haynes business will not happen overnight. However, through the actions taken over the last 12 months and the clarity of our future plans, I firmly believe we are on the right path to deliver future success. This will be reflected in revenue and profit growth over the coming years.

**J Haynes**
**Chief Executive Officer**

21 September 2016

# Finance Review

James Bunkum
Chief Financial Officer

"Boosted by the performance from our professional product ranges, revenue from the Group's digital products ended the year up 23% at £7.9 million and now represent 31% of total Group revenue"

## Group revenue

| | 2016 £m | 2015 £m | Movement % |
|---|---|---|---|
| Total Group revenue | 25.7 | 26.1 | (2%) |

Overall Group revenue ended the year down 2% against last year at £25.7 million (2015: £26.1 million).

In our North American and Australian markets, it was disappointing that the expected pick up during the first half of the year, following a challenging first half of trading in 2014/15 did not materialise, with local currency revenue ending the first six months of 2015/16 down 11%. In the second half of the year, we experienced a further deterioration in trading with local currency revenue for the six month period down 22% and overall North American and Australian revenue ending the year 17% down on the prior year. With Sterling weaker against the US Dollar, the average rate for our financial year ended 31 May 2016 was $1.49 against last year's average of $1.58. The positive exchange movement helped reduce the shortfall in US revenue on translation to Sterling by £0.7 million and left US revenue in Sterling terms down 12% for the year.

In the UK, like-for-like revenue before the sales of titles discontinued in 2013/14, ended the first six months up 11%. Including sales of the discontinued titles, the increase was lower at 1%. As noted at the half year, this improvement came on the back of some very weak ordering from key customers in the first half of 2014/15 and with ordering patterns returning to more normal levels during the second half of last year, we did not expect this positive trend to continue into the second half of 2015/16. This caution was borne out with UK revenues in the second half of the year down 7%. Nevertheless, overall UK revenue ended the year, on a like-for-like basis, up 1% but after taking account of the discontinued titles, UK revenue ended the year down 4%.

In Europe, the strong trading performance from our range of professional products during the first six months of the year led to local currency revenue increasing by 27% over the previous six month period. This strong performance by HaynesPro continued into the second six months, with local currency revenue ending the full year up 29%. Over the 12 month period, Sterling strengthened against the Euro leading to an average rate for the year of €1.35 against last year's average of €1.31 which reduced overall Group revenue by £0.2 million and left European revenues in Sterling terms 25% ahead of last year.

Boosted by the performance from our professional product ranges, revenue from the Group's digital products ended the year up 23% at £7.9 million (2015: £6.4 million) and now represent 31% of total Group revenue (2015: 24%).

## Group gross margin

| | | 2016[1] | 2015 | Movement % |
|---|---|---|---|---|
| Adjusted gross profit | £m | 15.5 | 15.7 | (1%) |
| Adjusted gross margin | % | 60.3 | 60.2 | |

*[1] Adjusted to exclude exceptional items. Reported gross profit was £13.8 million with a gross margin of 53.6%*

The lower sales of consumer print manuals in North America and Australia had a negative impact on the Group's gross margin but was largely offset by increased revenue from the higher margin digital professional product ranges in Europe. The net impact of these two factors left the overall gross margin before exceptional

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# Finance Review
(CONTINUED)

costs in monetary terms down 1% at £15.5 million (2015: £15.7 million) but the higher mix of digital revenue helped maintain the gross margin at 60.3% (2015: 60.2%).

## Group operating profit

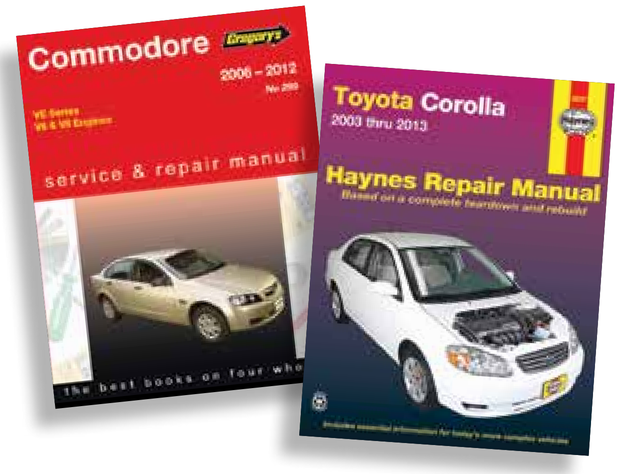
| | | 2016 | 2015 | Movement % |
|---|---|---|---|---|
| Adjusted Group operating profit [1] | £m | 2.5 | 3.1 | (19%) |
| Adjusted Group operating margin | % | 9.6 | 11.7 | |

*[1] Adjusted to exclude exceptional items. Reported Group operating loss was £2.0 million (2015: loss of £6.7 million).*

Group operating profit before exceptional costs ended the year 19% down on last year at £2.5 million (2015: £3.1 million). A full year of operating cost in our HaynesPro German subsidiary set up in May 2015; increased sales commissions on the higher professional product sales in Europe; an increased Pension Protection Fund (PPF) levy; and higher professional costs in our UK pension scheme following the finalisation of the latest triennial valuation led to an increase in overall Group overheads of 3% to £13.1 million (2015: £12.7 million).

As mentioned earlier in this report, during the year the Group incurred exceptional costs of £4.4 million in relation to the operational, cost and structure review. The restructuring costs of £4.4 million primarily relate to employee severance packages, asset write-downs, a sales returns reserve and one-off past service pension costs. This compares to the £9.8 million of exceptional costs in the prior year following the non-cash impairment of North American & Australian intangible assets.

Net finance costs which relate to the interest on servicing the UK overdraft and the Clymer acquisition loan in the US were in line with the prior year at £0.1 million (2015: £0.1 million). Other finance costs, which relate to the interest charge on the pension schemes' liabilities net of interest on the pension schemes' assets, also ended the year in line with the prior period at £0.5 million (2015: £0.5 million).




## Group earnings and earnings per share

| | 2016[1] £m | 2015[1] £m | Movement % |
|---|---|---|---|
| Adjusted profit before tax | 1.9 | 2.5 | (24%) |
| Adjusted taxation[2] | 0.7 | 0.9 | (22%) |
| Adjusted profit for the period[2] | 1.2 | 1.6 | (25%) |
| | Pence | Pence | |
| Adjusted basic EPS[2] | 7.6 | 10.7 | (29%) |

*[1] Adjusted to exclude exceptional items. Reported loss before tax was £2.5 million (2015: loss of £7.2 million). The reported tax charge was a tax credit of £0.8 million (2015: £1.3 million) and the reported loss for the period was £1.8 million (2015: loss of £5.9 million). Reported losses per share were 11.8 pence (2015: losses per share of 39.2 pence).*

*[2] See Note 1 Restatement of prior year.*

Group pre-tax profit before exceptional costs ended the year down 24% at £1.9 million (2015: £2.5 million). The Group tax charge for the year before exceptional items was £0.7 million (2015: £0.9 million) giving an effective tax rate of 38.6% (2015: 35.3%). The Group's effective rate of tax for the year is a mixed rate which reflects the countries where the Group pays tax and also the mix of profits within those tax jurisdictions. Earnings per share before exceptional items was 7.6 pence (2015 adjusted: 10.7 pence).

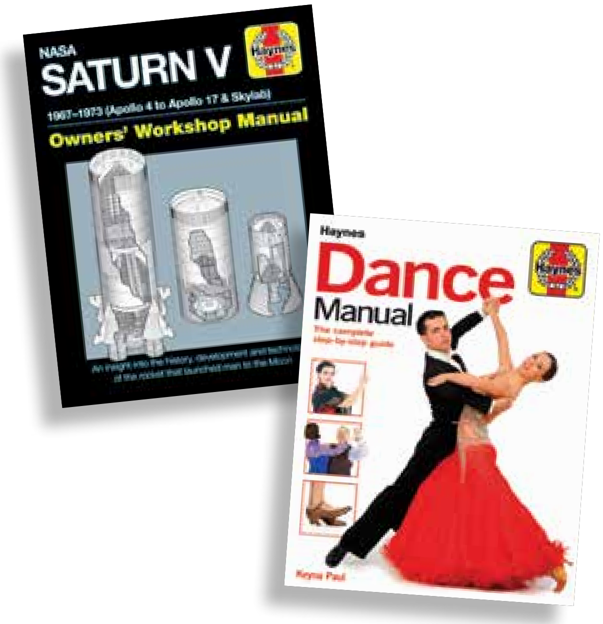
## North America and Australia segmental review

| | 2016 $m | 2015 $m | Movement % |
|---|---|---|---|
| Segmental revenue | 18.6 | 22.4 | (17%) |
| Segmental operating profit before exceptional items and interest | 0.5 | 2.0 | (75%) |

| | 2016 £m | 2015 £m | Movement % |
|---|---|---|---|
| Segmental revenue | 12.5 | 14.2 | (12%) |
| Segmental operating profit before exceptional items and interest | 0.3 | 1.2 | (75%) |

Segmental revenue from the North American and Australian operations for the 12 months to 31 May 2016 ended the year down 17% at $18.6 million (2015: $22.4 million). After translation to Sterling, segmental revenue for the North American and Australian business was £12.5 million, down 12% (2015: £14.2 million).

The decline in revenue from the North American and Australian operations during the year has led to a corresponding reduction in profitability from this part of the business with segmental operating profit before exceptional items and interest ending the year at $0.5 million (2015: $2.0 million) which after translation to




Sterling was down 75% at £0.3 million (2015: £1.2 million). Including exceptional costs and interest the segmental loss for the year was £3.4 million (2015: loss of £8.5 million).

## UK and Europe segmental review

| | 2016 £m | 2015 £m | Movement % |
|---|---|---|---|
| Segmental revenue | 13.2 | 11.9 | 11% |
| Segmental operating profit before exceptional items and interest | 1.5 | 0.6 | 150% |

Overall UK and European segmental revenue ended the year up 11% at £13.2 million (2015: £11.9 million). On a like-for-like basis, excluding the impact of exchange movements, UK and European revenue was up 13% at £13.4 million (2015: £12.5 million).

The impact of the strong trading from our European operations led to UK and European segmental operating profit before exceptional items and interest ending the year up 150% at £1.5 million (2015: £0.6 million). Including exceptional costs and interest the segmental profit for the year was £1.2 million (2015: £0.5 million).

## Balance sheet

| | 2016 £m | 2015[1] £m |
|---|---|---|
| Non-current assets | 38.0 | 36.4 |
| Working capital | 6.9 | 8.2 |
| Net cash | 0.4 | 0.1 |
| Retirement benefit obligation | (15.1) | (14.3) |
| Other liabilities | (6.0) | (3.8) |
| **Net assets** | **24.2** | **26.6** |

*[1] See Note 1 Restatement of prior year*

During the year the Group continued to invest in new product development and new consumer and professional digital platforms, incurring development expenditure in the 12 months to 31 May 2016 of £6.4 million (2015: £5.6 million).

Capital expenditure in the year was lower at £0.3 million (2015: £0.4 million) reflecting the strategic move away from a vertically integrated higher capital cost business. In April 2016, the UK business disposed of an empty property in Stroud, Gloucester for £0.3 million realising a small gain of £0.1 million on the sale.

As at 31 May 2016, the Group had net cash of £0.4 million (2015: £0.1 million).

At 31 May 2016, the net deficit, as reported in accordance with IAS 19, on the Group's two defined benefit retirement schemes increased by £0.8 million to £15.1 million (2015: £14.3 million) with a deficit in the UK Scheme of £14.4 million (2015: £13.3 million) and in the US Scheme of £0.7 million (2015: £1.0 million). The combined total assets of the schemes reduced to £31.4 million (2015: £32.7 million) and the total liabilities reduced to £46.5 million (2015: £47.1 million) with both reductions reflecting a pay-out of benefits of £3.1 million to two former members of the US scheme.

As at 31 May 2016 the Group has provisions of £3.7 million which it expects to incur over the next 12 months in relation to the exceptional items charged to the income statement during the year.

## Cash flow

| | 2016 £m | 2015[1] £m |
|---|---|---|
| Net cash generated from operations before tax | 8.4 | 9.5 |
| Tax paid | (0.7) | (0.8) |
| Investing activities | (6.4) | (6.2) |
| Financing activities | (2.5) | (2.2) |
| Net movement in cash during the year | (1.2) | 0.3 |
| Cash and cash equivalents at the beginning of the year | 1.5 | 1.1 |
| Effect of foreign exchange rates | 0.2 | 0.1 |
| Cash and cash equivalents at the end of the period | **0.5** | **1.5** |

*1 See Note 1 Restatement of prior year*

The net cash generated from operations before tax for the year was £8.4 million (2015: £9.5 million) which represented 344% of adjusted Group operating profit (2015: 311%).

**James Bunkum**
**Chief Financial Officer**

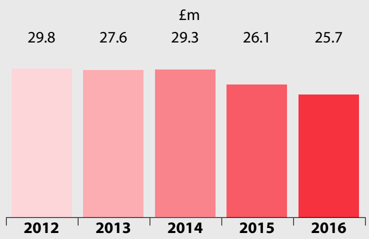
21 September 2016

# Key Performance Indicators

The Board regularly monitors and measures key performance within the business to ensure the underlying Group operations are performing in line with expectations. The information, which is largely embedded into the monthly reporting packs prepared for the Board members, enables the Board to measure the success of the individual operating entities and the Group as a whole, in achieving its objectives for revenue and profit growth.

The tables below set out the key performance measures used by the Board.

### Revenue growth



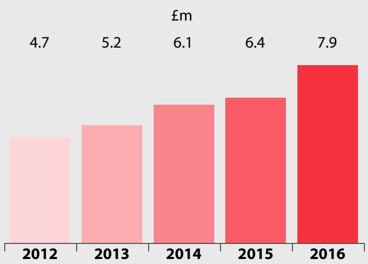

**RATIONALE FOR MONITORING**

**A key Board objective is to return the Group to sustainable revenue growth.**

**Commentary on performance**

The Strategic Report on pages 3 to 22 outlines the primary reasons for the fall in revenue from the Group's printed consumer manuals during FYE 2016. The Group is investing significant funds and internal resource in developing its new consumer digital platforms which it expects to drive future revenue growth to the business. Through HaynesPro, the Group's professional product ranges continue to perform well and grow market share with year-on-year local currency revenue up 29%.

### Digital revenue growth



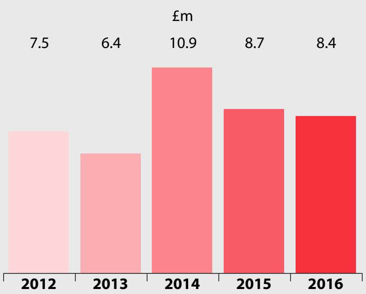

**RATIONALE FOR MONITORING**

**A significant objective for the Board is to drive revenue and profit growth through the development of new multi-media platforms.**

**Commentary on performance**

Revenue from the Group's digital product ranges increased by 23% during the year to £7.9m (2015: £6.4m) giving compound annual growth over the last 5 year period of 11%. Revenue from digital products now represents 31% (2015: 24%) of overall Group revenue.

### Adjusted EBITDA[1]



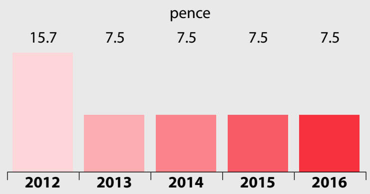

**RATIONALE FOR MONITORING**

**A significant objective for the Board is to drive profit growth. Adjusted EBITDA measures the operating profit performance of the Group before the deduction of exceptional items and before the charge for tangible asset depreciation and intangible asset amortisation. Adjusted EBITDA is therefore an important indicator of underlying profit.**

**Commentary on performance**

The Group's adjusted EBITDA fell by 3% during the year reflecting the weaker consumer print manual sales in the Group's US and Australian operations despite the stronger sales from the Group's professional product ranges in Europe and a small improvement in the UK consumer business.

## Total dividend per share



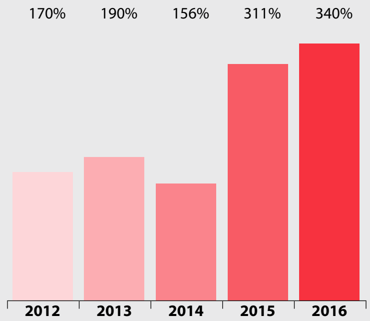

### RATIONALE FOR MONITORING

**As a Premium Listed Group on the London Stock Exchange the total dividend paid by the Company during the year is an important measure for our shareholders.**

### Commentary on performance

The Group is currently in a phase of significant investment including the development of its new consumer digital platforms and the development of new professional databases. The decision taken during the year to outsource group wide production and US distribution will reduce the cost base of the Group going forward and allow the business to invest its cash in the areas which will generate the highest returns. The dividend has been set at a level which reflects current trading, the forward investment plans for the business and the Board's confidence over the future prospects for the Group.

## Cash generation



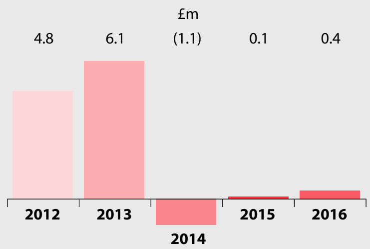

### RATIONALE FOR MONITORING

**Strong cash generation is a key strength of the business which helps fund the development of new product initiatives, drive the development of new multi-media platforms and facilitates the Group's acquisition activity. The ratio measures the Group's net cash inflow from continuing operations before tax as a proportion of adjusted Group operating profit.**

### Commentary on performance

The Group continues to drive strong cash generation by focussing on controlling costs and working capital management.

## Net funds/(debt)*




*Net funds/(debt) defined as cash and cash equivalents net of bank loans

### RATIONALE FOR MONITORING

**The Board recognises the importance of debt as a tool to help finance the Group's expansion plans.**

### Commentary on performance

During the year the Group repaid £1.3 million of bank loans (2015: £0.9 million) and invested £6.4 million in new product development (2015: £5.6 million). The higher cash outflows were partially offset by the proceeds from the sale of a freehold property of £0.3 million, lower expenditure on tangible fixed assets of £0.1 million and lower acquisition costs of £0.1 million.

# Principal Risks

In common with most businesses there are risks inherent in the Group's underlying operations which could impact on the Group's operating and financial performance. Thus the reporting systems can only provide reasonable and not absolute assurance against damage or loss resulting from business activities. Nevertheless, through its day to day management disciplines and monitoring of systems, the Group evaluates and mitigates unnecessary risks.

The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. These policies are used both by the directors and by senior management to determine the key control procedures for each area of risk identified by the Board and the degree of information required to safeguard the business and the assets used within it. It is accepted that risk is itself prevalent in any commercial enterprise and that it must be the objective of the Group's management and staff to be prudent in the acceptance and control of risk incurring activity, rather than aiming to eliminate it entirely.

The table below highlights the principal risks and uncertainties which the Board believes are presently most relevant to the Haynes Group. Wider scope risks such as macroeconomic conditions which impact all business but over which the Group has little or no control have not been included.

| RISK | WHY THE BOARD THINK THIS IS IMPORTANT | HOW THE BOARD MITIGATE THE RISK |
|---|---|---|
| **Reducing DIY activity on cars & motorcycles in the Group's core geographic markets.** | Nearly 70% of the Group's revenue is derived from the sale of printed service and repair manuals originated in its core geographic markets. | The Board seek to mitigate this risk by :<br>■ Broadening the Group's revenue generating base.<br>■ By opening up new geographic sales territories.<br>■ By developing new delivery platforms to deliver the Group's content through a variety of multi-media formats. |
| **The publication of inaccurate information.** | The Haynes brand is built on a reputation of publishing technically accurate information in a trusted and easy to understand format. | Through the process driven methodology the Group adopts to capture its technical data; the skill and expertise of the staff recruited and the level of quality control applied to the approval process, the Group takes the necessary steps to minimise this risk. As a responsible business the Group has appropriate global insurance to cover product indemnity and multimedia liability. |
| **Lack of investment in the core products and in developing new product initiatives.** | In both our professional and consumer markets it is vital that vehicle coverage is kept up-to-date. | The Board ensures that the level of ongoing expenditure on product development is appropriate to maintain the Group's reputation and to retain its market leading positions in its respective market sectors. |
| **A failure in the Group's information technology systems prevents the business from functioning and/or fulfilling its contractual duties.** | The business is dependent on its information technology systems to run its day-to-day operations and in the case of its digital delivery platforms to deliver the technical information to its end users. | Through the recruitment of technically competent staff and the appropriate level of investment in the Group's information technology infrastructure the Board takes comfort that the information technology systems are appropriate and fit for purpose. Maintaining adequate back-up procedures is a key component of minimising the risk of system downtime. |
| **An over reliance on a single key customer.** | The loss of a major customer could significantly impact on the financial performance of the Group and hamper the Board's objective of delivering sustainable revenue and profit growth. | The Group aims to establish strong and long standing relationships with all its key customers. However, the Board recognises that a customer can be lost for a variety of reasons and therefore, by broadening the base of the business and developing new delivery platforms, the reliance on a single customer is reduced. In the current financial year there are no customers who represents more than 10% of Group revenue (in 2015 one customer represented 10% of Group revenue). |
| **The loss of key executives and personnel.** | The Group has key executives and employees who have worked in the business for a number of years and who have an in-depth knowledge of the Group, its processes and its culture. | Through the setting of competitive remuneration packages and fulfilling employment conditions the Group helps to mitigate the loss of a senior Board executive or key employee. In the case of Board executives, the responsibility for succession planning and the recruitment of new Board executives is overseen by the Remuneration and Nomination Committee. |
| **The funding position on the Group's two defined benefit schemes deteriorates requiring significant additional funding.** | A need to significantly increase contributions into the pension schemes could adversely affect the Group's ability to invest in the development of new delivery platforms, new product initiatives and to fund both internal and acquisitive growth. | The performance of both the US and UK pension schemes are monitored on a regular basis by the Company, the Trustees and the Scheme's professional advisers and the funding to the schemes reflects the ongoing investment requirements of the Group. |

## Viability statement

In line with C.2.2. of the UK Corporate Governance Code 2014, the directors have assessed the future prospects for the Group and have chosen a three year period over which to make this assessment . A three year period was adopted by the Board as this links into the timeframe of the financial projections (including profit and loss, balance sheet and cash flows) prepared by each of the Group's operating units as part of the annual budgeting process and which the Board review and approve in June each year.

In preparing the three year projections, each business unit assesses the significant commercial risks within its business and local markets, its likely capital expenditure and development cost requirements over the period and any structural or operational changes which can be reasonably expected to occur over the three year time frame.

Having undertaken the detailed annual budgeting exercise for the financial year ended 31 May 2017 and prepared financial projections for the years ending 31 May 2018 and 2019, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three year period.

# Corporate and Social Responsibility

With operational businesses in three different continents the Board is aware of the need to undertake its business in a safe and socially acceptable manner. Operationally the Group is not large, employing under 250 employees worldwide. It has a book manufacturing and distribution facility in Nashville, USA employing 35 people and small distribution sites in Los Angeles, USA and Sydney, Australia. Following a global operational, cost and structure review during the year, in May 2016 the Board announced it would be outsourcing group wide book production and US distribution and closing its Nashville based operations. Apart from these sites, the operations are largely office based with small workshop facilities in the UK, US and Australia.

### Environment

The Board is committed to minimising the impact its operations have on the local environment. All of the papers and board that are used in the production of our Haynes Manuals are sourced from Programme for the Endorsement of Forest Certification (PEFC) paper, are printed using vegetable based inks and the cartons in which they are packed and shipped are made from 100% post-consumer waste. It is Group policy to ensure that both national and local environmental laws and guidelines are adhered to in full. The Board ensures that key management are tasked with the responsibility to oversee the Group's activities which impact the environment and to report back to the Board with any recommendations they may have regarding environmental policy.

This is the third year of reporting under the Greenhouse Gas (GHG) emissions reporting requirements. The table below provides details of the Group's GHG emissions data over the last three financial years:

| GHG emissions data (tonnes of $CO_2$) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Scope 1 emissions [1] | 309 | 346 | 410 |
| Scope 2 emissions [2] | 1,564 | 1,571 | 1,754 |
| Total Group emissions | 1,873 | 1,917 | 2,164 |
| Intensity ratio (per £m turnover) [3] | 72.9 | 73.5 | 73.9 |

*[1] Scope 1 emissions are direct GHG emissions from sources owned by the Group.*

*[2] Scope 2 emissions result from the generation of electricity, heating and cooling or steam purchased for own use.*

*[3] In order to provide a recognisable and quantifiable measure for our annual emissions the Group has chosen to express its GHG emissions per £1.0 million of revenue (our 'intensity ratio') as the board considers this to be the best comparative measure over time.*

# Corporate and Social Responsibility
(CONTINUED)

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 for Scope 1 and Scope 2 emissions. All sources reported on fall within the Group's consolidated financial statements and the Board have no responsibility for any emission sources that are not included in the consolidated statements. Each subsidiary has used emission factors sourced from their relevant national Government's GHG conversion factors for corporate reporting purposes. Where information was not available for a local subsidiary, the UK Government's GHG Conversion Factors for corporate reporting has been used.

The financial year to 31 May 2014 represented our first year for reporting our GHG emissions and forms our base year for future reporting and for comparative purposes.

## Health and safety
The Board has ultimate responsibility for the Group's health and safety matters. Each of the Group's operating entities has its own health and safety committee which meets at regular intervals and any incidents, and if appropriate corrective actions, are reported to the Board. During the financial year under review there were no health and safety incidents which required reporting to the Board.

## Employees and diversity
The Board places considerable value on the participation and involvement of the Group's employees and with an employee base spread over eight different countries, the Group is committed to employment practices which support equal opportunities and non-discrimination and which comply with relevant local legislation and codes of practice.

The Group involves employees by providing them with information which concerns them, consults with them and considers their views when making decisions which affect their interests and generally discloses matters affecting the Group's performance through company briefings. The Group's full year and half year financial results are made available to all employees on the day of their announcement.

As an equal opportunities employer the Board understands the importance of diversity throughout the business. The Group encourages the employment of disabled persons whenever practicable and has a policy of ensuring that disabled employees and those who may become disabled benefit from training and career development in common with other employees.

The breakdown of the group's employees by gender was as follows :

| | 31 May 2016 | | | 31 May 2015 | | |
|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total |
| Main Board Directors | 8 | - | 8 | 8 | - | 8 |
| Senior Managers | 5 | 1 | 6 | 5 | 1 | 6 |
| All employees | 155 | 67 | 222 | 155 | 78 | 233 |
| | 168 | 68 | 236 | 168 | 79 | 247 |

## Human rights
The Haynes Group does not have a specific human rights policy as the Group's activities are undertaken in developed countries where there is strong legislation governing the area of human rights. However, it is the Boards view that within the Group's key policies and business practices there is a responsibility to ensure all our employees, customers, suppliers and stakeholders are treated fairly and with respect.

## Community
The Board recognises the importance of businesses giving back to society and regularly makes donations which help both local and national charities. The Group is involved with London Youth, a registered charity which, through its 'Mechanix' programme, helps young Londoners to access a wide range of high quality opportunities for learning and fun beyond family and formal education through building strong trusted relationships with adults and their peers, leading to broadened networks, increased confidence, character and life skills.

During the year the Group also partnered with Mechanics for Africa, a registered UK charity, which runs a technical college and commercial workshop in the Zambian town of Ndola helping to train underprivileged youngsters in all aspects of vehicle repair and servicing.

**J Haynes**
**Chief Executive Officer**

21 September 2016

# Group Board

## DIRECTORS AND ADVISORS

| | |
|---|---|
| **Executive Directors** | E Bell ■* – Chairman (appointed 1 April 2016)<br>JHC Haynes – Chief Executive Officer<br>JT Bunkum (appointed 27 January 2016)<br>J Yates-Round<br>A Kwarts •<br>JH Haynes OBE – Founder Director<br>E Oakley+ (retired 31 May 2016)<br>D Benhardus+ CPA (retired 31 May 2016) |
| **Non-Executive Directors** | S Daykin ■* (Chairman of Audit Committee – appointed 1 August 2016)<br>N Wright ■* (Chairman of Remuneration and Nomination Committee – appointed 1 August 2016)<br>MEF Haynes* |

* Member of Remuneration & Nomination Committee
■ Member of Audit Committee
\+ Resident in the US
• Resident in the Netherlands

| | |
|---|---|
| **Group Company Secretary** | RS Barker |
| **Registered office** | Sparkford, Yeovil, Somerset BA22 7JJ<br>Company No. 659701 |
| **Auditors** | **BDO LLP**<br>Arcadia House, Maritime Walk, Ocean Village, Southampton SO14 3TL |
| **Solicitors** | **Michelmores LLP**<br>Woodwater House, Pynes Hill, Exeter EX2 5WR |
| **Principal UK bankers** | **Barclays Bank PLC**<br>Corporate Banking Centre, 4th Floor, Bridgewater House,<br>Counterslip, Finzels Reach, Bristol BS1 6BX |
| **Principal US bankers** | **Union Bank, N.A.**<br>21700 Oxnard Street, Suite 120, MC4-73A-120, Woodland Hills,<br>CA91367, USA |
| **Stockbrokers** | **Panmure Gordon (UK) Limited**<br>One New Change, London EC4M 9AF |
| **Registrars** | **Capita IRG PLC**<br>Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU |
| **Financial PR** | **New Century Media Ltd**<br>Dacre House, 19 Dacre Street, London SW1H 0DJ |

# Group Board

## EXECUTIVE DIRECTOR BIOGRAPHIES

**Eddie Bell (67)**
Chairman

Eddie has held a number of senior positions spanning over 30 years in book publishing. Latterly he was the Executive Chairman and Publisher for Harper Collins UK and during his tenure was responsible for publishing the memoirs of both Mikhail Gorbachev and Lady Thatcher, and the autobiography of John Major. Eddie has also held a number of non-Executive positions both within and outside the publishing industry and is currently a non-executive director of New Century Media Limited. On 20 May 2009, Eddie was appointed the Company's Senior Independent Director. On 23 September 2015 Eddie was appointed Vice-Chairman and proceeded to undertake a Group operational and cost review. On 21 March 2016 Eddie was appointed Executive Chairman of the Group.

**John Haynes (78)**
Founder Director

John's biography is the history of Haynes Publishing. John founded the Company in 1960 and by expanding operations into Europe and the USA, was responsible for its growth and development into the international business that we see today. The Company was taken public in 1979. John remains its principal and majority shareholder and takes a very active interest in all aspects of the Group's publishing activities. In 1985 he founded and is the principal benefactor of the Haynes International Motor Museum. In 1995 he was awarded the OBE for services to publishing. On 1 June 2010, 50 years after founding the Haynes Group, John stepped down as Group Chairman but remains on the Board as Founder Director.

**James Bunkum (51)**
Chief Financial Officer

James is a Chartered Accountant who started his career with KPMG and joined Haynes in 1995 as UK Financial Controller and became UK & European Finance Director in 2001. After joining the UK Board James worked closely with the Group's executive team on a number of key projects including the disposal of Sutton Publishing in 2007, the acquisition of the Vivid Group in 2008 and the sale of the UK Book Manufacturing Division in 2009. In 2008 James also took over the duties of Group Company Secretary until stepping down from this role in March 2016. In 2013/14 James worked with the Executive Team on the restructuring of the UK business and more recently worked with Eddie Bell on the Group's operational and cost review. James was appointed to the Group Board in January 2016 and became the Group's Chief Financial Officer on 1 June 2016.

## NON-EXECUTIVE DIRECTOR BIOGRAPHIES

**Stephen Daykin (59)**
Senior Independent
Non-Executive Director

Stephen (Steve) was appointed a Non-Executive Director and Chairman of the Audit Committee on 1 August 2016. Steve is a Chartered Accountant whose early career was spent with PricewaterhouseCoopers. Steve has been the CFO of listed publishing businesses and well as working with private equity backed companies across several sectors including digital media. Steve is currently the CFO of Bigballs Media Ltd, a sports based digital video business based in London and New York. Steve Daykin does not have a service contract with the Company.

# EXECUTIVE DIRECTOR BIOGRAPHIES (CONTINUED)

**J Haynes (49)**
Chief Executive Officer

J joined the Board as a Non-Executive Director on 25 March 2000, having completed a two year MBA at the London Business School. J was formerly a Director at Beeson Gregory, a specialist investment bank, before which he worked for 5 years as a Graduate Trainee with Haynes North America, Inc. In January 2002, J was appointed Managing Director of the Group's UK and European operations and in June 2008 became Group Vice Chairman. On 1 June 2010 J was appointed Group Chairman. J is a patron of Prospex, a London charity that supports young people by providing them with access to learning opportunities and social activities that help build life skills and self-confidence. On 21 March 2016 J stepped down as Chairman ahead of being appointed Chief Executive Officer from 1 June 2016.

**Jeremy Yates-Round (55)**
Managing Director, Consumer Publishing

Jeremy has worked in publishing for over 30 years, gaining a sales background with Hodder & Stoughton in both domestic and international markets. During the 1990's Jeremy moved into sales management with Collins becoming Deputy Managing Director of the Religious division. In 2001 Jeremy joined the Haynes Group as Sales and Marketing Director for the Haynes Book Division and in 2002 was appointed Managing Director of Sutton Publishing prior to its successful sale in 2007. Following the sale of Sutton Publishing, Jeremy took over as Sales and Marketing Director of the Haynes UK operations and on 1 June 2010 was appointed Managing Director of the Haynes UK and European operations. Jeremy was appointed to the Group Board in June 2010 and on 21 March 2016 Jeremy was given additional responsibilities for group print publishing, production and the Haynes Australian business with his appointment as Managing Director Consumer Publishing.

**Alex Kwarts (61)**
Chief Technology Officer

Alex started his automotive career in 1985 with Olyslager, the Netherlands based former publisher of Vehicle Owners Manuals and Technical Information for automotive professionals, where he became IT director and a member of the board. In 1995, together with two partners, Alex left Olyslager to form Vivid Automotive (rebranded HaynesPro in 2012) where from the outset the vision was to deliver automotive technical information in an entirely digital format. Indeed, Vivid Automotive was the first European company to offer automotive technical data via the Internet. Alex was the Company's IT director from formation in 1995 and was appointed Managing Director in August 2009. Alex joined the Group Board in September 2010 and is resident in the Netherlands. On 21 March 2016 Alex was appointed Chief Technology Officer of the Haynes Publishing Group and retains an interest in HaynesPro as its Founder Director.

**Nina Wright (45)**
Independent Non-Executive Director

Nina completed a BSC (Hons) Psychology Degree in Liverpool before undertaking a career in the media industry over 20 years ago. Cutting her teeth in sales at a specialist publisher, Nina has risen through the ranks and is now employed as a regional Managing Director at UBM Plc, a global b2b media company operating in over 30 countries in 70 vertical markets. Nina has significant experience in business turnaround through strategy creation and implementation, with notable expertise in digital and new technology including social media and engagement; content rich live events delivery; data & economic forecasting business growth; and developing a customer first business. Nina joined the board of Haynes as a Non-Executive Director on 1 August 2016. Nina Wright does not have a service contract with the Company.

**Marc Haynes (48)**
Non-Executive Director

Marc completed a BSC (Hons) Business Degree at Manchester before joining the Haynes International Motor Museum, firstly as its Business Development Manager and then having successfully established a number of innovative commercial ventures, as Managing Director. Following the major refurbishment of the Museum in 2014. Marc was appointed Chief Executive Officer before stepping down in October 2015. Marc is also a Director of Haynes Developments Limited which is a property development, management and investment company operating in the UK. In 2008, Marc established Bute Motorsport Ltd, which is the promoter of the highly successful GT Cup Championship motor racing series. Marc Haynes does not have a service contract with the Company.

# Report of the Directors

**The directors present their report and the audited financial statements of the Group for the year ended 31 May 2016. The Strategic Report on pages 3 to 22 along with the Report of the Directors constitutes the management report as required under 4.1.5R of the Disclosure and Transparency Rules.**

## Directors

The names of the directors who served in office during the year and a brief biographical overview are set out on pages 23 to 25.

In accordance with the Articles of Association A Kwarts and J Yates-Round retire by rotation and, being eligible, offer themselves for re-election.

In accordance with the Articles of Association J Bunkum, S Daykin and N Wright retire at the first AGM after appointment and, being eligible, offer themselves for re-election.

MEF Haynes being a Non-Executive Director and having served for more than nine years at the date of the next Annual General Meeting offers himself for re-election in line with the provisions of the 2014 UK Corporate Governance Code.

The interests of the directors in the ordinary share capital of the Company are shown on page 44. As at 21 August 2016 there had been no changes in the directors shareholdings notified to the Company.

At 31 May 2016 the beneficial shareholdings of the directors represented 56.4% of the total issued share capital. This represented 13.3% of the ordinary shares (which are listed on the London Stock Exchange) and 91.7% of the 'A' ordinary shares.

The Company does not operate an executive share option scheme. The directors' interests in contracts with Group companies are shown in note 24 to the consolidated financial statements.

## Appointment and replacement of directors

The appointment and replacement of the directors of the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts, and related legislation.

## Powers of directors

As set out in the Company's Articles of Association, the business of the Company is managed by the Board who may exercise all the powers of the Company. The powers of the directors are more specifically described in the Main Board terms of reference, a copy of which can be found at http://www.haynes.co.uk/investor and are also discussed in the Corporate Governance Report on pages 29 to 33.

## 2016 Annual General Meeting (AGM)

The AGM will be held on Wednesday 9 November 2016 at the Haynes International Motor Museum, Sparkford, Somerset. The Notice of the Meeting along with an explanation of the proposed resolutions are set out in a separate circular which has been sent to shareholders along with the Annual Report 2016 and can be viewed on the Company's website.

The Company conducts voting at the AGM by a show of hands and the results of the votes, including proxies, is published on the Company's website following the Meeting.

## Directors' and officers' indemnity insurance

The Group purchases and maintains insurance for the directors and officers of the Parent Company including the trustees of the pension scheme when undertaking duties in accordance with Sc 233 of the Companies Act 2006.

## Change of control

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change in control of the Company following a takeover. The directors are not aware of any agreements between the Company and its directors or employees that would provide for compensation for loss of office or employment resulting from a takeover.

## Dividends

The directors have recommended a final dividend for the year of 4.0 pence per share (2015: 4.0 pence) making a total dividend for the year of 7.5 pence (2015: 7.5 pence). Subject to shareholder approval at the forthcoming AGM, the final dividend will be payable on 17 November 2016.

## Substantial shareholdings

In accordance with Disclosure and Transparency Rule DTR 5, the Company had been notified of the interest in 3% or more of the Company's issued ordinary 20p share capital as at 31 May 2016 (note 23) by the following:

| | Shares | % Class |
|---|---|---|
| Haynes International Motor Museum | 630,000 | 10.3 |
| Miton Group plc | 626,105 | 10.2 |
| Axa Framlington S.A. | 550,000 | 9.0 |

As at 21 August 2016, the Company had not received any notifications amending the above holdings or notifying of any new significant holdings of 3% or more in the Company's ordinary share capital.

The interests of those directors who have major shareholdings are detailed in the table of Directors' interests in shares on page 44.

## Share capital and related matters

Details of the Company's share capital are shown in note 23 to the consolidated financial statements.

Both the 'A' ordinary shares and the ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital), save that a transfer of 'A' ordinary shares will not be permitted by the directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' ordinary shares may convert such shares into ordinary shares at the rate of one ordinary share for each 'A' ordinary share, subject to the further provisions of the Articles of Association and the Companies Acts.

As at 20 September 2016 (being the last business day prior to the approval of the Annual Report 2016) the Company's issued share capital consists of 9,000,000 'A' ordinary shares and 7,351,540 ordinary shares. As at 31 May 2016, the Company holds 1,240,000 ordinary shares in treasury which represents 16.9% of the ordinary share capital and 7.6% of the Company's total share capital. The Company is not able to vote on the treasury shares and the treasury shares carry no right to receive any dividend or other distribution of assets other than in relation to an issue of bonus shares. Therefore, as at 20 September 2016, the total voting rights in the Company are 15,111,540 of which 6,111,540 are listed on the London Stock Exchange.

The 'A' ordinary shares represent 55% of the total issued capital, and the ordinary shares 45%.

Other than as expressed above, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

At the AGM held on 28 October 2015 special resolutions were passed renewing the directors' authority to make purchases of its own shares up to a maximum number of 1,500,000 shares; to allot further shares of the Company, having an aggregate nominal value of £1,090,102 which represents approximately one-third of the total ordinary share capital of the Company and; to renew the Directors' authority to issue equity securities for cash otherwise than in proportion to existing holdings to a maximum aggregate nominal value of £163,515 which represents just under 5% of the total ordinary share capital of the Company. The authorities granted will expire at the conclusion of the 2016 AGM if not renewed.

## Material contracts

In the view of the directors there is no single contract which is essential to the Group's business for the purpose of the business review disclosure requirements under Sc 417 of the Companies Act 2006. For details of customers representing 10% or more of Group revenue refer to footnote 2 on page 65.

## Information required in the Directors' Report included in the Strategic Report

The Company has chosen to disclose the following information in the Strategic Report on pages 3 to 22:

- Particulars of any events, if there are any, which affect the Company or Group and which have occurred since the balance sheet date.
- An indication of the likely future developments in the business.
- Details of branches outside the UK.
- The information required under the Companies Act 2006 (Strategic Report and Director's Reports) Regulations 2013 in relation to the Group's global greenhouse gas (GHG) emissions.

# Report of the Directors

(CONTINUED)

## Financial instruments

The Group's policies in relation to financial risk management including the Group's exposure to credit risk, liquidity risk and cash flow risk are included in note 21 to the consolidated financial statements.

## Disclosure of information to auditors

The directors of the Company confirm that, in so far as they are aware, the Company's auditors have been made aware of all relevant audit information. In addition, each of the directors has taken all the reasonable steps that a director ought to take to make themselves aware of any relevant information and if there is any such information, to establish that the Company's auditors are also aware of that information.

A resolution to re-appoint BDO LLP as auditors of the Company and to authorise the directors to determine their remuneration will be put to the forthcoming Annual General Meeting.

## Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the directors have reviewed the Group's budgets, cash flow forecasts and capital expenditure requirements for the next twelve months. The Board also considers the impact of the financial risks upon the business, details of which are included in note 21 to the financial statements.

On behalf of the Board.

**Richard Barker**
**Group Company Secretary**

21 September 2016

# Corporate Governance Report

E Bell
Chairman

> The principles of corporate governance are designed to improve company performance by helping boards discharge their duties in the best interests of shareholders, whilst facilitating efficient and entrepreneurial management.

For our financial year ending 31 May 2016, Haynes Publishing Group P.L.C. is reporting for the first year under the UK Corporate Governance Code published in September 2014 ('the Code') as appended to the Listing Rules. The Code is not intended to be a rigid set of rules but rather a guide to the components of good governance which companies are expected to follow. The Code recognises that one set of provisions will not necessarily fit all companies and accordingly, there are certain provisions within the Code which do not apply to companies outside of the FTSE 350. There may also be areas of the Code where smaller companies judge the provisions to be disproportionate or less relevant to their particular circumstances and where good governance can be achieved by other means. In such instances, Boards are required to disclose the area of strict non-compliance in their Annual Report.

Set out below is how we as a Board (and through our sub-committees) have discharged our duties under the Code during the year under review. We also provide details of where our governance differs from the strict provisions of the Code and the reasons for the divergence. For those who would like to view the full text of the Code, details can be found on the FRC website at www.frc.org.uk.

**E Bell**
**Chairman**
21 September 2016

## Statement of compliance

The Board of Haynes Publishing Group P.L.C. recognises the importance of high standards of corporate governance. Accordingly, it has considered the principles and provisions of the Code and will continue to manage its affairs in line with the principles where it is in the interests of the business and of shareholders to do so. Other than where expressly stated, the Company has complied with the principles, supporting principles and provisions of the Code throughout the year under review.

## Board of directors

During the year, the Board reviewed its terms of reference which lay precise emphasis upon its responsibility for the overall management and strategic direction of the Group. The Board aims to encourage entrepreneurial endeavour within a framework of prudent planning and control. The Board appraises and approves major financing, investment and contractual decisions in excess of defined thresholds. All members of the Board are cognisant of their duty to act collectively and objectively in the best interests of the Company. During the year, both the Audit Committee and the Remuneration & Nomination Committee were chaired by the senior independent non-executive director. Since the financial year-end the Board has recruited two additional non-executive directors, Steve Daykin and Nina Wright who Chair the Audit Committee and the Remuneration & Nomination Committee respectively. The non-executive directors are intrinsically involved in scrutinising and monitoring the performance of management, and assessing the processes for the control of financial and other risks. The terms of reference for the Committees may be viewed on **www.haynes.co.uk/investors**.

- The Board comprises six executive and three non-executive directors, two of whom, S Daykin and N Wright are considered to be independent by the Board. The recruitment of the two new non-executive directors brings the Company back into line with recommendation B.1.2 of the Code which requires smaller companies to have at least two independent non-executive directors. In relation to MEF Haynes, the Board considers that his close family ties with other members of the Board and his significant interest in shares determine that he is not independent in line with the provisions of the Code. Notwithstanding these circumstances or relationships, the Board believes MEF Haynes to be independent in character and judgment.

# Corporate Governance Report
(CONTINUED)

- The biographies of the directors are set out on pages 24 and 25 of this Annual Report.
- The division of responsibility between the Chairman and the Group Chief Executive is clear and understood and has been committed to writing and approved by the Board. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness along with the effectiveness of the individual directors, while the Chief Executive is responsible for the day to day running of the business.
- The present constitution of the Haynes Board provides a wide mix of skills and experience. The Board has a strong understanding of the global markets in which the Group's businesses operate from the hands-on experience of working in each subsidiary. The Nomination Committee is responsible for succession planning and recommending new appointments to the Board and will make such recommendations based on the skills, knowledge and experience of the existing directors as well as the overall diversity of the Board.
- The non-executive directors occasionally hold meetings informally without the executive directors present. Likewise, the Chairman occasionally meets with the non-executive directors without the executive directors present.
- The Board meets at regular intervals of approximately two months to determine and monitor corporate strategy, to review the trading and financial performance of the Group and to consider matters specifically reserved for its approval. The table below details the number of board and committee meetings held during the year and the attendance record of the individual directors :

| | Full Board meetings | Short Board meetings | Audit Committee meetings | Remuneration & Nomination Committee meetings |
|---|---|---|---|---|
| **Number of meetings in year** | **5** | **1** | **4** | **1** |
| E Bell | 5 | 1 | 4 | 1 |
| JHC Haynes | 5 | 1 | | 1 |
| E Oakley[1] | 5 | 1 | | |
| D Benhardus[1] | 5 | | 3* | |
| J Bunkum[2] | 2 | | 1* | |
| J Yates-Round | 5 | 1 | | |
| A Kwarts | 5 | | | |
| JH Haynes | 5 | 1 | | |
| MEF Haynes | 4 | | | 1 |

1 E Oakley and D Benhardus retired on 31 May 2016

2 J Bunkum was appointed to the board on 27 January 2016

* D Benhardus was invited to (and attended) the meetings on 26th August 2015, 21 September 2015 and 27 January 2016. J Bunkum was invited to (and attended) the meeting on 8 June 2016.

Full Main Board meetings are scheduled at least 12 months in advance and include regular agenda items such as current trading, the Group's financial and treasury position, corporate governance, health and safety, shareholder engagement and Group strategy.

Short Main Board Meetings are in most cases called at short notice to discuss and/or approve business matters specified for the Main Board. All the Directors will be invited to attend the meetings and where relevant provided with the background papers pertaining to the meeting. However, the Board recognises that due to the short notice, the directors may not always be able to physically attend the meeting. Nevertheless, in such circumstances it is commonplace for the thoughts and feedback of these Directors to be considered at the meeting.

- The directors are able to take independent professional advice in the furtherance of their duties at the Group's expense and all directors have access to the advice and services of the Group Company Secretary.
- The Board has identified S Daykin as the senior independent director.
- The Board defines an independent director as one who has no relationship with any company within the Group or its management which may undermine independence, who is not dependent on the Group or its management for his or her primary source of income, who was not within the last five years a senior manager within the Group, and who does not participate in the Group's incentive bonus schemes or pension arrangements.
- The memberships of the Committees of the Board are indicated on page 23. At Committee meetings no-one except the Chairman of the Committee and its members are entitled to be present – but others may attend by invitation.
- Executive directors may be permitted to take a limited number of outside non-executive directorships in non-competing companies, subject to the approval of the Remuneration & Nomination Committee.

## Information, professional development and evaluation

All directors are provided with regular performance updates and full and timely access to information that enables them to make informed decisions on corporate and business issues. The Board receives monthly management accounts explaining performance against budget and the comparable year for each sector of the business, as well as risk management and business plans. The executive directors receive information on sales and margins for the individual businesses within the Group on a weekly basis.

Directors are encouraged to regularly update and refresh their skills and knowledge on the basis that 'all development is self-development'. The Group Secretary is responsible through the Chairman for facilitating the training and induction of newly appointed directors, and ensuring that they are familiar with the Company's operations and their own duties and responsibilities. He is also responsible for advising the Board through the Chairman on governance and legal matters.

During the year, the Board has undertaken a formal appraisal of its own performance and processes and that of its committees, including a review of each committee's composition and operating procedures.

Through a combination of personal discussions, general observation and ongoing monitoring of performance, the contribution of each individual director has been assessed by the Chairman against expected standards. The process of ongoing monitoring and review helps the Chairman to ensure that the contribution of the directors continues to be to the agreed standards and relevant to the Group's business and organisation.

In turn, the Chairman's own performance has been reviewed by the senior independent director following consultation with his fellow non-executive directors and other members of the Board.

According to the Articles of Association all directors should seek re-election by shareholders at regular intervals of no more than three years. Directors are also subject to re-election by shareholders at the first AGM after their appointment.

## Directors remuneration, contracts and nomination

- In accordance with the provisions of the Code, a Remuneration & Nomination Committee with its own terms of reference has been established by the Board. The Board's Report on Remuneration, which follows on pages 37 to 46, sets out details of the Group's policy on remuneration, the directors individual remuneration and the work of the Remuneration & Nomination Committee. This includes an explanation of those areas of non-adherence to the provisions of the Code.

- The Remuneration & Nomination Committee is responsible for succession planning and recommending to the Board the appointment of new directors. The Board formally vets and scrutinises these proposals. The Committee's composition is explained in the Board's Report on Remuneration. Where deemed appropriate the Committee may use external search consultants to identify and evaluate suitable candidates to fill a Board position. During the financial year an external firm of consultants has been commissioned to identify and evaluate potential candidates to fulfil the new non-executive Board positions.

- All executive directors have rolling service contracts with the Company implemented as a matter of course and terminable with a notice term of one year or less, which in all cases may be served by either party (see page 46).

- The non-executive directors do not have service contracts with the Company but are usually appointed at the will of the Board for a fixed period of two years.

# Corporate Governance Report
(CONTINUED)

## Dialogue with shareholders

- The directors consider that clear and timely communication of information to Shareholders is an important part of their function. The Chairman's Statement and Strategic Report on pages 3 to 22 provide a summary of the Group's trading performance and future outlook. In addition to the publication of the Group's Annual Report, the Board issues an Interim Report at the end of January each year which provides a financial and narrative review of the first six months of the financial year. The Company's corporate brokers also arrange briefings for Shareholders or their representatives with the Group's management following the Group's interim and final announcements.

- The Chairman is in a good position to ensure that the views of major Shareholders are communicated to the Board as a whole. Additionally, the Chief Executive updates the Board with any significant discussions/feedback with Shareholders at each Board meeting.

- The Board views the Annual General Meeting as an ideal opportunity to communicate with both institutional and private investors alike and confirms its compliance with all the provisions of the Code relating to the constructive use of Annual General Meetings. This year's Annual General Meeting will be held on 9 November 2016 and all Board directors (including Committee Chairs) plan to be present and available to answer questions.

## Accountability, audit, and going concern

It is the intention of the Board through this Annual Report, and other public reports and announcements, to present a balanced and understandable assessment of the Company's position and prospects. The directors have set out their responsibility for preparing the accounts on page 47 of the financial statements.

### Financial

- A comprehensive budgeting system is in place with annual budgets requiring approval by the directors. The results of the trading companies within the Group are reported monthly and compared to plan. The Group reports its financial results to shareholders on a six monthly basis.

- Authority limits are in place across the Group defining expenditure levels and the Group has clearly prescribed guidelines covering capital expenditure (which includes detailed appraisal and review), levels of authority and due diligence requirements when businesses or assets are being acquired.

- A report on the Group's cash flow and treasury position is received by the directors at every full Board meeting.

- In addition (to the extent required to form a statutory audit opinion) the Group's financial systems are subject to annual review by the Group's external auditors and reportable weaknesses, if any, identified during this annual review process are discussed with the Audit Committee.

### Operational

- There is a clearly defined organisational structure which allows the Group's objectives to be planned, executed, controlled and monitored. The Group is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.

- The directors and senior management implement the control objectives of the Group through the adoption of defined checks and procedures. These include the review of financial and operational information, the setting up of appropriate authority levels, the segregation of incompatible duties and the defining of procedures for seeking and obtaining approval for major transactions and organisational changes.

- The management information systems provide the directors with relevant and timely reports, from which the directors can monitor the performance of the business. The executive directors have a significant involvement in the day to day management of the Group's activities and accordingly, are able to monitor and control procedures at an operational level.

### Compliance

- Effective health and safety and quality control procedures operate to meet or exceed the standards for approval set by external regulatory bodies. The systems are constantly being evolved and refined to reflect business advances, process changes, and quality issues.

- Litigation and claims by or against the Company and its subsidiaries are controlled by Senior Management, with the assistance of external counsel as required. The directors are kept informed and are able to stay abreast of events.

## Risk management

- The Board has the primary responsibility for identifying the major business risks facing the Group and developing appropriate policies to manage those risks. These policies are used both by the directors and by senior management to determine the key control procedures for each area of risk identified by the Board and the degree of information required to safeguard the business and the assets used within it.

- It is accepted that risk is itself prevalent in any commercial enterprise and that it must be the objective of the Group's management and staff to be prudent in the acceptance and control of risk incurring activity, rather than aiming to eliminate it entirely. Thus the reporting systems can only provide reasonable and not absolute assurance against damage or loss resulting from business activities.

- Through its day to day management disciplines, face to face meetings, regular written reports and monitoring systems, the Group evaluates and mitigates unnecessary risks.

- In addition, there are a number of areas of the Group's business where it is necessary to accept a degree of risk in order to deliver revenue and profitability growth. The publication of automotive workshop manuals and a range of titles covering non-automotive practical and DIY subject matters, including a range of light entertainment manuals styled on the iconic Haynes Manual, engenders commercial and publishing risk requiring close evaluation by editors and editorial committees with an in-depth knowledge of their subject and their markets.

- For the financial year ended 31 May 2016, the Board is satisfied that there was in place an ongoing process for identifying, evaluating, and managing the significant risks faced by the Group as a whole. This process is formally structured by means of a written report which is presented annually to the Board. In addition, through discussion with the heads of the various operating units, an update is provided to the Board by the Group Chief Financial Officer at the half year. Risks identified by this process are regularly reviewed by the Board and addressed jointly by the Group Chief Executive Officer and directors drawing upon the skills of senior management as necessary. The Board monitors this process and is satisfied that, given the size of the Group, and the nature of its operations, this was a robust assessment and that the process is sufficient to meet its needs without unduly hampering entrepreneurial activity, and that (in accordance with the recommendation of the Audit Committee) a separate internal audit function is not required.

On behalf of the Board.

**Richard Barker**
**Group Company Secretary**

21 September 2016

# Report of the Audit Committee

**Stephen Daykin**
Audit Committee Chairman

## Members of the Committee:

**Stephen Daykin** (Chairman), **Eddie Bell, Nina Wright**

In this my inaugural year as Chairman of the Committee, I am pleased to present the Committee's Report for the first time under the guidance of the UK Corporate Governance Code ("the Code") published in September 2014. The Committee oversees the Board's relationship with the Company's external auditors and monitors the Company's internal financial controls and external financial reporting to ensure that the financial and non-financial information presented to shareholders is a true, fair and balanced overview of the Company's and Group's performance.

## Composition of the Audit Committee

During the year under review, the Committee was chaired by Eddie Bell as the Board's sole independent Non-Executive Director. The Board considered Eddie to have had the recent and relevant financial and commercial experience to undertake the role of Chairman through his past and present business roles including directorships held.

When Nina Wright and I were appointed as Non-Executive Directors on 1 August 2016, we were also appointed to the Audit Committee, which I now chair. Through my fellowship of the Institute of Chartered Accountants in England and Wales (ICAEW) and my recent and relevant commercial experience, the Board considered me suitably qualified to undertake this role.

Following the Committee changes in August 2016, the Board now fully complies with the recommendation under C.3.1 of the Code for the Audit Committees of smaller companies to have at least two independent non-executive directors. Eddie Bell has remained on the Committee following his appointment as Executive Group Chairman as he was deemed by the Board to be independent at the time of his new appointment.

## Responsibilities of the Audit Committee

The responsibilities of the Committee are reflected in its terms of reference, details of which can be found on the Haynes.co.uk/investor website. The principal duties of the Committee are as follows :

- To make recommendations to the Board in relation to the appointment and re-appointment of the Group's external auditors including their remuneration and terms of engagement and to keep under review the relationship with the external auditors, including their independence, objectivity and the effectiveness of their audit process.

- To review and challenge where necessary the integrity of the Group's financial statements and any formal announcements containing detailed commentary upon the Group's financial performance. The Committee also keeps under review the consistency of accounting policies both on a year-to-year basis and across the Group, including the significant accounting estimates and judgements made by management.

- To review the effectiveness of the Group's financial reporting and internal financial control policies and procedures for the identification, assessment and reporting of financial risk. This review includes an annual assessment of whether there is a need for an internal audit function.

- To keep under review the "Whistle blowing" arrangements across the Group to ensure that procedures are in place for staff to report fraud and similar matters.

- In certain circumstances it is permitted by the Board for the auditors to supply non-audit services (such as the provision of tax advice or on specific projects where they can add value). The Committee monitors the application of this policy in order to safeguard the objectivity and independence of the external auditors.

- To investigate any matter within its terms of reference and where necessary to obtain external legal or other independent professional advice.

## Main activities during the year

During the financial year ended 31 May 2016 the main activities of the Committee included the following :

- The Committee met with the external auditors on four occasions, three of which were face to face meetings.
- The Committee considered and reviewed the external auditor's pre-audit planning documentation.
- The Committee considered and reviewed the Group's half year and annual results and received written presentations from the external auditors outlining their audit processes and their principal auditing judgements.
- The Committee considered the appropriateness of the Company's whistleblowing procedures and also the effectiveness of the Group's internal control procedures including an assessment of whether there is a need for an internal audit function.

## Significant financial judgements

As mentioned above, the Committee reviews the areas where management make significant accounting judgements and estimates to ensure they appear reasonable and appropriate. Included below are the principal areas where management made significant judgements or applied their best estimates during the year and how the Committee satisfied itself these judgements and estimates were reasonable and appropriate :

### Specific to the period

- **Exceptional items.** During the year the Board commissioned Eddie Bell, in his capacity as Senior Independent Non-Executive Director, to undertake a global operational, cost and structure review ("the review"). Following a full appraisal of the review's findings the Board agreed to implement all the recommendations which included a significant restructuring of the US business. The implementation of the review's recommendations resulted in some significant one-off costs during the period. The Committee has reviewed the key assumptions made by management and the disclosure of these items in the financial statements and has discussed the treatment adopted by management with the Group's auditors.
- **New UK GAAP.** In the UK, a new regime of financial reporting was introduced for companies with accounting periods beginning on or after 1 January 2015. Accordingly, the Group's UK subsidiaries will be adopting FRS 100 and FRS 101 (reduced disclosure framework) for their financial years ended 31 May 2016. During the year, management prepared a gap analysis report to identify the principal differences between the former UK GAAP and the new Financial Reporting Standards, a copy of which has been reviewed by the Committee.

### Regular items

- **Impairment testing of intangible assets**. In line with IAS 36, the Group is required to test the carrying value of goodwill and intangible assets with indefinite or indeterminate lives, at least annually, for impairment. As part of this review process, the recoverable amount of the asset is determined using value in use calculations, which require management to make key judgements and best estimates of such items as future sales growth, sales pricing and cost increases in order to predict future cash flows of the cash generating units (CGU's). Through discussions at Board meetings, the review of circulated Board papers and using its own knowledge of the market sectors where appropriate, the Committee has assessed the appropriateness of the key assumptions and judgements made by management and where appropriate challenged management on these assumptions. The Committee has also reviewed the approach adopted by the external auditors, including the extent to which they have challenged management on the procedures and processes undertaken during the year, to make sure their approach was robust and was designed to adequately challenge the underlying assumptions used by management in their various models and calculations.
- **Inventory provisions.** The Group reviews its finished goods inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete stock based on estimates of future sales activity. The estimates of future sales activity by management is based on both historical experience and expected outcomes using their knowledge of the markets in which the Group operates. During the year, the Committee has discussed with management the appropriateness of the provisioning policy, in light of recent trading patterns. The Committee has also reviewed the auditors approach for testing the ageing and saleability of the current inventory.
- **Accounting for pensions**. In determining the pension cost and the defined benefit obligation of the Group's defined benefit pension schemes, a number of assumptions are required from management including the use of an appropriate discount rate, the levels of salary escalation and price inflation, the expected return on the schemes' investments and mortality rates. The Committee discussed with management how they had derived these assumptions including the extent to which qualified actuarial advice had been sought. The Committee also assessed the scope of work undertaken by the auditors, including the use of actuarial specialists to ensure the pension obligation has been correctly accounted for and disclosed in the financial statements.

# Report of the Audit Committee

(CONTINUED)

## Internal control and risk management

The Board maintains a sound system of internal control to safeguard its assets and the investments of shareholders. The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. At least annually, the Board conducts a review of the effectiveness of these internal controls and takes the necessary action to remedy any significant failings or weaknesses which may be identified by its review. If during their audit testing and reviews the auditors identify any breaches or weaknesses in the Group's internal controls, in the first instance, these will be discussed with the Committee.

## Internal audit

The Committee has reviewed the need for an internal audit function within the Group and concluded that given the present structure and size of the Group a separate internal audit function is not considered necessary or appropriate at this time.

## External audit

The Committee is responsible for making recommendations to the Board in relation to the appointment and re-appointment of the Company's external auditors, including their remuneration and terms of engagement. The Group's current auditors BDO LLP (BDO) have held this position since 2003 with the Committee last placing the Group audit out to open tender in 2007. Under current guidance, external auditors are required to rotate their lead audit partner every five years. This is the first year of appointment for the current BDO lead partner and therefore, in line with the UK Listing Rules, he will need to retire from the Haynes Group audit no later than the conclusion of our 31 May 2020 financial year-end.

The Committee meets with BDO at least three times a year to discuss the Group's framework of controls, Group reporting and other relevant matters. At the conclusion of each annual audit, the Committee receives and considers a report from BDO setting out any material findings from their audit of the individual Group companies and reports to the Board as necessary. The Group Chief Financial Officer is invited to attend all meetings of the Committee as set out in the terms of reference of the Committee. The effectiveness of the external audit team is regularly monitored by the Committee through such measures as assessing the clarity of the planning and post audit review documents presented to the Committee, the robustness of their audit and review procedures and their knowledge and understanding of the markets in which the Group operates, including their access to appropriately qualified specialists as and when required.

In assessing the independence and objectivity of the external audit firm, the Committee reviews, on an annual basis, the length of service of the key audit team members as well as reviewing the level of non-audit fee income the firm has derived from the Group in the previous 12 months. A table outlining the fees paid to BDO is included in the notes to these Consolidated Financial Statements. All significant non-audit work undertaken by the external auditors is approved in advance by the Committee.

The Committee is satisfied that the relationship with BDO is working well, that their audit processes remain effective and that there are no concerns regarding their independence. Accordingly, the Committee has recommended to the Board that BDO be re-appointed as the Group's auditors at the next Annual General Meeting.

**Stephen Daykin**
**Chairman of the Audit Committee**

21 September 2016

# Board Report on Remuneration

**Nina Wright**
Chairman – Remuneration Committee

**Members of the Committee:**

**Nina Wright** (Chairman), **Eddie Bell, Marc Haynes, Stephen Daykin**

One of my first duties as Chairman of the Remuneration Committee, following my appointment to the Board on 1 August 2016, is to present this year's Board Report on Remuneration ('the Report') which covers the 12 month period to 31 May 2016. Following the retirements of Eric Oakley and Dan Benhardus at the end of the financial year and the recommendations contained in the operational, cost and structure review in relation to the future Board structure, there have been a number of changes made to the composition of the Main Board since last year and this report sets out the impact of these changes on individual and overall Board remuneration.

## 1 Chairman of the Remuneration Committee – Annual Statement

The report has been prepared in compliance with the information required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the provisions of the UK Corporate Governance Code 2014 ("the Code") and the Listing Rules of the Financial Conduct Authority.

The report comprises three sections as follows:

- The Chairman's annual statement
- The Directors Remuneration Policy
- The Annual Report on Remuneration

At the Group's 2014 Annual General Meeting (AGM), the Directors Remuneration Policy as set out on pages 39 to 41 was approved by our shareholders and in-line with the above guidance, unless the Committee wishes to make a change to the policy which would require shareholder approval, the existing policy remains in force for one more year at which point it will once again be put before shareholders for approval as an ordinary resolution at our AGM.

The Annual Report on Remuneration sets out the payments made to directors during the financial year under review and along with this introductory statement will be subject to an advisory shareholder vote at the 2016 Annual General Meeting.

### 1.1 Remuneration Committee ("the Committee") composition

During the year under review the Committee was chaired by Eddie Bell as the Board's sole independent Non-Executive Director, with J HC Haynes (Executive Chairman) and Marc Haynes (Non-Executive Director) also on the Committee. Whilst, as required by D.2.1 of the Code, J HC Haynes was not considered independent on his appointment as Group Chairman, the Board gave full consideration to the other provisions of the Code and in particular, D.2 which states that Remuneration Committees should consult with the Chairman and/or the Group Chief Executive about their proposals relating to the remuneration of the other Executive Directors. Having considered the Committee's terms of reference, the constitution of the Group Board at that time and the frequency of meetings, the Board felt it practical to include the Executive Chairman as a member of the Committee. Any changes affecting the remuneration of J HC Haynes were discussed by the Committee without his participation.

From 1 August 2016 the composition of the Committee has changed and I have now taken on the role of Committee Chairman. I am joined on the Committee by Eddie Bell, Steve Daykin and Marc Haynes. In line with the provisions contained in D.2.1 of the Code as Eddie Bell was considered independent on his appointment as Executive Chairman, the Board felt it appropriate to include the Group Chairman as a member of the Committee. Any changes affecting the remuneration of Eddie Bell are discussed by the Committee without his participation. Following the appointments of Steve and myself as independent non-executive directors I am pleased to confirm that the Committee now meets the requirements under the Code of having at least two independent non-executive directors on the Committee.

# Board Report on Remuneration

(CONTINUED)

## 1.2 Responsibilities of the Committee

The responsibilities of the Committee are reflected in its terms of reference, details of which can be found on the Haynes.com/investor website. The principal duties of the Committee are summarised below :

- To determine and agree with the Board the framework or broad policy for the remuneration of the Chief Executive, the Chairman of the Company, and the executive directors. The remuneration of non-executive directors is a matter for the executive members of the Board.
- To take into account all factors which it deems necessary to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company.
- Within the terms of the agreed policy, to determine the total individual remuneration package of each executive director including, where appropriate, bonuses, incentive payments and share options and to determine targets for any performance related incentive schemes operated by the company, seeking shareholder approval where appropriate.
- To determine the scope and nature of service agreements for the executive directors, termination payments and compensation payments, taking into account the prevailing pension arrangements. In particular, the Committee shall endeavour to ensure that the contractual terms on termination and any payments made are fair to the individual and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- In determining such packages and arrangements, give due regard to the recommendations of the UK Corporate Governance Code 2014, the Listing Rules of the Financial Conduct Authority and current legislation.

In determining the emoluments of the executive directors, the Committee feels it is impractical to also monitor in detail the remuneration of senior management below board level as required by D.2.2 of the Code. Accordingly, the remuneration packages of senior management below Board level are reviewed by the executive director responsible for the respective business areas in which the senior managers are employed.

### 1.3 Activities of the Committee in the current financial year

The main activities of the Committee which met once during the financial year ended 31 May 2016 were as follows :

- **Salaries**
  During the year, the Committee approved a 2% increase for all executive directors effective from 1 June 2015 which was in line with the average increase given to group wide employees. Following the announcements of the retirements of Eric Oakley and Dan Benhardus from 31 May 2016, James Bunkum was appointed to the Board on 27th January 2016 as Chief Financial Officer designate with an annual salary of £150,000, effective from 1 March 2016.

  On 1 April 2016 the following changes occurred:

  - J Haynes stood down as Group Chairman to become Chief Executive Officer designate with an annual salary of £175,000.
  - Eddie Bell stepped down from his role as Senior Independent non-executive director to take on the role of Group Chairman with an annual salary of £100,000.
  - Alex Kwarts took on a new role as Chief Technology Officer with an annual salary of €200,000.
  - Jeremy Yates-Round took on a new role of Managing Director Consumer Publishing with an annual salary of £130,000.

- **Pension arrangements**
  As reported last year, at the end of our financial year ended 31 May 2015 the Committee reviewed the pension arrangements of J Haynes and Jeremy Yates-Round in the UK Retirement Benefit Scheme (the Scheme). Following this review the two directors ceased their active membership of the Scheme from 1 June 2015. Further details of their new arrangements are included in Sc2.1(ii). On his appointment to the Board in January 2016 James Bunkum moved into the Main Board category of the Scheme which provides for retirement at the age of 61 (previously 66 as a subsidiary director).

- **Bonuses**
  During the year under review, apart from Eddie Bell, each executive director was entitled to a performance related bonus based on the profit of the Group or a component of the Group. As the bonus arrangements are contractual with no discretionary element included there is no judgement decision to be made by the Committee in respect of the bonus awards.

  From 1 June 2016 a new bonus arrangement has been put in place for all the executive directors which caps the amount of bonus payable at 20% of the executive's annual gross salary. Further details of the new arrangements are discussed in Sc2.1(i).

- **Benefits**
  On his retirement, Eric Oakley purchased his company vehicle from Haynes North America Inc for $50,000 which was deemed to be under the open market value by $41,010. Dan Benhardus was gifted his company vehicle by Haynes North America Inc which was deemed to have an open market value at the time of his retirement of $20,000. On his appointment to the Board James Bunkum continued to receive a company car with private fuel and private medical cover for himself and his family.

  Apart from the above there were no new benefits awarded during the financial year.

- **Share options**
  Although the Company has approval to operate an executive share option scheme, there were no new options granted during the year and there were no options in existence at either the beginning or end of the financial year.

# 2 Directors Remuneration Policy

The principal elements of executive directors' remuneration comprises a basic salary and fixed benefits, an annual bonus and the provision of a post-retirement pension. Each of these elements is viewed with equal importance by the Committee, so as to ensure that the remuneration packages reflect not only the short term but also the longer term goals of the Company and of the Group. Whilst the bonuses paid during the year formed part of pensionable salary, which is contrary to Schedule A of the Code, under the new bonus arrangements, introduced from 1 June 2016, bonus payments no longer form part of pensionable pay which addresses the area of non-compliance with the Code.

Non-executive directors receive a fee for their services and are entitled to the reimbursement of incidental expenses.

The table overleaf sets out the various elements forming a director's remuneration package which we intend to apply for the coming year. In line with the regulations which came into effect on 1 October 2013 unless it is felt appropriate or necessary to seek approval for a change in the policy ahead of this timeframe, it will be the intention of the Board to review the policy and put before the shareholders for approval at the 2017 AGM.

# Board Report on Remuneration

(CONTINUED)

## 2.1 Directors remuneration policy table

| Element of remuneration | Purpose and link to Company's strategy | How the element operates (including maximum opportunity) | Performance metrics where relevant |
|---|---|---|---|
| **Base Salary** | – To attract, motivate and retain executive directors of the right calibre to ensure the future growth and success of the Group. | – Salaries are set to reflect the individual responsibilities and role of the director. The Committee may at its discretion increase the base salary of a director where there is a change in a director's responsibility, personal progression in the role or to reflect the increased experience of the individual director.<br>– Base salaries are reviewed annually with changes normally taking effect from 1 June. Base salaries of the directors located in the UK and Europe are paid monthly in arrears and for the US based directors are paid twice a month in arrears. | – When undertaking its annual review the Committee is mindful of the annual pay review process for employees elsewhere in the wider Group, comparable pay for like roles in similar sized businesses as well as the retail price index and similar indices of inflation. |
| **Benefits** | – To attract, motivate and retain executive directors by providing benefits which are commensurate with the role and responsibility of the director. | – The benefits available to the directors will take into account local market practice in the country where the director is based and will principally include the provision of a company car (including private fuel) or an alternative cash allowance, private medical cover for the director and their immediate family and income protection. There is no prescribed maximum but the Committee monitor the overall level of benefits to ensure the cost to the business is proportionate. | – Not performance related |
| **Annual bonus** | – To provide a reward scheme for executive directors which aligns the benefits to the directors with the interests of the stakeholders and which is transparent and administratively straightforward to operate. | – For the year to 31 May 2016 a bonus is payable to executive directors based on the performance of the overall Group or a substantial component of the Group. The bonus is typically based on a percentage of 'net profit' with net profit for the Group being defined as profit before tax, excluding profits or losses of a capital nature and before the deduction of bonuses payable to executive directors. For bonus arrangements based on components of the Group, the definition is similar to the above but before the deduction of Group costs and for overseas operations before adjustments to comply with Group reporting requirements. There is no upper limit which may become payable under the contractual bonus arrangements.<br>– From 1 June 2016 all executive bonuses are based on the performance of the overall Group and an element of personal performance. All bonuses are capped at 20% of gross base salary. A bonus of 5% of gross base salary can be earned if the Group achieves 90% or more of the budgeted profit before tax. An additional bonus of 10% can be earned if the Group achieves 100% or more of budgeted profit before tax. A further 5% of gross base salary can be earned if the executive meets their personal performance targets.<br>– The Committee has the discretion to adjust the applicable percentages or target metrics where there is a change in a director's responsibility or where the development and/or increased experience of the individual director justify such an amendment. | – Refer to note (i) for details of the individual director's bonus arrangements. |
| **Pension** | – To offer a retirement package which helps to attract and retain directors of the right calibre to ensure the continued growth and success of the Group. | – The Committee may authorise the funding of a director's pension arrangement as appropriate. This could include participation in one of the Group's defined benefit pension schemes, contributions to a money purchase scheme and/or payment of a cash allowance as appropriate. Life assurance linked to the membership of a pension scheme may be available to the directors as appropriate.<br>– Details of the pension arrangements for the specific directors (including maximum entitlements) are included in note (ii). | – Not performance related |
| **Non-Executive fees** | – To support the recruitment of high quality and experienced Non-Executive directors. | – The fees for non-executive directors are determined by the Board and are set to reflect the time commitments and responsibilities associated with the role.<br>– Incidental expenses are payable to non-executive directors as appropriate.<br>– A basic annual fee for normal duties is paid monthly through the Company payroll. Supplementary fees may also be payable for additional duties at the discretion of the Board. | – Not performance related |

## Notes to the Policy Table

i) Bonus arrangements

The bonus arrangements for the executive directors for the year under review were as follows:

- E Bell did not participate in the bonus arrangement for the year ended 31 May 2016.
- JHC Haynes was entitled to a bonus of 0.5% on the first £4.5 million of overall Group net profit and 1.5% thereafter.
- E Oakley was entitled to a bonus based on the following proportion of overall Group net profit: 1.5% on the first £4.5 million, 2.5% between £4.5 million and £7.5 million, and 3.5% over £7.5 million.
- D Benhardus was entitled to a bonus of 0.5% of overall Group net profit.
- J Yates-Round was entitled to a bonus of 1% of the net profit of the UK and European businesses.
- A Kwarts was entitled to a bonus of 2% of the net profit of the HaynesPro Group.
- JH Haynes was entitled to a bonus of 1% of the Group's overall net profit.
- J Bunkum was entitled to a bonus of 0.5% of the net profit of the UK and European businesses.

The bonus arrangements in relation to the year ended 31 May 2016 are non-discretionary and form part of a director's contractual arrangement with the Company with no claw back or recovery provisions in place. In the event of termination for cause, the bonus element of remuneration is either not payable or payable only at the discretion of the Company.

From 1 June 2016 a new bonus arrangement has been put in place for all the executive directors. The new arrangement caps the level of bonus that can be earned in a year to 20% of an executive's gross base salary. The full 20% can be earned if the following conditions are met:

- An award of 5% of gross basic pay if the Group achieves 90% or more of budgeted net profit in the relevant financial year.
- An additional 10% of gross basic pay can be earned if the Group achieves 100% or more of budgeted net profit in the relevant financial year.
- A further award of 5% of gross basic pay can be earned if the executive meets their pre-determined performance objectives.

ii) Pension arrangements

The executive directors' entitlement to pension related benefits arising from their employment with the Group are described below.

- E Bell does not have any pension entitlements arising from his employment with the Group.

- JHC Haynes, J Yates-Round and J Bunkum are members of the UK defined benefit pension scheme ('UK Scheme'). The target pension for the directors is currently seven-eighths of two-thirds of final pensionable salary at the age of 61 (two-thirds of final pensionable salary from age 60 pre 12 July 2011). Final pensionable salary is defined as an average of the best three consecutive annual pensionable salaries in the final 10 years of service. Active members contribute 8% of their pensionable pay, as defined under the Scheme rules. Death in service benefits provide for a return of the individual's contributions made to the UK Scheme, a cash sum equal to 4 times pensionable salary and a widow or dependants pension equal to 50% of the target pension receivable at normal retirement age. For death occurring during retirement a widow's pension equal to 50% of pension entitlement is payable.

  Pensions increase annually during retirement by the lower of 2.5% or the percentage rise in the Retail Price Index (5% pre 12 July 2011). With the approval of the UK Scheme Trustees and the Employer, members may retire from the age of 55 on an actuarially reduced pension based on the shorter working life and after taking into account the cost of earlier payments.

  With effect from 1 June 2015 JHC Haynes and J Yates-Round ceased to be active members of the UK Scheme and from this date both directors became deferred members. In consideration of their cessation from active membership of the UK Scheme, JHC Haynes received an increase in annual gross salary of 20.4% and J Yates-Round received an increase in annual gross salary of 36.3%. Both directors continue to receive life assurance cover under the same terms as when they were active members of the UK Scheme.

- E Oakley, D Benhardus and JH Haynes were members of the US defined benefit pension plan ('US Plan'). The US Plan provides for a pension that vests in yearly increments reaching a maximum of 50% of final pensionable salary on attaining 7 or more years' service with the Company. The final pensionable salary is calculated in a consistent manner to the UK scheme. The retirement age for the non-contributory US Plan is 65. Death-in-service benefits provide for a widow or dependants pension equal to the actuarial equivalent of the accrued benefit at the date of death. For death occurring during retirement a widow's pension equal to 50% of pension entitlement is payable. In both cases election may be made to receive a cash lump sum, or by instalments, the amounted vested (actuarial accrued benefit). Pensions do not increase during retirement. There are no provisions for early retirement under the US Plan rules but the vested actuarial accrued benefit may be taken in instalments, as a lump sum or left in the Plan until age 70 when, by law, they must be taken. As E Oakley, D Benhardus and JH Haynes have reached the age of 65 they are no longer accruing benefits under the US plan.

  In the US, members whose benefits are capped by legislation participate in an additional money purchase arrangement. A scheme has been set up based on the difference between the Company's actual contributions to the defined benefit scheme and those contributions which would have been paid without the legislative cap. Additionally, in the US there is an employer savings plan (401K pension plan) available to all employees. Under the plan the Company contributes 1.6% of salary as well as matching one third of employee's deferrals up to a maximum of 6% of salary.

- A Kwarts is a member of the HaynesPro Holding BV money purchase pension scheme which is governed by the employment laws in the Netherlands. Under the regulated scheme the employee contributes 3.5% of gross salary (including holiday pay) and the employer contributes the remaining amount to achieve the targeted return depending on variables for each employee. For the year under review the employer contributions were 10.1% of gross salary.

iii) Share option scheme

No share option schemes are in existence at the present time.

## 2.2 Other remuneration policy considerations

### Approach to recruitment

- The Board has determined that the role of the Nomination Committee will be combined with that of the Remuneration Committee. The Committee is responsible for succession planning and recommending to the Board the appointment of new directors. The Board formally vets and scrutinises these proposals. The Committee is mindful of the need to ensure orderly succession planning and to recommend new appointments to the Board based on merit and experience. The Committee may rely on its own energies and judgement in sourcing and evaluating candidates for vacancies for the Board or alternatively, to use external search consultants and open advertising if felt appropriate. During the year the Board commissioned the services of an external executive recruitment firm to help with its search for a senior UK executive with global responsibility over the Group's consumer digital platforms and to recruit two new non-executive directors.

- In the case of an external appointment the Committee reserves the right, in exceptional circumstances, to make payments outside of this policy. The right would only be exercised where the Committee believes to do so is in the best interests of the Company and where it would be impractical to seek specific approval from a general meeting beforehand. If such discretion is applied the relevant circumstances would be disclosed to shareholders in the next Annual Remuneration Report.

# Board Report on Remuneration

(CONTINUED)

- In the case of internal appointments, any outstanding variable pay in respect of the prior role may at the Committees discretion be permitted to continue on its original terms or if appropriate adjusted to reflect the new appointment.

### Comparison with wider Group employees and consultation with shareholders

- The Committee considers the pay and employment conditions of the wider employees below Group level when determining the appropriate remuneration packages for the executive directors. During the financial year the Committee has not commissioned the services of external consultants for this purpose and has not formally consulted with shareholders or employees in formulating its remuneration policy. However, the Committee meets with shareholders at the Annual General Meeting and receives feedback at least twice a year from institutional shareholders which helps to ensure the interests of the directors are aligned as closely as possible to the interests of the shareholders.

### Service contracts and loss of office payments

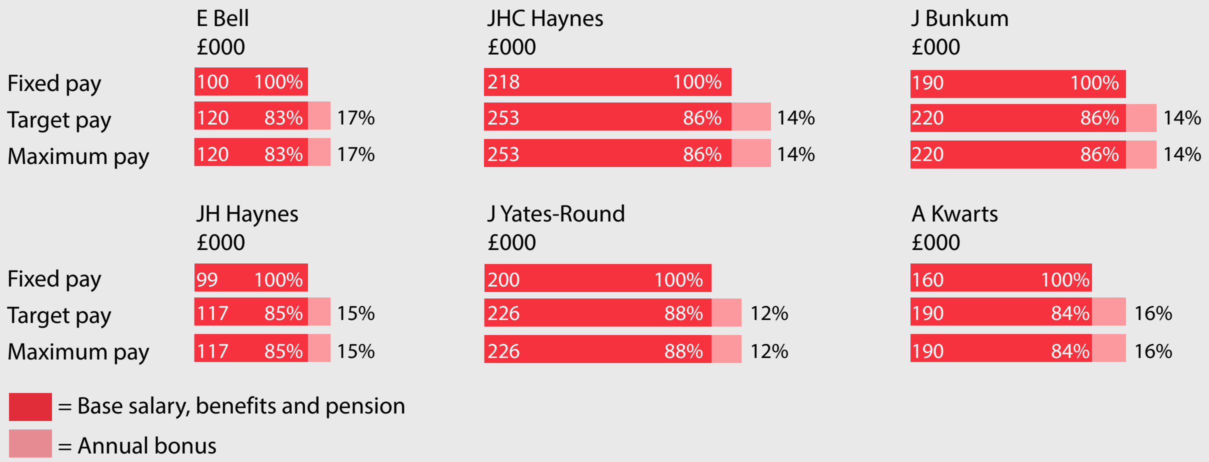
- In line with the guidance issued in the Code, from 1 June 2016 the service contracts for all executive directors include a notice period of 12 months or less upon termination.

- If the Company terminates without notice or at short notice, the individual is entitled to the contractual entitlements and benefits which would have accrued within the notice period. With the Company's consent these may be "rolled up" into a single payment at the point of termination. In addition to any contractual rights pertaining to a payment for loss of office, executive directors will have legal rights relevant to the Country in which they are based.

## 2.3 Application of remuneration policy

The remuneration report sets out in the form of a bar chart an indication of the level of remuneration that will be received by each executive director in the following financial year. The chart shows the minimum amount receivable (base salary, benefits and pension); the amount receivable if the Group performs in line with expected levels and the maximum amount of remuneration which would be payable. The chart also quantifies the value of the remuneration and the percentage this represents of the director's total remuneration package.

The executive directors' remuneration is all contractually based and comprises a small discretionary element assessed on the executive's performance against pre-determined objectives. The bonus targets have been set at achieving expected levels and therefore, the target and maximum amounts payable in the charts below are the same.




Assumptions:

1. Based on policy to be applied for 2016/17.
2. Salaries are based on agreed amounts from 1 June 2016.
3. Taxable benefits are based on expected amounts for financial year ending 31 May 2017.
4. Pension amounts are based on the amounts payable in 2016 for defined contribution schemes and on the expected increase in accrued benefits during the year on defined benefit schemes.
5. The directors' annual bonuses are calculated in line with the policy outlined in Sc 2.1.

# 3 Annual Report on Remuneration

The information contained in Sc 3.1 to 3.5 below have been audited by BDO LLP in accordance with Part 5 Sc41 of Statutory Instrument 2013 No. 1981.

## 3.1 Directors' remuneration table

The table below sets out the total remuneration of the directors for the financial year ended 31 May 2016.

| | Salary/fees | | Benefits[1] | | Performance bonus[5] | | Pension[6] | | Total Emoluments | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 |
| **Executive** | | | | | | | | | | |
| E Bell [7] | 17 | - | - | - | - | - | - | - | 17 | - |
| JHC Haynes | 169 | 131 | 5 | 5 | 10 | 13 | - | 44 | 184 | 193 |
| E Oakley [2/4] | 400 | 335 | 136 | 48 | 29 | 40 | 475 | 386 | 1,040 | 809 |
| D Benhardus [4] | 229 | 219 | 45 | 21 | 10 | 13 | 374 | 267 | 658 | 520 |
| J Bunkum [8] | 46 | - | 5 | - | 4 | - | 8 | - | 63 | - |
| J Yates-Round | 154 | 109 | 19 | 17 | 24 | 13 | - | 74 | 197 | 213 |
| A Kwarts [3] | 139 | 138 | 5 | 7 | 42 | 26 | 7 | 7 | 193 | 178 |
| JH Haynes | 88 | 85 | 12 | 14 | 19 | 27 | - | - | 119 | 126 |
| | 1,242 | 1,017 | 227 | 112 | 138 | 132 | 864 | 778 | 2,471 | 2,039 |
| **Non-Executive** | | | | | | | | | | |
| E Bell | 122 | 42 | - | - | - | - | - | - | 122 | 42 |
| MEF Haynes | 25 | 25 | - | - | - | - | - | - | 25 | 25 |
| | 147 | 67 | - | - | - | - | - | - | 147 | 67 |
| Total | **1,389** | **1,084** | **227** | **112** | **138** | **132** | **864** | **778** | **2,618** | **2,106** |

[1] The benefits relate to the provision of company cars, private fuel and private healthcare cover.
[2] E Oakley waived $8,200 (£5,504) of his bonus received in respect of the year ending 31 May 2015. A profit share contribution of $8,200 was then made by the Company into Mr E Oakley's '401K' pension plan in the US.
[3] A Kwarts is paid in Euros and the amounts have been converted to Sterling at an average exchange rate of €1.35 (2015: €1.31)
[4] E Oakley and D Benhardus are paid in US Dollars and the amounts have been converted to Sterling at an average exchange rate of $1.49 (2015: $1.58).
[5] The executive directors' annual bonus arrangements are set out in note 1 of Sc 2.1
[6] The directors' benefits arising from pension arrangements during the financial year are summarised in Sc 3.2 below.
[7] E Bell was appointed an Executive Director on 1 April 2016 therefore his remuneration is split between his services as a Non-Executive Director and an Executive Director.
[8] The figures for J Bunkum cover the period from 27 January 2016 to 31 May 2016 following his appointment as an Executive Director.

## 3.2 Directors pensions entitlements

The value of pension benefits to the directors arising under company related pension arrangements during the financial years ended 31 May 2016 and 2015 were as follows :

| | | | Total accrued pension in the defined benefit scheme | | Value of pension related benefits | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 31-May-16 | | | 31-May-15 | | |
| | Note | Normal pensionable age | 31 May 2016 £000 | 31 May 2015 £000 | Defined benefit scheme £000 | Money purchase arrangements £000 | Total £000 | Defined benefit scheme £000 | Money purchase arrangements £000 | Total £000 |
| JHC Haynes | UK | 61 | 60 | 60 | - | - | - | 44 | - | 44 |
| E Oakley | US | 65 | 133 | 114 | 248 | 227 | 475 | 146 | 240 | 386 |
| D Benhardus | US | 65 | 133 | 114 | 248 | 126 | 374 | 146 | 121 | 267 |
| J Bunkum | UK | 61 | 46 | 45[4] | 8 | - | 8 | - | - | - |
| J Yates-Round | UK | 61 | 64 | 64 | - | - | - | 74 | - | 74 |
| JH Haynes | US | 65 | 34 | 32 | - | - | - | - | - | - |
| A Kwarts | | 67 | - | - | - | 7 | 7 | - | 7 | 7 |

Key : UK – member of the UK Scheme US – member of the US Scheme

Notes :

1. All current year amounts for the US defined benefit plan have been converted to Sterling at the closing rate for the financial year. Amounts payable to the executive directors in relation to money purchase arrangements are converted at the average rate for the year.
2. The total accrued pension in the defined benefit scheme as at 31 May 2016 represents the amount that would be paid annually in retirement from normal pension age, based on the director's pensionable service to 31 May 2016.
3. The value of a director's benefits derived from the defined benefit scheme is based on the increase in accrued pension during the year and reflects an increase for UK Consumer Price Index (CPI) inflation.
4. J Bunkums accrued pension benefit is as at 27 January 2016.

# Board Report on Remuneration

(CONTINUED)

The increase in the directors' accrued pension arising from defined benefit arrangements and the increase in transfer value during the year were as follows :

| | 31 May 2016 Increase in accrued pension arising from defined benefit schemes during the year[1] £000 | 31 May 2015 Increase in accrued pension arising from defined benefit schemes during the year [1] £000 |
|---|---|---|
| JHC Haynes | - | 4 |
| E Oakley | 19 | 19 |
| D Benhardus | 19 | 19 |
| J Bunkum | 1 [3] | - |
| J Yates-Round | - | 6 |
| JH Haynes | 2 | 3 |

Notes :

[1] The increase in accrued pension excludes any increase for inflation during the year.

[2] All current year amounts for the US defined benefit plan have been converted to Sterling at the closing rate for the financial year.

[3] The increase for J Bunkum relates to the period from his appointment on 27 January 2016 to 31 May 2016..

## 3.3 Payments to past directors

No payments were made to past directors during the year

## 3.4 Payments for loss of office

No payments for loss of office were made during the year

## 3.5 Directors' interests in shares of the Company

The directors who served during the year and their interests in the share capital of the Company as at 31 May 2016 and 31 May 2015 (including the interests of connected parties) are as follows:

| | Beneficial 'A' Ordinary No. | Non-Beneficial 'A' Ordinary No. | Connected 'A' Ordinary No. | Beneficial Ordinary No. | Non-Beneficial Ordinary No. | Connected Ordinary No. |
|---|---|---|---|---|---|---|
| Executive | | | | | | |
| E Bell | - | - | - | - | - | 3,000 |
| JHC Haynes | - | 450,000 [2] | 8,550,000 [2] [4] | 710,141 [2] | 163,500 [2] | 632,575 [2] [3] [4] |
| E Oakley | - | - | - | 43,304 | - | - |
| D Benhardus | - | - | - | 5,000 | - | - |
| J Bunkum | - | - | - | - | - | - |
| JH Haynes | 8,250,000 | 750,000 [2] | - | 197,500 | 902,500 [1] [2] | 1,056,263 [2] [3] [4] |
| J Yates-Round | - | - | - | - | - | - |
| A Kwarts | - | - | - | - | - | - |
| Non-Executive | | | | | | |
| MEF Haynes | - | 750,000 [2] | 8,250,000 [4] | 699,767 [2] | 272,500 [2] | 523,575 [3] [4] |

[1] 630,000 shares are in respect of the Haynes International Motor Museum (a charitable trust) of which JH Haynes is a Trustee.

[2] Shares held in family trusts in which JH Haynes or JH Haynes, JHC Haynes and MEF Haynes are trustees and which the beneficiaries comprise the sons or grandchildren of JH Haynes.

[3] Includes 326,075 shares owned by Mrs AC Haynes (2015: 326,075 shares).

[4] Due to their family relationship JH Haynes, JHC Haynes and MEF Haynes are connected parties in accordance with Sc 253 of the Companies Act 2006.

## 3.6 Total shareholder return graph

The listed shares of Haynes Publishing Group P.L.C. are held within the FTSE Fledging Index of the London Stock Exchange. The following graph compares the return over a seven year period from an initial holding of £100 in the shares of the Company (with dividends reinvested) to the return that would have been received over the same period from investing in a hypothetical holding of £100 in shares of companies on the similar FTSE Fledgling index and FTSE Small Cap Index.


## 3.7 Remuneration of the Chief Executive over the 7 year period from 1 June 2009 to 31 May 2016

The table below sets out the total remuneration and percentage of annual bonus as a percentage of the total that could have been earned by the Chief Executive Officer for the past seven years. Each year the information in the table will increase by a further year until ten years of comparative history is shown.

| Year ending (31 May) | Total remuneration £000 | Annual bonus payment against maximum opportunity % |
|---|---|---|
| 2010 | 711 | 100% |
| 2011 | 809 | 100% |
| 2012 | 804 | 100% |
| 2013 | 783 | 100% |
| 2014 | 755 | 100% |
| 2015 | 809 | 100% |
| 2016 | 1,040 | 100% |

Notes:

1. E Oakley was the Group Chief Executive Officer in each of the year's in the above table
2. Total remuneration is calculated on the same basis as the shown in the directors remuneration table
3. The annual bonus is contractual and based on a fixed percentage of the Group' net profits. Accordingly, there is no difference between the amount earned and the maximum amount that was payable.
4. The remuneration of the Chief Executive is paid in US Dollars and translated to Sterling at the average exchange rate for the financial year.

# Board Report on Remuneration

(CONTINUED)

## 3.8 Percentage change in remuneration of the Chief Executive and Group employees

The table below sets out the percentage movement in the Chief Executive's salary, benefits and bonus in the current and preceding financial years as well as providing comparative figures against the change for the Group's UK employees over a similar time period.

| | E Oakley Chief Executive % change from 2015 | Average for all employees % change from 2015 |
|---|---|---|
| Base salary [1] | 20% | 2% |
| Benefits [1/2] | 186% | (5%) |
| Bonus | (27%) | (14%) |

Notes:

[1] The base salary and benefits of the Chief Executive are paid in US Dollars and translated to Sterling at the average exchange rate for the financial year. The average exchange rate for the year ended 31 May 2016 was $1.49 and for FYE 2015 was $1.58. The FYE 2016 salary figure includes $52,051 (£34,941) of holiday pay entitlement. Excluding this amount the year-on-year increase was 2%.

[2] Benefits for the year ended 31 May 2016 include the purchase of a Company Vehicle for $50,000 (£33,563) which was deemed to have an open market value of $91,010 (£61,093) at the time of purchase.

For practicable purposes, the UK employee base has been selected as a comparable measure for the above table as the UK has a broad range of employees and is not deemed to be materially different from the other parts of the Group.

## 3.9 Relative importance of spend on pay

The table below sets out the actual expenditure on employees remuneration for the financial years ending 31 May 2016 and 2015 relative to the equity dividends paid by the Company over the same period :

| | 2016 £000 | 2015 £000 | % change |
|---|---|---|---|
| Wages and salaries (note 6) | 10,796 | 9,774 | 10% |
| Dividends (note 11) | 1,133 | 1,133 | - |

## 3.10 Statement of voting at general meeting

At the annual general meeting held on 28 October 2015, an ordinary resolution was placed before shareholders in relation to directors' remuneration. The resolution was advisory and was to approve the directors' remuneration report for the financial year ended 31 May 2015. The resolution was passed on a show of hands with 100% of the votes cast in favour of the resolution.

## 3.11 Directors service contracts

The notice periods of the executive directors are as shown below :

| Director | Date of contract | Notice period |
|---|---|---|
| E Bell | 23 May 2016 | 3 months* |
| JHC Haynes | 15 February 2002 | 12 months |
| J Bunkum | 7 June 2016 | 12 months |
| J Yates-Round | 2 September 2010 | 12 months |
| A Kwarts | 12 October 2010 | 3 months |
| JH Haynes (UK) | 29 September 1979 | 12 months |
| JH Haynes (US) | 29 September 1979 | 6 months |

* E Bell's service contract runs for an initial period of 12 month after which time the contact can be terminated by either party by giving 3 months' notice.

The directors' service contracts are not of a fixed term, but will continue until terminated by either party.

Non-executive directors do not hold service contracts and are appointed at the will of the Board usually for a fixed period of two years.

On behalf of the Board.

**Nina Wright**
**Chairman of the Remuneration Committee**

21 September 2016

# Statement of Directors' Responsibilities

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

The directors are required by company law to prepare financial statements for each financial year. Under that law the directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

**In preparing the Group and Company financial statements, the directors are required to:**

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, 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 requirements of the Companies Act 2006, and as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

## Website publication

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the Group's UK website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's UK website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Directors' responsibility statement pursuant to DTR4

**The directors confirm to the best of their knowledge:**

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and Parent Company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

# Independent Auditor's Report to the members of Haynes Publishing Group P.L.C.

## Our opinion on the financial statements

**In our opinion:**

- The financial statements give a true and fair view of the state of the Group's and parent Company's affairs as at 31 May 2016 and of the Group's loss for the year then ended;

- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

- The parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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.

### What our opinion covers

Our audit opinion on the financial statements covers the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Our audit strategy and assessment of risks of material misstatement

Our audit strategy was developed by obtaining an understanding of the Group and Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Group and Company's transactions and balances which were most likely to give rise to a material misstatement.

We identified three significant components, being UK, North America & Australia, and Europe. The Group audit team, based in the UK, performed the audits of the key reporting components in the UK. The audits of the North America and Australia and Europe components were performed by BDO member firms, based in North America and the Netherlands. Detailed instructions were issued and discussed with the component auditors, and the full scope audits covered the significant risks (including the Group risks of material misstatement described below) that should be addressed by the audit team. The Group audit team was actively involved in directing the audit strategy of the components and key members of the Group audit team visited local management and the auditors of the operations in North America and the Netherlands during the audit fieldwork. The Group audit team reviewed in detail the findings of work performed and considered the impact of these upon the Group audit opinion.

## Below are those risks which we considered to have the greatest impact on our strategy and our audit response.

- Goodwill and intangible impairment risk

**Risk area**

Goodwill and other intangible assets with an indefinite or indeterminable life are tested for impairment at least annually. Furthermore, other intangibles are tested for impairment where an indicator of impairment arises. This risk is considered significant due to the quantum of goodwill and other intangible assets carried by the Group and the opportunity for management bias within the impairment model assumptions.

**Audit response**

We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment. We also tested impairment reviews prepared by management, specifically reviewing the integrity of management's value in use model and, with the assistance of our valuation specialists, we challenged the key inputs; those being forecast growth rates, operating cash flows and the discount rate. Our audit procedures for the testing of operating cash flows included, amongst others, comparing the forecasts to recent financial performance and budgets approved by the Board. We also performed our own sensitivity analysis upon the key valuation inputs.

- Revenue recognition

**Risk area**

The Group earns revenue from sale of printed products, the subscription and licensing of digital data, and the sale of publishing rights and brand licensing. In respect of revenue from subscriptions and licensing of digital data there is a risk revenue will not be recognised in the appropriate period.

**Audit response**

We reviewed in detail the revenue recognition principles supporting the revenue recognised during the year. In particular, we tested the revenue earned from digital subscriptions and licensing of data and through inspection of underlying contracts we assessed whether the recognition and deferment of revenue was consistent with the Group's accounting policies and IFRS.

- Restructuring

**Risk area**

Management have undertaken an operational cost review in the year which has involved a detailed review of Group's operations in each country in which the Group operates. As a result of this review a number of strategic decisions have been taken by the Board, including a significant restructuring of the US business. These decisions have resulted in significant provisions and write downs in respect of the expected costs of the restructuring and other strategic decisions, and the disclosure of some of these costs as exceptional in the financial statements.

**Audit response**

Our audit work included testing the provisions to ensure that they met the criteria for recognition as a liability at year end. In particular, with reference to board minutes and other supporting documentation, we confirmed that the detailed plans had been approved prior to year-end and that any affected parties had been informed.

We tested that the level of the provisions had been correctly calculated and that any assumptions were appropriate, with reference to contractual commitments, subsequent payments and other supporting documentation.

We also critically assessed the disclosure of these costs and where these were deemed exceptional in the financial statements considered if this was appropriate given the nature of the costs incurred and in line with the Group's accounting policy.

- Inventory provisions

**Risk area**

The Group reviews its finished goods inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete inventory based on estimates of future sales activity. Judgement is required to evaluate whether inventory is carried at the lower of cost and net realisable value.

**Audit response**

We critically assessed the methodology adopted by management to calculate inventory provisions. We challenged, and considered for completeness, the calculated provisions assessing whether they were sufficient, and taking into account potential excess inventory compared with known sale opportunities and historical sales trends of titles. We also assessed whether or not the provision calculations showed any evidence of management bias with a particular focus on the risk that the provisions may be understated.

# Independent Auditor's Report to the members of Haynes Publishing Group P.L.C.

(CONTINUED)

- Retirement benefit obligations

**Risk area**

Accounting for the Group's UK and US defined benefit plans requires management to make a number of assumptions that will significantly impact the valuation of pension costs and retirement obligations recorded.

**Audit response**

We evaluated the appropriateness of the principal assumptions, as set out in note 22. Using market data and commentary from our actuarial specialists, we benchmarked the assumptions used by management against an acceptable range, as well as agreeing the underlying assets and liabilities to pension plan documentation.

The audit committee's consideration of these judgements is set out on page 35.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. We use materiality to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined materiality for the Group financial statements as a whole to be £273,000 and based this assessment at a level of 1% of Group turnover. Components of the Group were audited to lower levels of materiality. Our objective in adopting these levels of materiality was to ensure that our audit procedures were designed to select appropriate samples sizes for detailed testing work performed, that our analytical procedures were at an appropriate level and to reduce to an appropriately low level the probability that detected and undetected misstatements do not exceed £273,000. Importantly, misstatements below this level were not necessarily evaluated as immaterial as we also took into account the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. We agreed with the audit committee that we would report to the committee all audit differences in excess of £8,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## Opinion on other matters prescribed by the Companies Act 2006

**In our opinion:**

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the Company

**We have nothing material to add or to draw attention to in relation to:**

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;

- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Matters on which we are required to report by exception

**Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:**

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

**Under the Companies Act 2006 we are required to report to you if, in our opinion:**

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

**Under the Listing Rules we are required to review:**

- the directors' statement, set out on page 28, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

**Kim Hayward**
**(senior statutory auditor)**

For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
21 September 2016

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

# Financial Statements

## CONSOLIDATED INCOME STATEMENT

**Year ended 31 May 2016**

| | | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Restated[1] | |
| | **Continuing operations** | Before exceptional items £000 | Exceptional items (note 5) £000 | Total £000 | Before exceptional items £000 | Exceptional items (note 5) £000 | Restated[1] Total £000 |
| Note 2 | **Revenue** | **25,710** | **-** | **25,710** | **26,065** | **-** | **26,065** |
| | Cost of sales | (10,201) | (1,716) | (11,917) | (10,380) | - | (10,380) |
| | **Gross profit** | **15,509** | **(1,716)** | **13,793** | **15,685** | **-** | **15,685** |
| | Other operating income | 82 | - | 82 | 44 | - | 44 |
| | Distribution costs | (7,008) | (1,563) | (8,571) | (6,981) | - | (6,981) |
| | Administrative expenses | (6,127) | (1,143) | (7,270) | (5,698) | (9,772) | (15,470) |
| Note 4 | **Operating profit/(loss)** | **2,456** | **(4,422)** | **(1,966)** | **3,050** | **(9,772)** | **(6,722)** |
| Note 7 | Finance income | 8 | - | 8 | 11 | - | 11 |
| Note 8 | Finance costs | (73) | - | (73) | (80) | - | (80) |
| Note 22 | Other finance costs – retirement benefits | (518) | - | (518) | (456) | - | (456) |
| | **Profit/(loss) before taxation from continuing operations** | **1,873** | **(4,422)** | **(2,549)** | **2,525** | **(9,772)** | **(7,247)** |
| Note 9 | Taxation | (723) | 1,493 | 770 | (891) | 2,231 | 1,340 |
| | **Profit/(loss) for the period from continuing operations** | **1,150** | **(2,929)** | **(1,779)** | **1,634** | **(7,541)** | **(5,907)** |
| | **Attributable to :** | | | | | | |
| | Equity holders of the Company | 1,150 | (2,929) | (1,779) | 1,621 | (7,541) | (5,920) |
| | Non-controlling interests | - | - | - | 13 | - | 13 |
| | | **1,150** | **(2,929)** | **(1,779)** | **1,634** | **(7,541)** | **(5,907)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Note 10 | **Earnings/(loss) per 20p share** | Pence | Pence | Pence | | Pence |
| | Earnings per share from continuing operations | | | | | |
| | – Basic | 7.6 | (11.8) | 10.7 | | (39.2) |
| | – Diluted | 7.6 | (11.8) | 10.7 | | (39.2) |

[1] See Note 1 Restatement of prior years

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 May 2016**

| | 2016 £000 | Restated[1] 2015 £000 |
|---|---|---|
| **Loss for the period** | **(1,779)** | **(5,907)** |
| | | |
| **Other comprehensive income** | | |
| ***Items that will not be reclassified to profit or loss in subsequent periods:*** | | |
| Actuarial gains/(losses) on retirement benefit obligation | | |
| - UK Scheme | (727) | (2,099) |
| - US Scheme | 36 | (1,433) |
| Deferred tax on retirement benefit obligation | | |
| - UK Scheme | 131 | 420 |
| - US Scheme | (14) | 574 |
| Deferred tax arising on change in UK corporation tax rate | (268) | - |
| | (842) | (2,538) |
| | | |
| ***Items that will or may be reclassified to profit or loss in subsequent periods:*** | | |
| Exchange differences on translation of foreign operations | 1,477 | 810 |
| | | |
| **Other comprehensive income/(expense) recognised directly in equity** | **635** | **(1,728)** |
| | | |
| **Total comprehensive expense for the financial period** | **(1,144)** | **(7,635)** |
| | | |
| **Attributable to :** | | |
| Equity holders of the Company | (1,144) | (7,648) |
| Non-controlling interests | - | 13 |
| | **(1,144)** | **(7,635)** |

[1] See Note 1 Restatement of prior years

# Financial Statements

## CONSOLIDATED BALANCE SHEET

**Year ended 31 May 2016**

| | | 2016 £000 | Restated[1] 2015 £000 |
|---|---|---|---|
| | **Non-current assets** | | |
| Note 12 | Property, plant and equipment | 8,434 | 9,027 |
| Note 13 | Intangible assets | 22,381 | 20,165 |
| Note 14 | Deferred tax assets | 7,196 | 7,206 |
| | **Total non-current assets** | **38,011** | **36,398** |
| | **Current assets** | | |
| Note 15 | Inventories | 4,614 | 4,649 |
| Note 16 | Trade and other receivables | 7,499 | 7,929 |
| | Tax recoverable | 926 | - |
| Note 17 | Cash and short-term deposits | 2,548 | 2,968 |
| | **Total current assets** | **15,587** | **15,546** |
| | **Total assets** | **53,598** | **51,944** |
| | **Current liabilities** | | |
| Note 19 | Trade and other payables | (5,188) | (4,376) |
| | Current tax liabilities | - | (444) |
| Note 18 | Borrowings | (2,163) | (2,827) |
| Note 20 | Provisions | (3,656) | - |
| | **Total current liabilities** | **(11,007)** | **(7,647)** |
| | **Non-current liabilities** | | |
| | Deferred consideration | - | (125) |
| Note 14 | Deferred tax liabilities | (3,255) | (3,248) |
| Note 22 | Retirement benefit obligation | (15,101) | (14,348) |
| | **Total non-current liabilities** | **(18,356)** | **(17,721)** |
| | **Total liabilities** | **(29,363)** | **(25,368)** |
| | **Net assets** | **24,235** | **26,576** |
| | **Equity** | | |
| Note 23 | Share capital | 3,270 | 3,270 |
| Note 23 | Share premium | 638 | 638 |
| Note 23 | Treasury shares | (2,447) | (2,447) |
| Note 23 | Retained earnings | 18,199 | 21,947 |
| Note 23 | Foreign currency translation reserve | 4,575 | 3,098 |
| | **Capital and reserves attributable to equity shareholders** | **24,235** | **26,506** |
| | Equity attributable to non-controlling interests | - | 70 |
| | **Total equity** | **24,235** | **26,576** |

[1] See Note 1 Restatement of prior years

The financial statements were approved by the board of directors and authorised for issue on 21 September 2016 and were signed on its behalf by:

**E Bell**
**Director**

**JHC Haynes**
**Director**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**Year ended 31 May 2016**

| | Share capital £000 | Share premium £000 | Treasury shares £000 | Foreign currency translation reserve £000 | Retained earnings £000 | Sub-total £000 | Non-controlling interests £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 June 2014 | 3,270 | 638 | (2,447) | 2,288 | 31,538 | 35,287 | 57 | 35,344 |
| (Loss)/profit for the period restated[1] | - | - | - | - | (5,920) | (5,920) | 13 | (5,907) |
| *Other comprehensive income:* | | | | | | | | |
| Currency translation adjustments restated[1] | - | - | - | 810 | - | 810 | - | 810 |
| Actuarial losses on defined benefit plans (net of tax) | - | - | - | - | (2,538) | (2,538) | - | (2,538) |
| Total other comprehensive income restated[1] | - | - | - | 810 | (2,538) | (1,728) | - | (1,728) |
| Total comprehensive income restated[1] | - | - | - | 810 | (8,458) | (7,648) | 13 | (7,635) |
| Dividends (note 11) | - | - | - | - | (1,133) | (1,133) | - | (1,133) |
| **Balance at 31 May 2015 restated[1]** | **3,270** | **638** | **(2,447)** | **3,098** | **21,947** | **26,506** | **70** | **26,576** |
| | | | | | | | | |
| Loss for the period | - | - | - | - | (1,779) | (1,779) | - | (1,779) |
| *Other comprehensive income:* | | | | | | | | |
| Currency translation adjustments | - | - | - | 1,477 | - | 1,477 | - | 1,477 |
| Actuarial gains/(losses) on defined benefit plans (net of tax) | - | - | - | - | (842) | (842) | - | (842) |
| Total other comprehensive income | - | - | - | 1,477 | (842) | 635 | - | 635 |
| Total comprehensive income | - | - | - | 1,477 | (2,621) | (1,144) | - | (1,144) |
| Dividends (note 11) | - | - | - | - | (1,133) | (1,133) | - | (1,133) |
| Increase in subsidiary shareholding | - | - | - | - | 6 | 6 | (70) | (64) |
| **Balance at 31 May 2016** | **3,270** | **638** | **(2,447)** | **4,575** | **18,199** | **24,235** | **-** | **24,235** |

[1] See Note 1 Restatement of prior years

# Financial Statements

## CONSOLIDATED CASH FLOW STATEMENT

**Year ended 31 May 2016**

| | | 2016 £000 | Restated[1] 2015 £000 |
|---|---|---|---|
| | **Cash flows from operating activities - continuing** | | |
| | Loss after tax | (1,779) | (5,907) |
| | **Adjusted for :** | | |
| | Income tax expense | (770) | (1,340) |
| | Interest payable and similar charges | 73 | 80 |
| | Interest receivable | (8) | (11) |
| | Retirement benefits finance costs | 518 | 456 |
| | **Operating loss** | **(1,966)** | **(6,722)** |
| | Depreciation on property, plant and equipment | 866 | 774 |
| | Amortisation of intangible assets | 5,061 | 4,891 |
| | Impairment of intangible assets | - | 9,667 |
| | IAS 19 pensions current service cost net of contributions paid | (501) | (916) |
| | Movement in provisions | 3,656 | - |
| | (Gain)/loss on disposal of property, plant and equipment | (119) | 9 |
| | | 6,997 | 7,703 |
| | **Changes in working capital :** | | |
| | Decrease in inventories | 149 | 391 |
| | Decrease in receivables | 699 | 1,638 |
| | Increase/(decrease) in payables | 604 | (250) |
| | **Net cash generated from operations** | **8,449** | **9,482** |
| | Tax paid | (692) | (804) |
| | **Net cash generated by operating activities** | **7,757** | **8,678** |
| | **Investing activities** | | |
| | Acquisition – business combinations | (125) | (200) |
| | Disposal proceeds on property, plant and equipment | 340 | 14 |
| | Purchases of property, plant and equipment | (264) | (412) |
| | Expenditure on product development | (6,389) | (5,567) |
| | Increase in subsidiary shareholding | (64) | - |
| | Interest received | 8 | 11 |
| | **Net cash used in investing activities** | **(6,494)** | **(6,154)** |
| | **Financing activities** | | |
| | Repayment of borrowings | (1,292) | (948) |
| | Dividends paid | (1,133) | (1,133) |
| | Interest paid | (73) | (80) |
| | **Net cash used in financing activities** | **(2,498)** | **(2,161)** |
| Note 25 | **Net (decrease)/increase in cash and cash equivalents** | **(1,235)** | **363** |
| | Cash and cash equivalents at beginning of year | 1,547 | 1,114 |
| | Effect of foreign exchange rate changes | 228 | 70 |
| Note 25 | **Cash and cash equivalents at end of year** | **540** | **1,547** |

[1] See Note 1 Restatement of prior years

# 1 Principal accounting policies

Haynes Publishing Group P.L.C. (the "Company") is a company domiciled in the United Kingdom. The address of the registered office is given on page 23. The Consolidated Financial Statements of the Company for the Year ended 31 May 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The accounting policies contained below and the disclosures in notes 1 to 30 all relate to the Group's financial statements. The Company financial statements have been prepared in accordance with FRS 101 and can be found on page 92 and the applicable accounting policies of the Parent Company are contained in note 31.

## Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The Group financial statements have been prepared on the historical cost basis except for the treatment of certain financial instruments and are presented in sterling, with all values rounded to the nearest thousand pounds (£000) except as indicated otherwise.

## New standards, amendments to standards or interpretations not yet applied

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued standards, amendments and interpretations with an effective date falling after the date of these financial statements.

IFRS 15 Revenue from contracts with customers (with an effective date of 1 January 2018) establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred.

IFRS 16 Leases (with an effective date of 1 January 2019) requires operating leases to be treated the same as finance leases resulting in previously recognised operating leases being treated as a tangible asset and the finance lease liability being recorded on the balance sheet.

IFRS 9 Financial instruments (with an effective date of 1 January 2018) introduces new requirements for the classification and measurement of financial assets and financial liabilities and a new approach based on expected credit losses for recognising provisions.

The above and other relevant standards, amendments to standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements. The directors are currently assessing the impact of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2016 and which have not been adopted early.

## Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled by the Company made up to the reporting date. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The results of subsidiary undertakings acquired or disposed of in the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the Consolidated Balance Sheet, separately from the Company shareholders equity.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 1 Principal accounting policies (continued)

### Restatement of prior years

In the year ended 31 May 2015 the Group recognised an impairment loss of £9,667,000 in respect of its US intangible assets. As certain of these assets are eligible for tax relief in the US over time, it is appropriate to recognise the future tax benefit to the Group by increasing the deferred tax asset in the balance sheet as at 31 May 2015. Accordingly, the comparative Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and affected notes for 31 May 2015 have been restated. The impact of this restatement on the 31 May 2015 figures has been to reduce the tax charge in the Consolidated Income Statement by £2,130,000, increase the deferred tax asset in the Consolidated Balance Sheet by £2,206,000 and increase the exchange gains on the translation of foreign operations in the Consolidated Statement of Comprehensive Income by £76,000.

### Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on consolidation represents the excess of the fair value of consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition and is included in the balance sheet under the heading of intangible assets.

For acquisitions made prior to 1 June 2004, goodwill is recorded on the basis of its deemed cost which represented its carrying value at 1 June 2004 under UK GAAP.

The goodwill is allocated to cash generating units and reviewed for impairment at least annually. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit and loss on disposal. Costs relating to the acquisition, other than those costs associated with the issue of debt or equity securities, are expensed through the Consolidated Income Statement as incurred.

Where applicable, adjustments are made to bring the accounting policies of an acquired business into alignment with those of the Group. Any costs associated with reorganising or restructuring the business are charged directly to the Consolidated Income Statement. If at the balance sheet date the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities can only be established provisionally these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

Intangible assets acquired separately are measured on initial recognition at cost. An intangible resource acquired in a business combination is only recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights, is expected to generate future economic benefits and its fair value can be measured reliably. An intangible asset with a finite life is amortised on a straight line basis so as to charge its cost which, in respect of an acquired intangible asset, represents its fair value at the acquisition date, to the Consolidated Income Statement over its expected useful life. An intangible asset with an indefinite life is not amortised but is tested at least annually for impairment and carried at costs less any recognised impairment losses.

Product development is recognised separately as an intangible asset. Expenditure is only capitalised if costs can be measured reliably, if the product is technically and commercially feasible, if future economic benefits are probable and if the Group has sufficient resources to complete development and use the asset.

The estimated useful lives of assets are as follows:

| | |
|---|---|
| Trademarks, domain names, copyright, know-how | Indefinite life |
| Goodwill | Indefinite life |
| Product development | Maximum of 5 years |

# 1 Principal accounting policies (continued)

## Research and development costs

All research expenditure is charged to the income statement in the period in which it is incurred.

Development expenditure is charged to the income statement in the period in which it is incurred unless it relates to either the development of a new product or an enhancement to an existing product where the commercial viability of the product can be proven, the costs can be separately identified and measured reliably, the development is expected to bring future economic benefit to the Group and the Group has sufficient resources and intends to complete the development and to use or sell the asset. Any such capitalised development expenditure is amortised on a straight line basis so that it is expensed to the income statement over the expected life of the product.

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods or services provided in the normal course of business, net of discounts and sales related taxes. The following specific recognition criteria also apply :

Revenue from the sale of printed product is recognised when the goods are despatched and the significant risks and rewards of ownership are passed to the customer and can be reliably measured.

Revenue from the sale of digital data through subscriptions and software licenses is recognised on a straight line basis over the period of the subscription or license. In both cases revenue is only recognised once the substantial obligations of the vendor have been fulfilled which primarily relate to the delivery of data and the ongoing maintenance of the delivery platforms. When licences are sold on the Group's behalf by third party distributors, revenue is recognised when the distributor reports the sales to the Group.

Revenue from the sale of publishing rights and brand licensing arrangements is recognised once the content has been delivered and the substantial obligations of the vendor have been fulfilled.

## Foreign currencies

Transactions in foreign currencies are translated to sterling at the rate ruling on the date of the transaction. Exchange differences arising from the movement in rates between the date of transaction and the date of settlement are taken to the Consolidated Income Statement as they arise.

Assets (including goodwill) and liabilities of overseas subsidiaries are translated to sterling at the rate ruling on the balance sheet date. The results of that subsidiary are translated at an average rate of exchange for the year.

Exchange gains or losses arising on the translation of the opening net assets of an overseas subsidiary, together with exchange differences arising on the use of the average rate of exchange, are taken to reserves.

The foreign exchange rates used in the financial statements to consolidate the overseas subsidiaries are as follows (local currency equivalent to £1):

| | Year-end rate | | Average rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| US dollar | 1.45 | 1.53 | 1.49 | 1.58 |
| Euro | 1.31 | 1.39 | 1.35 | 1.31 |
| Swedish krona | 12.12 | 13.06 | 12.55 | 12.18 |
| Australian dollar | 2.01 | 2.00 | 2.04 | 1.89 |

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 1 Principal accounting policies (continued)

### Treasury shares

Shares in Haynes Publishing Group P.L.C. held by the Company are classified as part of shareholders equity as treasury shares and are recognised at cost. The consideration received for the sale of shares held in treasury is also recognised in equity, with any difference between the proceeds from the sale of the shares and their original cost being taken directly to revenue reserves. No gain or loss is recognised in the Consolidated Statement of Comprehensive Income on the purchase, sale or cancellation of the treasury shares.

### Impairment of non-current assets

All non-current assets are tested for impairment whenever events or circumstances indicate that their carrying value might be impaired. In addition, intangible assets and goodwill with an indefinite or indeterminable life are subject to at least an annual impairment test.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which will represent the higher of the asset's fair value less costs to sell and its value in use. An asset's value in use represents the present value of the future cash flows expected to be derived from the asset. Where it is not possible to estimate the recoverable amount of an individual asset, an impairment review is undertaken in relation to the cash generating unit to which the asset belongs. The recoverable amount of goodwill is determined by reference to the discounted future cash flows of the cash generating unit to which it is allocated.

Impairment losses recognised in previous periods for an asset other than goodwill are reversed if there has been a change in estimates used to assess the asset's recoverable amount. The carrying amount of an asset shall not be increased above the amount that would have been determined had no loss been recognised in prior periods. Impairment losses recognised in relation to goodwill are not reversed.

Impairment losses when recognised are passed through the Consolidated Income Statement.

### Property, plant and equipment

Property, plant and equipment assets are held in the Consolidated Balance Sheet at cost (cost comprising the acquisition cost of the assets along with any other attributable costs at the date of acquisition).

Depreciation is provided to write off the cost of property, plant and equipment less any estimated current residual values, by equal instalments over their estimated useful lives. Residual values are based on commercial and industry experience and where appropriate using the services of professional surveyors.

While the estimated useful life of an asset is determined on acquisition, using best estimates, both residual values and estimated useful lives are monitored on an annual basis. Where the estimated current residual value is in excess of the net book value of the asset concerned, no depreciation is charged during the period.

The estimated useful lives of assets are as follows:

| | |
|---|---|
| Freehold buildings | 40 years |
| Leasehold property | The period of the lease |
| Plant, equipment and freehold improvements | 3 years to 20 years |

Freehold land is not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Income Statement.

# 1 Principal accounting policies (continued)

## Inventories

Stock and work in progress are valued at the lower of cost and net realisable value. Cost comprises direct materials, other direct costs and labour together with an appropriate proportion of overheads.

Provision is made against slow moving and obsolete stock to ensure the value at which stock is held in the balance sheet is reflective of anticipated future sales patterns. The period before a provision is made varies between product categories but in all cases does not exceed 5 years.

## Leases

Where a Group Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as property, plant and equipment and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the Consolidated Income Statement and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental costs are charged to the Consolidated Income Statement on a straight line basis over the life of the lease.

## Taxation

The tax expense represents the aggregate of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Where there is no clear relationship between the pension expense recognised in the Consolidated Income Statement and the tax deductions received in the period on pension contributions paid, deferred tax movements during the period are first allocated to items recognised in the Consolidated Income Statement and then the remainder, if any, is allocated to items in other comprehensive income.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 1 Principal accounting policies (continued)

### Pension and other post retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Consolidated Income Statement and presented in the Consolidated Statement of Comprehensive Income. Past service costs are recognised immediately.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

### Dividends payable

The liability for final dividends is recorded when the dividends are approved by the Company's shareholders. For interim dividends, the liability is recorded when the dividends are paid.

### Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets which include trade receivables and cash and cash equivalents are treated as loans and receivables and carried at amortised cost.

#### Trade and other receivables

Trade receivables are recorded at original invoice amount less an allowance for estimated irrecoverable amounts.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the Consolidated Balance Sheet and the cost of irrecoverable trade receivables is recognised in the Consolidated Income Statement immediately.

Customer allowances, which are earned by customers on reaching targeted levels of sales are netted against trade receivables on the Consolidated Balance Sheet.

#### Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value and carried at amortised cost.

#### Trade payables

Trade payables are not interest bearing and are recognised and carried at the original invoice amount.

### Provisions

A provision is recognised in the Consolidated Balance Sheet when a Group entity has a legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision will be made by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Consolidated Balance Sheet.

# 1 Principal accounting policies (continued)

## Critical accounting estimates and judgements

The preparation of the Consolidated Financial Statements requires the Group to make certain estimates and assumptions that have an impact on the application of the policies and the amounts reported in the Consolidated Financial Statements. Estimates and judgements are evaluated based on historical experiences and expected outcomes and are believed to be reasonable at the time such estimates and judgements are made, although actual experience may vary from these estimates.

The estimates and assumptions which have the most significant bearing on the carrying value of assets or liabilities are explained below:

### i) Impairment of intangible assets

In line with IAS 36 the Group is required to test the carrying value of goodwill and intangible assets with indefinite or indeterminate lives, at least annually, for impairment. As part of this review process, the recoverable amount of the asset is determined using value in use calculations, which requires estimates of future cash flows and as such is subject to estimates and assumptions. Further details are contained in note 13 to the Consolidated Financial Statements.

### ii) Depreciation of property, plant and equipment

Depreciation is provided in the Consolidated Financial Statements so as to write-down the respective assets to their residual values over their estimated useful lives and as such, the selection of the estimated useful lives and the expected residual values of the assets requires the use of estimates and judgements. Details of the estimated useful lives are as shown in the policy note for depreciation.

### iii) Impairment of property, plant and equipment

Where there is an indication that the carrying value of items of property, plant and equipment may have been impaired through events or changes in circumstances during the year, a review will be undertaken of the recoverable amount of that asset based on value in use calculations which will involve estimates and assumptions to be made by management (refer to note 12 of the Consolidated Financial Statements).

### iv) Pensions and other post retirement benefits

In determining the pension cost and the defined benefit obligation of the Group's defined benefit pension schemes a number of assumptions are used. These assumptions include an appropriate discount rate, the levels of salary escalation, price inflation and mortality rates. Further details are contained in note 22 to the Consolidated Financial Statements.

### v) Inventory provisions

The Group reviews its finished goods inventory on a regular basis and, where appropriate, makes provision for slow moving and obsolete stock based on estimates of future sales activity. The estimates of future sales activity will be based on both historical experience and expected outcomes based on knowledge of the markets in which the Group operates (refer to note 15 of the Consolidated Financial Statements).

### vi) Origination amortisation

The cost of editorially originating a new title is expensed to the Consolidated Income Statement over a period which management are confident the title will remain in publication. In all cases this period is deemed not to exceed 5 years. The assessment of future sales activity is based upon estimates from management using both historical experience and expected outcomes based on knowledge of the markets in which the Group operates.

### vii) Product development costs

The capitalisation and subsequent amortisation of development costs requires management to make certain judgements regarding the future commercial viability of the development activity and the businesses ability to devote the appropriate level of resources to complete the development project and sell or use the asset.

### viii) Exceptional items

These financial statements include provisions for restructuring costs in relation to the global operational, cost and structure review of £3.4 million and a sales returns reserve of £1.0 million which requires management to make estimates on the final liability which will be incurred by the Group. These judgements are based on management's best estimates at the time and using third party support where available.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 2 Revenue

| **Revenue by geographical destination and non-current assets by geographical location on continuing operations** | 2016 External revenue £000 | 2016 Non-current assets [1] £000 | 2015 External revenue £000 | 2015 Non-current assets [1] £000 |
|---|---|---|---|---|
| United Kingdom | 4,918 | 6,299 | 4,741 | 6,122 |
| Rest of Europe | 7,971 | 14,102 | 6,700 | 12,621 |
| United States of America | 11,021 | 9,215 | 11,963 | 8,806 |
| Australasia | 1,093 | 1,199 | 1,859 | 1,643 |
| Rest of World | 707 | - | 802 | - |
| **Total*** | **25,710** | **30,815** | **26,065** | **29,192** |

| | 2016 £000 | 2015 £000 |
|---|---|---|
| *Analysed as follows: | | |
| Revenue from sales of printed products | 17,575 | 19,454 |
| Revenue from sales of digital data through subscriptions and software licenses | 7,945 | 6,377 |
| Revenue from the sale of publishing rights and brand licensing arrangements | 190 | 234 |
| **Total consolidated revenue** | **25,710** | **26,065** |

[1] The analysis of non-current assets excludes deferred tax assets.

## 3 Segment information

For management and internal reporting purposes, the Group is organised into two geographical operating segments as follows:

- UK and Europe
- North America and Australia

The UK and European business with headquarters in Sparkford, Somerset has subsidiaries in the Netherlands, Italy, Spain, Romania and Germany. Its core business is the publication and supply of automotive repair and technical information to the professional automotive and DIY aftermarkets in both a print and digital format.

The North American and Australian business with headquarters near Los Angeles, California publishes DIY repair manuals for cars and motorcycles in both a print and digital format. The business publishes titles under the Haynes, Chilton and Clymer brands, in both English and Spanish. It also has a branch operation in Sydney, Australia which publishes similar products under both the Haynes and Gregory's brands.

The above two operating segments are each organised and managed separately and are treated as distinct operating and reportable segments in line with the provisions of IFRS 8. The identification of the two operating segments is based on the reports reviewed by the chief operating decision maker, which form the basis for operational decision making.

# 3 Segment information (continued)

| **Analysis by operating segment** | UK & Europe | | North America & Australia | | Consolidated | |
|---|---|---|---|---|---|---|
| | | | | | | Restated* |
| | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 | 2016 £000 | 2015 £000 |
| **Segmental revenue** | | | | | | |
| Total segmental revenue | 13,508 | 12,180 | 14,236 | 15,915 | 27,744 | 28,095 |
| Inter-segment sales [1] | (277) | (268) | (1,757) | (1,762) | (2,034) | (2,030) |
| **Total external revenue [2]** | **13,231** | **11,912** | **12,479** | **14,153** | **25,710** | **26,065** |
| **Segment result** | | | | | | |
| Underlying segment operating profit before exceptional items and interest | 1,471 | 623 | 340 | 1,237 | 1,811 | 1,860 |
| Exceptional items [7] | (268) | (64) | (3,710) | (9,708) | (3,978) | (9,772) |
| Interest receivable | 1 | 3 | 7 | 7 | 8 | 10 |
| Interest payable | (38) | (27) | (30) | (52) | (68) | (79) |
| **Segment profit/(loss) after exceptional items and interest** | **1,166** | **535** | **(3,393)** | **(8,516)** | **(2,227)** | **(7,981)** |
| Unallocated head office income less expenses (including exceptional costs of £444,000 - 2015: £nil) | | | | | (644) | (80) |
| **Segment operating loss before tax and adjustments** | | | | | **(2,871)** | **(8,061)** |
| *Reconciliation to consolidated loss before tax :* | | | | | | |
| IAS 16 Property, plant & equipment [3] | | | | | 61 | 124 |
| IAS 19 Employee benefits [4] | | | | | 261 | 466 |
| IFRS 3 Business combinations [5] | | | | | - | 224 |
| **Consolidated loss before tax** | | | | | **(2,549)** | **(7,247)** |
| Taxation [6] | | | | | 770 | 1,340 |
| **Consolidated loss after tax** | | | | | **(1,779)** | **(5,907)** |

* See Note 1 Restatement of prior years

[1] Inter-segment sales are charged at the prevailing market rates.

[2] There were no customers during the year where revenue exceeded 10% or more of total group revenue (2015: One customer of the North American and Australian segment with revenue of £2.8 million).

[3] In the segmental reporting, freehold buildings are depreciated over 40 years - under IAS 16 the residual value of buildings reflect the expected value at the end of their useful life resulting in an adjustment to depreciation.

[4] In the segmental reporting, pension contributions are expensed and the assets and liabilities of a defined benefit pension scheme are held separately from the Group - under IAS 19 the Consolidated Income Statement and Consolidated Statement of Comprehensive Income are adjusted to reflect the annual current service cost and actuarial gains and losses arising on a defined benefit pension scheme and the net surplus/(deficit) on the scheme is included in the Consolidated Balance Sheet.

[5] In the segmental reporting, goodwill is amortised over a period not exceeding 20 years - under IFRS 3 goodwill is reviewed annually for impairment but not amortised.

[6] The charge to taxation relates to the consolidated Group. Included within the taxation charge is £257,000 (2015: £133,000) which relates to the UK & European operations and £960,000 credit (2015: £460,000 charge) which relates to the North American & Australian operations.

[7] Details of the exceptional items are shown in note 5.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 3 Segment information (continued)

| **Segment assets and liabilities** | UK & Europe 2016 £000 | North America & Australia 2016 £000 | Eliminations 2016 £000 | Consolidated 2016 £000 |
|---|---|---|---|---|
| **Segment assets** | | | | |
| Property, plant and equipment | 694 | 4,570 | - | 5,264 |
| Intangible assets | 10,608 | 5,373 | - | 15,981 |
| Working capital assets | 6,324 | 10,360 | (954) | 15,730 |
| **Segment total assets** | **17,626** | **20,303** | **(954)** | **36,975** |
| Unallocated head office assets [5] | | | | 14,431 |
| Unallocated head office eliminations | | | | (3,204) |
| | | | | **48,202** |
| *Reconciliation to total consolidated assets :* | | | | |
| IAS 16 Property, plant and equipment [1] | | | | 1,410 |
| IAS 19 Employee benefits [2] | | | | 2,887 |
| IAS 38 Intangible assets [3] | | | | 1,095 |
| IFRS 3 Business combinations [4] | | | | 4 |
| **Consolidated total assets** | | | | **53,598** |
| **Segment liabilities** | | | | |
| Segment working capital liabilities | 6,344 | 6,358 | (1,769) | 10,933 |
| Unallocated head office liabilities [5] | | | | 15,229 |
| Unallocated head office eliminations | | | | (113) |
| | | | | **26,049** |
| *Reconciliation to total consolidated liabilities :* | | | | |
| IAS 19 Employee benefits [2] | | | | 59 |
| Deferred tax | | | | 3,255 |
| **Consolidated total liabilities** | | | | **29,363** |

[1] In the segmental reporting, freehold buildings are depreciated over 40 years - under IAS 16 the residual value of buildings reflect the expected value at the end of their useful life resulting in an adjustment to depreciation.

[2] In the segmental reporting, pension contributions are expensed and the assets and liabilities of a defined benefit pension scheme are held separately from the Group - under IAS 19 the Consolidated Income Statement and Consolidated Statement of Comprehensive Income are adjusted to reflect the annual current service cost and actuarial gains and losses arising on a defined benefit pension scheme and the net surplus/(deficit) on the scheme is included in the Consolidated Balance Sheet.

[3] In the segmental reporting, the excess of the net assets acquired on a business combination over the consideration is shown as goodwill - under IAS 38 specific intangible assets are created and adjusted for deferred tax arising on acquisition.

[4] In the segmental reporting, goodwill is amortised over a period not exceeding 20 years - under IFRS 3 goodwill is reviewed annually for impairment but not amortised.

[5] The unallocated head office assets primarily relate to freehold property, deferred tax assets and amounts owed by subsidiary undertakings. The unallocated head office liabilities primarily relate to the deficit on the UK's multi-employer defined benefit pension scheme and tax liabilities.

# 3 Segment information (continued)

**Segment assets and liabilities**

| | UK & Europe 2015 £000 | North America & Australia 2015 £000 | Eliminations 2015 £000 | Restated* Consolidated 2015 £000 |
|---|---|---|---|---|
| **Segment assets** | | | | |
| Property, plant and equipment | 707 | 4,880 | - | 5,587 |
| Intangible assets | 8,968 | 5,025 | - | 13,993 |
| Working capital assets | 5,886 | 10,720 | (964) | 15,642 |
| **Segment total assets** | **15,561** | **20,625** | **(964)** | **35,222** |
| Unallocated head office assets [5] | | | | 14,476 |
| Unallocated head office eliminations | | | | (3,160) |
| | | | | **46,538** |
| *Reconciliation to total consolidated assets :* | | | | |
| IAS 16 Property, plant and equipment [1] | | | | 1,458 |
| IAS 19 Employee benefits [2] | | | | 3,076 |
| IAS 38 Intangible assets [3] | | | | 868 |
| IFRS 3 Business combinations [4] | | | | 4 |
| **Consolidated total assets** | | | | **51,944** |
| **Segment liabilities** | | | | |
| Segment working capital liabilities | 5,049 | 4,530 | (1,635) | 7,944 |
| Unallocated head office liabilities [5] | | | | 14,268 |
| Unallocated head office eliminations | | | | (122) |
| | | | | **22,090** |
| *Reconciliation to total consolidated liabilities :* | | | | |
| IAS 19 Employee benefits [2] | | | | 30 |
| Deferred tax | | | | 3,248 |
| **Consolidated total liabilities** | | | | **25,368** |

*See Note 1 Restatement of prior years

[1] In the segmental reporting, freehold buildings are depreciated over 40 years - under IAS 16 the residual value of buildings reflect the expected value at the end of their useful life resulting in an adjustment to depreciation.

[2] In the segmental reporting, pension contributions are expensed and the assets and liabilities of a defined benefit pension scheme are held separately from the Group - under IAS 19 the Consolidated Income Statement and Consolidated Statement of Comprehensive Income are adjusted to reflect the annual current service cost and actuarial gains and losses arising on a defined benefit pension scheme and the net surplus/(deficit) on the scheme is included in the Consolidated Balance Sheet.

[3] In the segmental reporting, the excess of the net assets acquired on a business combination over the consideration is shown as goodwill - under IAS 38 specific intangible assets are created and adjusted for deferred tax arising on acquisition.

[4] In the segmental reporting, goodwill is amortised over a period not exceeding 20 years - under IFRS 3 goodwill is reviewed annually for impairment but not amortised.

[5] The unallocated head office assets primarily relate to freehold property, deferred tax assets and amounts owed by subsidiary undertakings. The unallocated head office liabilities primarily relate to the deficit on the UK's multi-employer defined benefit pension scheme and tax liabilities.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 3 Segment information (continued)

**Other segment information**

| | UK & Europe 2016 £000 | North America & Australia 2016 £000 | Consolidated 2016 £000 | UK & Europe 2015 £000 | North America & Australia 2015 £000 | Consolidated 2015 £000 |
|---|---|---|---|---|---|---|
| Segment additions to non-current assets | 4,796 | 1,854 | 6,650 | 4,410 | 2,019 | 6,429 |
| Unallocated additions to non-current assets | | | 3 | | | - |
| **Total additions to non-current assets** | | | **6,653** | | | **6,429** |
| Segment depreciation & amortisation/impairment | 3,286 | 2,525 | 5,811 | 3,211 | 7,697 | 10,908 |
| Unallocated depreciation & amortisation/impairment | | | 22 | | | 4,424 |
| **Total depreciation & amortisation/impairment** | | | **5,833** | | | **15,332** |

## 4 Operating loss

Operating loss is arrived at after charging/(crediting) the following:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Net foreign exchange (gains)/losses | (2) | 25 |
| Depreciation of property, plant and equipment (see note 12) | 866 | 774 |
| Amortisation of intangible assets (see note 13) | 4,967 | 4,891 |
| Impairment of intangible assets (see note 13) | - | 9,667 |
| (Profit)/loss on sale of property, plant and equipment | (119) | 9 |
| Cost of inventories recognised as an expense | 6,507 | 5,079 |
| Operating lease rentals – Land and buildings | 200 | 169 |
| – Plant and equipment | 157 | 174 |
| Staff costs (see note 6) | 10,796 | 9,774 |

# 4 Operating loss (continued)

**Auditors remuneration**

The total fees payable by the Group to BDO LLP and their associates for work performed during the year in respect of audit, tax compliance and other services to the Group and its subsidiary companies are shown below:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 39 | 39 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| – The audit of the Company's subsidiaries pursuant to legislation | 104 | 97 |
| – Other services pursuant to legislation | 12 | 12 |
| – Transaction support services | 2 | 2 |
| – Tax services | 75 | 72 |
| Fee's payable in respect of the Group's pension plans: | | |
| – Audit | 5 | 4 |
| | **237** | **226** |

# 5 Exceptional items

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Exceptional costs included in cost of sales: | | |
| – Restructuring costs | 1,716 | - |
| Exceptional costs included in selling and distribution expenses: | | |
| – Restructuring costs | 1,563 | - |
| Exceptional costs included in administrative expenses: | | |
| – Restructuring costs | 1,143 | - |
| – Acquisition expenses | - | 105 |
| – Impairment of intangible assets | - | 9,667 |
| | **4,422** | **9,772** |

The restructuring costs have arisen following the implementation of the global operational, cost and structure review undertaken during the year and primarily relate to agreed employee severance packages, estimated fixed asset impairments based on the fair value of the assets less costs of sale, a sales returns reserve and past service pension costs. The impairment of the tangible assets relates to production and distribution plant and machinery which arises following the decision to outsource US production and distribution. All of this equipment is held in the North American and Australian segment. The exceptional costs have been allocated to the income statement headings by reference to the business area to which the employees or assets were associated.

In the prior year the acquisition expenses relate to the successful acquisition of Teon Media Limited and the impairment of intangible assets to a write down of goodwill and intangible assets in the North American cash generating unit.

Exceptional items are those items which warrant separate disclosure by virtue of their scale and nature to enable a full understanding of the Groups financial performance.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 6 Staff costs

**Employees**

The average number of employees (including directors) during the year, analysed by category, were as follows:

| | 2016 number | 2015 number |
|---|---|---|
| Production | 158 | 171 |
| Selling and distribution | 39 | 36 |
| Administration | 39 | 40 |
| | **236** | **247** |

The aggregate payroll costs of these persons were as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Wages and salaries | 8,356 | 7,945 |
| Employer's social security costs | 872 | 752 |
| Employer's pension costs - defined benefit schemes (note 22) | 1,143 | 658 |
| Employer's pension costs - defined contribution schemes | 425 | 419 |
| | **10,796** | **9,774** |

Full details concerning directors' emoluments, pension entitlements and long term incentive schemes are shown in the Board Report on Remuneration on pages 37 to 46.

## 7 Finance income

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Interest receivable on bank deposits | **8** | **11** |

## 8 Finance costs

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | **73** | **80** |

# 9 Taxation

| | 2016 £000 | Restated[1] 2015 £000 |
|---|---|---|
| **(a) Analysis of charge in the period** | | |
| **Current tax:** | | |
| – UK corporation tax on profits/(losses) of the period | - | - |
| – Foreign tax | (616) | 394 |
| – Adjustments in respect of prior periods | (117) | 73 |
| | **(733)** | **467** |
| **Deferred tax (note 14):** | | |
| – Origination and reversal of temporary differences | (37) | (1,807) |
| **Total taxation in the Consolidated Income Statement** | **(770)** | **(1,340)** |

The effective tax rate for the financial year ended 31 May 2016 was 20%. In the Summer Budget 2015, the UK government announced legislation setting the main rate of corporation tax at 19% for the years beginning 1 April 2017, 2018 and 2019 and at 18% for the year beginning 1 April 2020. In March 2016, the government announced a further reduction to the main rate of corporation tax for the year starting 1 April 2020 to 17%.The relevant UK deferred tax balances have been re-measured accordingly.

**(b) Reconciliation of effective tax rate**

The tax assessed for the period differs from the UK standard rate of corporation tax for the period of 20.0% (2015: 20.8%). The differences are explained below:

| | 2016 £000 | Restated[1] 2015 £000 |
|---|---|---|
| Loss on ordinary activities before tax | (2,549) | (7,247) |
| Taxation calculated at the standard rate of corporation tax in the UK of 20.0% (2015: 20.8%) | (510) | (1,507) |
| **Affected by:** | | |
| Exceptional items | - | (120) |
| Variance in overseas tax rates | (79) | 235 |
| Income/expenses not chargeable/deductible for tax | (65) | (21) |
| Adjustments relating to prior years | (116) | 73 |
| **Total tax charge for the year reported in the Consolidated Income Statement** | **(770)** | **(1,340)** |
| Effective tax rate | 30.2% | 18.5% |

[1] See Note 1 Restatement of prior years

The effective rate of tax is higher than the standard rate of UK corporation tax due to the mix of profits from overseas operations where the tax rates are higher than in the UK.

There is an unrecognised deferred tax liability for temporary differences associated with the Company's investments in its subsidiaries. However, in line with paragraph 40 of IAS 12, no liability has been recognised in respect of these differences as the Company controls the dividend policies of its subsidiaries and as such is in a position to control the timing of the reversal of these differences and it is probable that such differences will not reverse in the foreseeable future. The cumulative unremitted reserves of overseas subsidiaries as at 31 May 2016 was £21.8 million (2015: £24.1 million).

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 10 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

| | Before exceptional items 2016 £000 | After exceptional items 2016 £000 | Before exceptional items 2015 £000 | Restated[1] After exceptional items 2015 £000 |
|---|---|---|---|---|
| **Earnings/(loss):** | | | | |
| Profit/(loss) after tax attributable to equity holders of the Company - continuing operations | 1,150 | (1,779) | 1,621 | (5,920) |
| **Number of shares:** | | | | |
| Weighted average number of shares [a] (note 23) | 15,111,540 | 15,111,540 | 15,111,540 | 15,111,540 |
| Basic earnings/(loss) per share (pence) | 7.6 | (11.8) | 10.7 | (39.2) |

[1] See Note 1 Restatement of prior years

[a] During the year the Company held 1,240,000 of its ordinary shares in treasury.

As at 31 May 2016 and 31 May 2015 there were no outstanding options on either of the Company's two classes of shares and there is no difference between the earnings used in the basic and diluted earnings per share calculation.

## 11 Dividends

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the period:** | | |
| Final dividend for the year ended 31 May 2015 of 4.0p per share (2014: 4.0p per share) | 604 | 604 |
| Interim dividend for the year ended 31 May 2016 of 3.5p per share (2015: 3.5p per share) | 529 | 529 |
| | **1,133** | **1,133** |
| Proposed final dividend for the year ended 31 May 2016 of 4.0p per share (2015: 4.0p per share) | 604 | 604 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 9 November 2016 and has not been included as a liability in these financial statements.

As at 31 May 2016, the Company holds 1,240,000 ordinary shares in treasury which represents 16.9% of the ordinary share capital and 7.6% of the Company's total share capital. The Company is not able to vote on the treasury shares and the treasury shares carry no right to receive a dividend or other distribution of assets other than in relation to an issue of bonus shares.

## 12 Property, plant and equipment

| | Land and buildings | | | |
|---|---|---|---|---|
| | Freehold | Short leasehold | Plant and equipment | Total |
| | £000 | £000 | £000 | £000 |
| **At 31 May 2014** | | | | |
| Cost | 7,455 | 664 | 17,916 | 26,035 |
| Accumulated depreciation | (1,631) | (423) | (14,716) | (16,770) |
| **Net book value** | **5,824** | **241** | **3,200** | **9,265** |
| | | | | |
| **Year ended 31 May 2015** | | | | |
| Opening net book value | 5,824 | 241 | 3,200 | 9,265 |
| Additions | - | - | 412 | 412 |
| Disposals at cost | - | (98) | (145) | (243) |
| Exchange rate movements on cost | 225 | 48 | 641 | 914 |
| Depreciation charge for the period | (26) | (14) | (734) | (774) |
| Disposals depreciation | - | 98 | 122 | 220 |
| Exchange rate movements on depreciation | (51) | (27) | (689) | (767) |
| **Closing net book value** | **5,972** | **248** | **2,807** | **9,027** |
| | | | | |
| **At 31 May 2015** | | | | |
| Cost | 7,680 | 614 | 18,824 | 27,118 |
| Accumulated depreciation | (1,708) | (366) | (16,017) | (18,091) |
| **Net book value** | **5,972** | **248** | **2,807** | **9,027** |
| | | | | |
| **Year ended 31 May 2016** | | | | |
| Opening net book value | 5,972 | 248 | 2,807 | 9,027 |
| Additions | - | - | 264 | 264 |
| Disposals at cost | (194) | - | (1,833) | (2,027) |
| Exchange rate movements on cost | 191 | 30 | 577 | 798 |
| Depreciation charge for the period | (38) | (16) | (812) | (866) |
| Disposals depreciation | 10 | - | 1,796 | 1,806 |
| Exchange rate movements on depreciation | (31) | (18) | (519) | (568) |
| **Closing net book value** | **5,910** | **244** | **2,280** | **8,434** |
| | | | | |
| **At 31 May 2016** | | | | |
| Cost | 7,677 | 644 | 17,832 | 26,153 |
| Accumulated depreciation | (1,767) | (400) | (15,552) | (17,719) |
| **Net book value** | **5,910** | **244** | **2,280** | **8,434** |

During the current year there is an equal and opposite adjustment within plant and equipment disposals at cost and disposals depreciation of £1,481,000 to write down fully depreciated assets no longer held in the group.

There were no assets financed through finance leases or hire purchase arrangements during the current or prior year.

On 22 June 2016 the Group exchanged contracts on a Freehold Property it owned in Australia for a consideration of A$3,800,000. As at the 31 May 2016 the property was held at a net book value of A$2,109,000 (£1,055,000 based on the year-end exchange rate). The transaction is anticipated to complete on 22 December 2016.

The Directors are not aware of any events or changes in circumstances during the year which would have a significant impact on the carrying value of the Group's property, plant and equipment as at the balance sheet date.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 13 Intangible assets

| | Acquired goodwill £000 | Acquired trademarks and domain names £000 | Acquired know how £000 | Product development £000 | Acquired copyright £000 | Total £000 |
|---|---|---|---|---|---|---|
| **At 31 May 2014** | | | | | | |
| Cost | 8,549 | 1,769 | 2,655 | 27,950 | 2,445 | 43,368 |
| Accumulated amortisation and impairment | - | - | - | (14,745) | - | (14,745) |
| **Net book value** | **8,549** | **1,769** | **2,655** | **13,205** | **2,445** | **28,623** |
| **Year ended 31 May 2015** | | | | | | |
| Opening net book value | 8,549 | 1,769 | 2,655 | 13,205 | 2,445 | 28,623 |
| Additions through business combinations (note 29) | 171 | - | - | 279 | - | 450 |
| Additions | - | - | - | 5,567 | - | 5,567 |
| Exchange rate movements on cost | 588 | (97) | (309) | (1,118) | 235 | (701) |
| Impairment | - | (562) | - | - | (2,680) | (3,242) |
| Asset write-down * | (6,425) | - | - | - | - | (6,425) |
| Amortisation charge for the period | - | - | - | (4,891) | - | (4,891) |
| Exchange rate movements on amortisation | - | - | - | 784 | - | 784 |
| **Closing net book value** | **2,883** | **1,110** | **2,346** | **13,826** | **-** | **20,165** |
| **At 31 May 2015** | | | | | | |
| Cost restated * | 2,883 | 1,672 | 2,346 | 32,678 | 2,680 | 42,259 |
| Accumulated amortisation and impairment | - | (562) | - | (18,852) | (2,680) | (22,094) |
| **Net book value** | **2,883** | **1,110** | **2,346** | **13,826** | **-** | **20,165** |
| **Year ended 31 May 2016** | | | | | | |
| Opening net book value | 2,883 | 1,110 | 2,346 | 13,826 | - | 20,165 |
| Additions | - | - | - | 6,389 | - | 6,389 |
| Exchange rate movements on cost | - | 102 | 154 | 1,698 | 140 | 2,094 |
| Asset write-down | - | - | - | (94) | - | (94) |
| Amortisation charge for the period | - | - | - | (4,967) | - | (4,967) |
| Exchange rate movements on amortisation | - | (29) | - | (1,037) | (140) | (1,206) |
| **Closing net book value** | **2,883** | **1,183** | **2,500** | **15,815** | **-** | **22,381** |
| **At 31 May 2016** | | | | | | |
| Cost | 2,883 | 1,774 | 2,500 | 40,671 | 2,820 | 50,648 |
| Accumulated amortisation and impairment | - | (591) | - | (24,856) | (2,820) | (28,267) |
| **Net book value** | **2,883** | **1,183** | **2,500** | **15,815** | **-** | **22,381** |

* The total impairment write-down in 2014/15 of £9,667,000 included £6,425,000 in relation to goodwill. IAS 36 'Impairment of assets' prohibits the reinstatement of impaired goodwill and therefore, the impairment charge in 2014/15 relating to goodwill has been re-classified as an asset write-down.

# 13 Intangible assets (continued)

### Impairment tests for cash-generating units (CGU's) containing goodwill or assets with indefinite useful lives

The Group tests goodwill and intangible assets with indefinite or indeterminate useful lives for impairment annually, or more frequently if there are indications that their carrying values might be impaired. Following the review in 2014/15 and on the back of weaker sales of printed automotive manuals in recent years which was compounded by a small number of key retailers implementing inventory reduction programmes, all goodwill and intangible assets with indefinite useful lives in the North American and Australian CGU were written-down to £nil value. At the time the estimated recoverable amount of the North American and Australian CGU was £15.3 million and the pre-tax discount rate used in the calculations was 18%. As at the balance sheet date impairment tests have been undertaken on the Group's other two CGU's where goodwill or intangible assets with indefinite useful lives are held. The reviews have been based on value in use calculations using the latest available financial information.

In order to assess whether impairment has occurred, the cash flows of the CGU's have been projected over a 5 year period, based on annual financial budgets which have been reviewed by the Board. The key assumptions used in these reviews are as follows :

| | Pre-tax discount rate | 5-year* growth rate | Long-term growth rate |
|---|---|---|---|
| **Unit:** | | | |
| HaynesPro Holding BV (UK and Europe) | 15% | 5% | 2% |
| JH Haynes & Co Ltd (UK and Europe) | 14% | 1% | 2% |

*The expected growth rates over the five-year period have been based on three-year plans for the CGU's which have been reviewed by the Board and on the disclosed growth percentages for years four and five.

Management have performed a sensitivity analysis on the above two CGU's and are satisfied that there are no reasonably possible changes to the key assumptions that would cause the recoverable amount of the CGU to fall below its carrying value as at 31 May 2016.

The intangible assets in relation to trademarks, domain names and know how are assigned indefinite useful lives and relate to HaynesPro Holding BV in the Netherlands. HaynesPro owns a multilingual database of repair and maintenance data on European and Asian cars, light commercial vehicles and trucks and has a strong reputation in Europe. The carrying value of these assets are tested annually for impairment.

The carrying amounts of goodwill have been allocated to the CGU's as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Unit:** | | |
| HaynesPro Holding BV | 2,712 | 2,712 |
| J.H. Haynes & Co Ltd | 171 | 171 |
| | **2,883** | **2,883** |

The carrying amount of intangible assets with an indefinite useful economic life has been allocated as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Unit:** | | |
| HaynesPro Holding BV | **3,683** | **3,456** |

The charge included in the Consolidated Income Statement for the year has been allocated as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Cost of sales | 5,061 | 4,891 |
| Administration costs | - | 9,667 |
| | **5,061** | **14,558** |

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 14 Deferred tax assets and liabilities

| | Property Plant and Equipment £000 | Employee Benefits £000 | Short-term temporary differences £000 | Restated[1] Intangible assets £000 | Restated[1] Total £000 |
|---|---|---|---|---|---|
| Deferred tax asset / (liabilities) at 1 June 2014 | (1,327) | 2,235 | 1,906 | (1,980) | 834 |
| Transfer to Consolidated Income Statement | (133) | (168) | (7) | 2,118 | 1,810 |
| Transfer to equity | - | 994 | - | - | 994 |
| Exchange rate movements | (17) | 12 | 30 | 295 | 320 |
| **Deferred tax asset / (liabilities) at 31 May 2015** | **(1,477)** | **3,073** | **1,929** | **433** | **3,958** |
| Transfer to Consolidated Income Statement | 47 | (59) | 968 | (919) | 37 |
| Transfer to equity | - | (151) | - | - | (151) |
| Exchange rate movements | (12) | 17 | 131 | (39) | 97 |
| **Deferred tax asset / (liabilities) at 31 May 2016** | **(1,442)** | **2,880** | **3,028** | **(525)** | **3,941** |

| **Analysed as:** | 2016 Assets £000 | 2016 Liabilities £000 | 2016 Total £000 | Restated[1] 2015 Assets £000 | 2015 Liabilities £000 | Restated[1] 2015 Total £000 |
|---|---|---|---|---|---|---|
| Property plant and equipment | - | (1,442) | (1,442) | - | (1,477) | (1,477) |
| Employee benefits | 2,880 | - | 2,880 | 3,073 | - | 3,073 |
| Short-term temporary differences | 3,028 | - | 3,028 | 1,929 | - | 1,929 |
| Intangible assets | 1,288 | (1,813) | (525) | 2,204 | (1,771) | 433 |
| | **7,196** | **(3,255)** | **3,941** | **7,206** | **(3,248)** | **3,958** |

[1] See Note 1 Restatement of prior years

## 15 Inventories

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Raw materials | 311 | 334 |
| Work in progress | 79 | 108 |
| Finished goods | 4,224 | 4,207 |
| | **4,614** | **4,649** |

The carrying value of inventory represents the inventories cost less appropriate provisions. During the year there was a net charge of £253,000 (2015: £175,000) to the Consolidated Income Statement in relation to the inventory provisions. The movement in the inventory provisions is included within cost of sales in the Consolidated Income Statement.

## 16 Trade and other receivables

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables | 7,408 | 7,924 |
| Less: Provision for impairment | (199) | (134) |
| Less: Customer allowances | (414) | (729) |
| | **6,795** | **7,061** |
| Other debtors and prepayments | 704 | 868 |
| | **7,499** | **7,929** |

# 16 Trade and other receivables (continued)

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Analysis of trade receivables:** | | |
| Neither impaired nor past due | 6,303 | 6,727 |
| Past due but not impaired | 906 | 1,063 |
| Impaired | 199 | 134 |
| | **7,408** | **7,924** |

The categorisation of 'Past due but not impaired' relates to a number of customers for whom there is no history of default and management are confident the overdue balance will be recovered in full.

The categorisation of 'Impaired' relates to overdue balances where the customer has ceased trading or management are doubtful of recovery and a provision has been made to cover the doubtful balance.

The ageing of the 'Past due but not impaired' and the 'Impaired' categories are shown in the table below:

| | Past due but not impaired 2016 £000 | Impaired 2016 £000 | Past due but not impaired 2015 £000 | Impaired 2015 £000 |
|---|---|---|---|---|
| Less than 30 days past due | 587 | 60 | 506 | 76 |
| 30 to 90 days past due | 301 | 8 | 172 | - |
| Greater than 90 days past due | 18 | 131 | 385 | 58 |
| | **906** | **199** | **1,063** | **134** |

The movement in the Group's provision for impairment of trade receivables was as follows:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Balance at 1 June | 134 | 152 |
| Amounts charged to the Consolidated Income Statement | 90 | (1) |
| Amounts written-off as uncollectable | (32) | (15) |
| Exchange rate movement | 7 | (2) |
| **Balance at 31 May** | **199** | **134** |

The amounts of trade and other receivables shown above were held in the following currencies at the balance sheet date:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| US dollars | 4,604 | 4,085 |
| Sterling | 1,785 | 1,868 |
| Euro | 1,051 | 1,335 |
| Australian dollars | 57 | 639 |
| Other currencies | 2 | 2 |
| | **7,499** | **7,929** |

The fair values of trade and other receivables are the same as the book values as the credit risk has been addressed as part of the impairment provisioning and, due to the short term nature of the amounts receivable, they are not subject to other ongoing fluctuations in market rates.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 17 Cash and cash equivalents

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Cash and short-term deposits | 2,548 | 2,968 |
| Bank overdrafts (note 18) | (2,008) | (1,421) |
| **Cash and cash equivalents in the cash flow statement (note 25)** | **540** | **1,547** |

The cash and cash equivalents shown above were held in the following currencies as at the balance sheet date:

| | 2016 £000 | 2015 £000 |
|---|---|---|
| US dollars | 895 | 2,051 |
| Sterling | (1,997) | (1,640) |
| Euro | 992 | 497 |
| Australian dollars | 603 | 607 |
| Other currencies | 47 | 32 |
| | **540** | **1,547** |

Deposits are placed for periods varying between call and one month and attract floating rates of interest based upon the bank's cost of funds for the relevant currencies.

## 18 Borrowings

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Current** | | |
| Bank overdrafts [1] | (2,008) | (1,421) |
| Bank loans [2] | (155) | (1,406) |
| **Total borrowings** | **(2,163)** | **(2,827)** |

The effective interest rates at the balance sheet date were as follows:

| | Country / Currency | Rate | 2016 | 2015 |
|---|---|---|---|---|
| Bank overdrafts | UK - sterling | Bank of England base rate | 2.00% | 2.00% |
| Bank loans | USA - dollar | US Libor | 3.25% | 3.25% |

[1] In the UK, Barclays Bank PLC holds a debenture against the UK trading companies including a first legal charge over the UK freehold properties in order to secure the £3.0 million (2015: £2.5 million) overdraft facility, together with guarantees from the UK and European trading companies. In the Netherlands, HaynesPro Holding has a €0.4 million (2015: €0.4 million) overdraft facility which is unsecured and attracts interest based on the bank's prevailing base rate. As at 31 May 2016, the facility is presently unutilised.

[2] The bank loan was drawn down under the Group's revolving credit facility with Union Bank in the US. The $11.0 million facility was set up in 2002 and was renewed for a two year period ending in January 2016. In January 2016 the facility was reduced to $5.0 million and next expires in May 2017. The outstanding loan balance of £0.2 million, which relates to the Clymer acquisition in September 2013, was repaid in full in June 2016.

The bank overdrafts of £2.0 million (2015: £1.4 million) is all in sterling and the bank loans of £0.2 million (2015: £1.4 million) is all in US dollars.

# 19 Trade and other payables

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade payables | 1,012 | 910 |
| Other taxes and social security costs | 317 | 224 |
| Other creditors and accruals | 3,859 | 3,242 |
| | **5,188** | **4,376** |

The fair values of trade and other payables are the same as the book values due to the short term nature of the amounts payable and are not subject to other ongoing fluctuations in market rates.

The amounts of trade and other payables shown above were held in the following currencies at the balance sheet date:

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| **Falling due within one year:** | | |
| US dollars | 731 | 1,191 |
| Sterling | 1,844 | 1,611 |
| Euro | 1,593 | 1,059 |
| Australian dollars | 992 | 503 |
| Other currencies | 28 | 12 |
| | **5,188** | **4,376** |

# 20 Provisions

| | Restructuring costs<br>£000 |
|---|---|
| At 1 June 2015 | - |
| Charge to the income statement | 4,422 |
| Utilised in the year | (766) |
| **At 31 May 2016** | **3,656** |

### Restructuring costs

As part of the global operational, cost and structure review announced in September 2015 the Group expects to incur liabilities of £4.4 million which primarily relate to workforce reductions, asset write-downs following the restructuring and/or closure of business operations in the US, Australia and Europe and a sales returns reserve. As at 31 May 2016 the amount of the provision in relation to these costs was £3.7 million which are expected to be utilised in the next 12 months.

In relation to the provisions shown above, £3,514,000 is held in US dollars, £98,000 held in Australian dollars, £29,000 held in Euro's and £15,000 held in sterling.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 21 Financial risk and treasury policy

The Group's principal financial instruments during the year comprised bank loans and overdrafts, cash and short-term deposits as well as other various items arising from its operations such as trade receivables and trade payables. The main purpose of these instruments is to finance the Group's working capital requirements as well as funding its capital expenditure programmes. From time to time the Group may enter into derivative transactions such as interest rate swaps or forward exchange contracts, the main purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and sources of finance. There were no such transactions entered into during the current or preceding financial years.

### Foreign currency risk

The Group has investments in subsidiary operations outside of the UK and also buys and sells goods and services in currencies other than in the functional currencies of its subsidiary operations. In light of the above, the Group's non sterling revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Group is able to take advantage of certain natural hedge flows within the business operations which helps to minimise the impact of the fluctuations in exchange but where appropriate will use forward rates to minimise the risk. There were no forward exchange contracts entered into during the current or preceding financial years. It is Group policy not to engage in any speculative trading in financial instruments.

### Sensitivity analysis

The most significant foreign currency risk to the Group is in relation to the euro and the US dollar. Management estimate that if all other variables remained constant the impact on pre-tax profits/(losses) of a 5% increase in the value of the euro and US dollar against sterling would have been to reduce profits by £0.1 million and £0.2 million respectively, with a decrease of 5% having an equal and opposite effect. The impact on net assets of a 5% increase in the value of the euro and US dollar against sterling would be £0.4 million and £0.8 million respectively, with a decrease of 5% having an equal and opposite effect in relation to the euro and an increase of £0.9 million in relation to the US dollar. These estimates have been based on an assessment of translating the euro and US dollar profits into sterling using the average exchange rates for the year of €1.35 and $1.49 and closing rates of €1.31 and $1.45. Apart from balances held in the functional currency of the various Group trading entities, there were no other significant balances held by the trading companies in other currencies which would give rise to a significant foreign exchange exposure at the end of the financial year.

### Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which are spread over a range of countries and customers, a factor which helps to dilute the concentration of risk. The risk associated with such trading is mitigated through credit control management procedures including the use of credit worthiness checks, the application of credit limits and the sale of goods subject to retention of title clauses. The UK business outsources its distribution which includes customer invoicing, cash collection and credit control. The external distributor invoices the customers of the UK business as its agent but the UK business retains the full credit risk associated with the sales. In light of this arrangement the UK business has a secondary risk in relation to the cash collected from its customers which has yet to be remitted to the UK business by the external distributor. A provision is made against such balances where there is an identifiable loss or event, which based on prior experience provides management with a significant doubt over the recovery of the balance. Due to the long established relationships with the majority of the Group's customers and the good standing of the UK distributor which is part of a large multinational publishing group, there is not deemed to be a credit quality issue in relation to the trade receivables balance. The amount of the total exposure is shown in note 16.

In addition to the above, the UK business has an exposure in relation to contractual advanced royalty payments to authors. However, due to the large number of authors there is no significant concentration of risk. The asset balance in relation to the author advances is held within other debtors and prepayments (refer to note 16) and amounted to £0.2 million net of allowances for doubtful recovery (2015: £0.2 million).

The credit risk on liquid funds is limited as the funds are held at banks with high credit ratings assigned by international credit rating agencies.

# 21 Financial risk and treasury policy (continued)

## Liquidity risk

The principal aim of the Group's liquidity management is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and asset leasing. As at 31 May 2016 the Group had a £3.0 million UK overdraft facility (2015: £2.5 million) which has no fixed renewal date and is due for review in December 2016, a €0.4 million overdraft facility in Europe (2015: €0.4 million) which has no fixed renewal date and a $5.0 million revolving loan facility in the US (2015: $11.0 million) which has $4.8 million undrawn as at 31 May 2016 and is due for renewal in May 2017.

## Interest rate risk

From time to time the Group companies have overdraft and loan facilities which are subject to variable rates of interest based on the respective bank's base rate. As at 31 May 2016 there were bank loans outstanding of £0.2 million (2015: £1.4 million) and bank overdrafts outstanding of £2.0 million (2015: £1.4 million). Money market deposits are placed for periods varying between call and one month and attract variable rates of interest based upon the banks cost of funds for the relevant currencies.

## Sensitivity analysis

As all of the Group's borrowings are subject to variable interest rates the Group has an exposure to a change in the market rates of interest. Management have not undertaken a sensitivity analysis on the impact of movement in the bank base rate as they deem it would have an immaterial effect on Group results due to a combination of the low level of borrowing at the year end and the low current base rates in the UK and US.

## Fair value of financial assets and liabilities

There are no material differences between the carrying values and the fair values of the financial assets and liabilities as recorded in the Consolidated Balance Sheet. Details of the amounts of financial assets and liabilities held in foreign currencies can be found in notes 16, 17, 18, 19 and 20 to the Consolidated Financial Statements.

## Capital management

The primary aim of the Group's capital management is to safeguard the Group's ability to continue as a going concern, to support its businesses and to maximise shareholder value. The Group monitors its capital structure and makes adjustments as and when it is deemed necessary and appropriate to do so using such methods as adjusting the dividend payment to shareholders or the issuing of new shares.

## Interest cover

| | 2016 | 2015 |
|---|---|---|
| Operating profit before exceptional items (£000) | 2,456 | 3,050 |
| Net finance costs (£000) | 65 | 69 |
| Interest cover (ratio) | 38 | 44 |

Interest cover is calculated by taking the operating profit before exceptional items from the Consolidated Income Statement divided by net finance costs (defined as finance costs less finance income), where finance income is greater than the finance costs, net finance costs is shown as £nil.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 21 Financial risk and treasury policy (continued)

| **Net gearing ratio** | 2016 | Restated[1] 2015 |
|---|---|---|
| Net debt (£000) | - | - |
| Total equity (£000) | 24,235 | 26,576 |
| Net gearing ratio (%) | - | - |

[1] See Note 1 Restatement of prior years

The net gearing ratio comprises net debt divided by total equity (net debt being defined as cash and cash equivalents net of bank loans - see notes 17 and 18).

## 22 Retirement benefit obligation

The Group operates a number of different retirement programmes in the countries within which it operates. The principal pension programmes are a contributory defined benefit scheme in the UK (the UK Scheme) and a non-contributory defined benefit plan in the US (the US Plan). On 30 June 2015 both the UK Scheme and the US Plan were closed to new entrants.

The assets of all schemes are held independently of the Group and its subsidiaries. The total pension costs, relating to the retirement benefit obligation, for the Group as shown in the balance sheet at the year end and as charged through the consolidated income statement in the year are analysed below:

| **Amounts recognised in the Consolidated Income Statement** | 2016 £000 | 2015 £000 |
|---|---|---|
| Amounts included in net operating costs: | | |
| – Current service costs (defined benefit scheme) | (764) | (652) |
| – Past service costs | (379) | (6) |
| | (1,143) | (658) |
| – Scheme administration expenses | (283) | (164) |
| | **(1,426)** | **(822)** |
| Amounts included in other finance costs: | | |
| – Interest income on pension scheme assets | 1,281 | 1,248 |
| – Interest charge on pension scheme liabilities | (1,799) | (1,704) |
| | **(518)** | **(456)** |
| **Amount recognised in the Consolidated Income Statement** | **(1,944)** | **(1,278)** |

| | 2016 £000 | 2015 £000 |
|---|---|---|
| **Amounts recognised in the Consolidated Balance Sheet** | | |
| Assets at fair value | 31,432 | 32,725 |
| Present value of defined benefit obligation | (46,533) | (47,073) |
| **Net deficit recognised in Consolidated Balance Sheet** | **(15,101)** | **(14,348)** |

# 22 Retirement benefit obligation (continued)

**Assumptions used to determine the defined benefit obligation**

| | 2016 UK Scheme % per annum | 2015 UK Scheme % per annum |
|---|---|---|
| Discount rate | 3.40 | 3.60 |
| Salary escalation | 2.00 | 2.00 |
| Rate of inflation | 3.00 | 3.20 |
| Increases to pensions in deferment | 1.80 | 2.20 |
| Pension increases on benefits up to 12 July 2011 | 3.00 | 3.10 |
| Pension increases on benefits after 12 July 2011 | 2.20 | 2.40 |

| | 2016 US Plan % per annum | 2015 US Plan % per annum |
|---|---|---|
| Discount rate | 4.50 | 4.50 |
| Salary escalation | 2.00 | 2.00 |
| Price inflation | 2.00 | 2.00 |
| Pension increases | 2.00 | 2.00 |

The post retirement mortality assumptions for the UK Scheme for both 2016 and 2015 are based on the S1NA year of birth tables with allowance for future improvements in mortality in line with CMI 2013 projections with a long term rate of improvement of 1% per annum and the life expectancies underlying the valuation are as follows:

| | 2016 UK Scheme Life expectancy at age 65 | | 2015 UK Scheme Life expectancy at age 65 | |
|---|---|---|---|---|
| Current age | Male | Female | Male | Female |
| 65 | 22.1 | 24.5 | 22.2 | 24.7 |
| 45 | 23.5 | 26.0 | 23.5 | 26.1 |

The post retirement mortality assumptions for the US Scheme are based on the "94 GAR post retirement" standard tables and the life expectancies underlying the valuation are as follows:

| | 2016 US Plan Life expectancy at age 65 | | 2015 US Plan Life expectancy at age 65 | |
|---|---|---|---|---|
| Current age | Male | Female | Male | Female |
| 65 | 18.0 | 18.0 | 18.0 | 18.0 |
| 45 | 18.0 | 18.0 | 18.0 | 18.0 |

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 22 Retirement benefit obligation (continued)

**Sensitivity analysis of the principal assumptions used to measure the scheme's liabilities**

| Assumption | Change in assumption | Approximate impact on scheme's liabilities |
|---|---|---|
| Discount rate | Increase by 0.25% | Decrease of £1.8m |
| | Decrease by 0.25% | Increase of £1.9m |
| Rate of salary increase | Increase by 0.25% | Increase of £0.3m |
| | Decrease by 0.25% | Decrease of £0.3m |
| Inflation | Increase by 0.25% | Increase of £1.3m |
| | Decrease by 0.25% | Decrease of £1.3m |
| Life expectancy | Increase by 1 year | Increase of £1.1m |
| | Decrease by 1 year | Decrease of £1.1m |

The above sensitivity analysis provides an approximate view of the potential effect on the assumptions (before deferred tax) assuming all other assumptions remain unchanged. The methodology adopted for the sensitivity analysis is consistent with that used to prepare the reported schemes liabilities.

### Scheme assets and expected rate of returns

The assets and liabilities in the plans and the expected rates of return on investments as at 31 May 2016 were as follows:

| | UK Scheme 2016 Value £000 | UK Scheme 2015 Value £000 |
|---|---|---|
| Group investment linked policy | | |
| – Equities | 5,547 | 5,712 |
| – Other bonds | 4,558 | 4,415 |
| – Cash | 138 | 75 |
| – Property | 3,628 | 3,278 |
| – Target return fund | 7,724 | 8,102 |
| | 21,595 | 21,582 |
| Secured pensions in payment | 1,175 | 1,067 |
| **Assets at fair value** | **22,770** | **22,649** |

| | 2016 US Plan Value £000 | 2015 US Plan Value £000 |
|---|---|---|
| Group investment linked policy | | |
| – Bonds | 8,662 | 10,076 |
| **Assets at fair value** | **8,662** | **10,076** |

# 22 Retirement benefit obligation (continued)

| Reconciliation of funded status | UK Scheme 2016 £000 | US Plan 2016 £000 | Total 2016 £000 | UK Scheme 2015 £000 | US Plan 2015 £000 | Total 2015 £000 |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | (37,127) | (9,406) | (46,533) | (35,979) | (11,094) | (47,073) |
| Assets at fair value | 22,770 | 8,662 | 31,432 | 22,649 | 10,076 | 32,725 |
| **Net liability recognised in the Consolidated Balance Sheet** | **(14,357)** | **(744)** | **(15,101)** | **(13,330)** | **(1,018)** | **(14,348)** |

| | UK Scheme 2016 £000 | US Plan 2016 £000 | Total 2016 £000 | UK Scheme 2015 £000 | US Plan 2015 £000 | Total 2015 £000 |
|---|---|---|---|---|---|---|
| **Amount recognised through the Consolidated Statement of Comprehensive Income** | | | | | | |
| Actuarial gain/(loss) during the year | (727) | 36 | (691) | (2,099) | (1,433) | (3,532) |
| Deferred tax on actuarial gain/(loss) | 131 | (14) | 117 | 420 | 573 | 993 |
| Deferred tax arising on change in UK corporation tax rate | (268) | - | (268) | - | - | - |
| | **(864)** | **22** | **(842)** | **(1,679)** | **(860)** | **(2,539)** |

| | UK Scheme 2016 £000 | US Plan 2016 £000 | Total 2016 £000 | UK Scheme 2015 £000 | US Plan 2015 £000 | Total 2015 £000 |
|---|---|---|---|---|---|---|
| **Actual return on assets** | | | | | | |
| Interest income on plan assets | 816 | 465 | 1,281 | 887 | 361 | 1,248 |
| Actuarial gain/(loss) on plan assets | (731) | (236) | (967) | 533 | (150) | 383 |
| | **85** | **229** | **314** | **1,420** | **211** | **1,631** |

The cumulative actuarial loss recognised in other comprehensive income since 31 May 2003 is £10.8 million (2015: £10.1 million). The directors' are unable to determine how much of the pension plan deficits are attributable to actuarial gains and losses on an IFRS basis prior to 31 May 2003.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 22 Retirement benefit obligation (continued)

### Reconciliation of present value of wholly funded defined benefit obligation (DBO)

| | UK Scheme £000 | US Plan £000 | Total £000 |
|---|---|---|---|
| Present value of DBO at 1 June 2014 | 32,399 | 8,459 | 40,858 |
| Current service cost | 193 | 459 | 652 |
| Interest cost | 1,301 | 403 | 1,704 |
| Employee contributions | 116 | - | 116 |
| Past service costs | - | 6 | 6 |
| Actuarial losses | 2,632 | 1,283 | 3,915 |
| Foreign currency exchange rate changes | - | 876 | 876 |
| Benefits | (662) | (392) | (1,054) |
| **Present value of DBO at 31 May 2015** | **35,979** | **11,094** | **47,073** |
| Current service cost | 228 | 536 | 764 |
| Interest cost | 1,287 | 512 | 1,799 |
| Employee contributions | 102 | - | 102 |
| Past service costs | 306 | 73 | 379 |
| Actuarial gains | (4) | (273) | (277) |
| Foreign currency exchange rate changes | - | 525 | 525 |
| Benefits | (771) | (3,061) | (3,832) |
| **Present value of DBO at 31 May 2016** | **37,127** | **9,406** | **46,533** |

### Reconciliation of fair value of assets

| | UK Scheme £000 | US Plan £000 | Total £000 |
|---|---|---|---|
| Fair value of assets at 1 June 2014 | 21,085 | 8,528 | 29,613 |
| Interest income on plan assets | 887 | 361 | 1,248 |
| Actuarial gains/(losses) on plan assets | 533 | (150) | 383 |
| Foreign currency exchange rate changes | - | 845 | 845 |
| Employer contributions | 690 | 884 | 1,574 |
| Employee contributions | 116 | - | 116 |
| Benefits | (662) | (392) | (1,054) |
| **Fair value of assets at 31 May 2015** | **22,649** | **10,076** | **32,725** |
| Income interest on plan assets | 816 | 465 | 1,281 |
| Actuarial losses on plan assets | (731) | (236) | (967) |
| Foreign currency exchange rate changes | - | 478 | 478 |
| Employer contributions | 705 | 940 | 1,645 |
| Employee contributions | 102 | - | 102 |
| Benefits | (771) | (3,061) | (3,832) |
| **Fair value of assets at 31 May 2016** | **22,770** | **8,662** | **31,432** |

## 22 Retirement benefit obligation (continued)

| Reconciliation of change in funded status | UK Scheme £000 | US Plan £000 | Total £000 |
|---|---|---|---|
| Defined benefit liability at 1 June 2014 | 11,314 | (69) | 11,245 |
| Total pension expense | 607 | 507 | 1,114 |
| Employer contributions | (690) | (884) | (1,574) |
| Foreign currency exchange rate changes | - | 31 | 31 |
| Actuarial losses | 2,099 | 1,433 | 3,532 |
| **Defined benefit liability at 31 May 2015** | **13,330** | **1,018** | **14,348** |
| Total pension expense | 1,005 | 657 | 1,662 |
| Employer contributions | (705) | (940) | (1,645) |
| Foreign currency exchange rate changes | - | 45 | 45 |
| Actuarial (gains)/losses | 727 | (36) | 691 |
| **Defined benefit liability at 31 May 2016** | **14,357** | **744** | **15,101** |

| History of experience adjustments | | 2016 £000 | 2015 £000 | 2014 £000 | 2013 £000 | 2012 £000 |
|---|---|---|---|---|---|---|
| Present value of defined benefit obligation | | (46,533) | (47,073) | (40,858) | (40,587) | (35,210) |
| Fair value of scheme assets | | 31,432 | 32,725 | 29,613 | 28,508 | 25,230 |
| **Net deficit** | | **(15,101)** | **(14,348)** | **(11,245)** | **(12,079)** | **(9,980)** |
| Experience adjustments on scheme liabilities | | | | | | |
| Gain/(loss) | £000 | 277 | (3,915) | (661) | (3,968) | 1,020 |
| Experience adjustments on scheme assets | | | | | | |
| Loss/(gain) | £000 | (967) | 383 | 225 | 1,425 | (851) |

| Expected contributions in the forthcoming year | Financial year beginning 1 June 2016 £000 |
|---|---|
| Group contributions | |
| – UK Scheme | 735 |
| – US Plan | 963 |
| | 1,698 |
| Employee contributions | 109 |
| | **1,807** |

In March 2012, the Company put in place a guarantee with the UK Scheme to cover an amount equal to the lowest non-negative amount which, when added to the assets of the Scheme, would result in the Scheme being at least 105 percent funded on the date on which any liability under the guarantee arises, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted at that date. In September 2015 the guarantee was increased to 110 percent.

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 23 Share capital and reserves

| | 2016 No. | 2015 No. | 2016 £000 | 2015 £000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| 'A' Ordinary shares of 20p | 10,000,000 | 10,000,000 | 2,000 | 2,000 |
| Ordinary shares of 20p | 8,750,000 | 8,750,000 | 1,750 | 1,750 |
| | **18,750,000** | **18,750,000** | **3,750** | **3,750** |
| **Allotted, called up and fully paid:** | | | | |
| 'A' Ordinary shares of 20p | 9,000,000 | 9,000,000 | 1,800 | 1,800 |
| Ordinary shares of 20p | 7,351,540 | 7,351,540 | 1,470 | 1,470 |
| | **16,351,540** | **16,351,540** | **3,270** | **3,270** |

The 31 March 1982 share price for capital gains tax purposes is 125p and after adjusting for the 1989 (1 for 1) and 1993 (1 for 2) capitalisation issue this becomes 41.67p. At 31 May 2016 the share price was 99p (2015: 131p), with a high of 131p (2015: 196p) and a low of 99p (2015: 113p) for the financial year.

Both the 'A' ordinary shares and the ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital), save that a transfer of 'A' ordinary shares will not be permitted by the directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' ordinary shares may convert such shares into ordinary shares at the rate of one ordinary share for each 'A' ordinary share, subject to the further provisions of the Articles of Association and the Companies Acts.

### Share premium

The share premium reserve represents the difference between the issue price and the nominal value of shares issued.

### Treasury shares

As at 31 May 2016, the Company holds 1,240,000 ordinary shares in treasury (2015: 1,240,000) which represents 16.9% of the ordinary share capital and 7.6% of the Company's total share capital. The Company is not able to vote on the treasury shares and the treasury shares carry no right to receive any dividend or other distribution of assets other than in relation to an issue of bonus shares.

### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of overseas operations.

### Retained earnings

The retained earnings reserve represents the cumulative net gains and losses recognised in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income.

### Non-Controlling Interests

Non-controlling interests relate to equity in a subsidiary not attributable to the Group. During the year HaynesPro BV acquired the 40% minority equity in HaynesPro srl increasing the Group holding in HaynesPro srl to 100%.

## 24 Related party transactions

### Identity of related parties

The Group has a related party relationship with its subsidiaries and with its directors. A list of all the Group's subsidiaries is shown in note 35.

# 24 Related party transactions (continued)

## Transactions with related parties

The interests of the directors in the ordinary share capital of the Company as at 31 May 2016 are shown in the Board Report on Remuneration on page 44 as required by the FCA's Disclosure Transparency rules.

During the year the directors had declarable interests in contracts with the Company and its subsidiary undertakings as shown below.

(1) A lease dated 28 August 1979 between John H Haynes Developments Inc, (a company registered in California and controlled by JH Haynes) and Haynes North America Inc. of the premises situated at 859 and 861 Lawrence Drive, Newbury Park, California which was amended on 1 May 2001, runs for a period of 5 years from that date, and is presently held over pending renewal. The annual rent for the year ended 31 May 2016 was $207,214 (2015: $207,214) or £139,098 (2015: £130,875) at the average exchange rate for the year. MEF Haynes is a Vice President of John H Haynes Developments Inc.

(2) During the year The Haynes Motor Museum Limited, (of which JH Haynes and Mrs AC Haynes are directors) which is jointly owned by the Haynes International Motor Museum Charitable Trust and JH Haynes and Mrs AC Haynes (spouse of JH Haynes), undertook the following transactions with the Group:

| | Transactions 2016 £000 | Balance at 31 May 2016 £000 | Transactions 2015 £000 | Balance at 31 May 2015 £000 |
|---|---|---|---|---|
| Supply of conference facilities and garage workshop services | 4 | - | 8 | 3 |
| Purchase of books and manuals and storage rental | 15 | 2 | 14 | - |

JH Haynes is a Trustee of the Charitable Trust.

(3) A tenancy of 12 Ivel Gardens, Ilchester – owned by Mrs AC Haynes (spouse of JH Haynes) and let to Haynes Publishing Group P.L.C., with Haynes Developments Limited of which JH Haynes, JHC Haynes and MEF Haynes are directors, acting as agent for lessor. From 1 June 2015 until 25 March 2016 when the tenancy was terminated, the amount paid to Haynes Developments Limited for the rent and service charges of 12 Ivel Gardens was £8,444 (2015: £10,533). In addition £100 (2015: £400) was paid to Haynes Developments Limited for rent and service charges relating to Fulton Mews in London. As at 31 May 2016 the balance outstanding to Haynes Developments Limited was £902 (2015: £804).

(4) During the year the Company continued its engagement for the services of New Century Media Limited to undertake financial PR on behalf of the Company. Mr E Bell is a non-executive director of New Century Media Limited. During the period the Company paid £84,213 (2015: £90,267) to New Century Media Limited for financial PR services. As at 31 May 2016 the balance outstanding to New Century Media Limited was £7,843 (2015: £nil).

Except as stated above, no directors were materially interested in contracts with the Company or any of its subsidiary undertakings.

## Key management emoluments

The remuneration of the directors, who are the key management personnel of the Group is set out below in aggregate for each of the categories specified within IAS 24 'Related Party Disclosures'. Further information regarding the directors' individual remuneration packages is provided in the audited part of the Board Report on Remuneration on pages 37 to 46.

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Short term employee benefits | 1,754 | 1,328 |
| Post employment benefits | 864 | 778 |
| | **2,618** | **2,106** |
| Employer's social security costs | 51 | 36 |
| | **2,669** | **2,142** |

# Financial Statements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 25 Analysis of the changes in cash and cash equivalents

| | As at 1 June 2015 £000 | Cash flow £000 | Exchange movements £000 | As at 31 May 2016 £000 |
|---|---|---|---|---|
| Cash at bank and in hand | 2,968 | (648) | 228 | 2,548 |
| Bank overdrafts | (1,421) | (587) | - | (2,008) |
| | **1,547** | **(1,235)** | **228** | **540** |

## 26 Operating leases

As at 31 May 2016 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| Commitments under non-cancellable operating leases | 2016 £000 | 2015 £000 |
|---|---|---|
| **Land and buildings:** | | |
| Due within one year | 56 | 49 |
| Due in the second to fifth years | 118 | 148 |
| | **174** | **197** |
| **Plant and equipment:** | | |
| Due within one year | 137 | 103 |
| Due in the second to fifth years | 261 | 204 |
| | **398** | **307** |
| | **572** | **504** |

## 27 Capital commitments

At 31 May 2016 the Group had no capital commitments (2015: £nil).

## 28 Ultimate controlling party

The ultimate controlling party is JH Haynes who has majority voting rights by virtue of his 55.9% beneficial interest in the Ordinary shares of the Company.

# 29 Acquisition (prior year)

On 16 February 2015, Haynes Publishing Group P.L.C., acquired 100% of the share capital of Teon Media Limited ("Teon"), a UK based private limited business for a cash consideration of £0.45 million. Teon, have developed a website which offers free "how to" content for general car maintenance. The product can be accessed by phone, tablet, laptop or desktop and is highly graphic with limited text and offers over 700 make/model combinations. The platform will enable Haynes to accelerate development of its digital delivery plans by adding its own content to a well-established delivery system to supply free and paid for content in the form of video and simplified text procedures. The consideration of £450,000 is being paid in staged payments from cash resources over a period of 24 months.

The table below shows the fair values of the assets and liabilities arising on the acquisition.

| | Carrying value £000 | Recognised on acquisition £000 |
|---|---|---|
| **Assets/(liabilities) acquired** | | |
| Intangible assets | 279 | 279 |
| Other debtors | 1 | 1 |
| Other creditors | (1) | (1) |
| | | |
| Fair value of net assets | 279 | 279 |
| Goodwill arising on acquisition[1] | | 171 |
| **Total consideration** | | **450** |
| | | |
| Cash consideration | | 450 |
| **Total consideration** | | **450** |
| | | |
| The net cash outflows arising on the acquisition were as follows : | | |
| Total consideration | | 450 |
| Less: Deferred consideration | | (250) |
| | | 200 |
| Costs of acquisition (included in cash flows from operating activities)[2] | | 105 |
| **Net cash outflow** | | **305** |

[1] The goodwill arising on acquisition of £171,000 (which is deductible for tax) represents the value to the Haynes Group of acquiring a partially developed mobile centric platform, which with further development and additional content will form the foundation of a wider Haynes consumer digital offering and help accelerate the Haynes Group's digital strategy.

[2] The costs of acquisition of £105,000 were expensed as incurred in the period and were included as an exceptional item within administrative expenses (note 5).

As prior to its acquisition by Haynes Publishing Group P.L.C., Teon was only offering free-to-view content, it has no revenue to disclose in line with IFRS 3 'Business Combinations'. On 16 February 2015, the trade and assets of Teon Media Limited were transferred to a fellow UK subsidiary of Haynes Publishing Group P.L.C. and amalgamated with the assets and liabilities of that Company. Accordingly, in line with the disclosure requirements of IFRS 3, it is not possible to quantify the amount of profit or loss attributable to the acquired business during the period or since the beginning of the financial year.

# 30 Non adjusting post-balance sheet event

On 23 June 2016, the UK voted to leave the European Union. Following the referendum result, the value of sterling has weakened against major currencies, which most notably for the Haynes Group affects movements against the euro and US dollar. UK gilt yields have also fallen since the referendum. The Group's exposure to exchange risk is discussed in more detail in note 21 and primarily relates to the translation of overseas subsidiaries to sterling for Group financial reporting purposes. The sensitivity in relation to the movement in gilt yields and the impact this can have on the discount rate assumption for the UK retirement benefit scheme is shown in note 22 on page 84.

# Financial Statements

## PARENT COMPANY BALANCE SHEET

**As at 31 May 2016**

| | | 2016 £000 | 2015 £000 |
|---|---|---|---|
| | **Non-current assets** | | |
| Note 34 | Property, plant and equipment | 1,944 | 2,254 |
| Note 35 | Investments | 7,556 | 7,556 |
| Note 40 | Deferred tax assets | 353 | 325 |
| | | **9,853** | **10,135** |
| | **Current assets** | | |
| Note 36 | Trade and other receivables | 805 | 697 |
| | Cash and short-term deposits | - | 6 |
| | | **805** | **703** |
| | **Total assets** | **10,658** | **10,838** |
| | **Liabilities:** | | |
| | **Current liabilities** | | |
| Note 37 | Trade and other payables | (838) | (814) |
| | Bank overdraft | (33) | - |
| | **Total current liabilities** | **(871)** | **(814)** |
| | **Non-current liabilities** | | |
| | Deferred consideration | - | (125) |
| Note 39 | Retirement benefit obligation | (1,709) | (1,587) |
| Note 40 | Deferred tax liabilities | (346) | (396) |
| | **Total non-current liabilities** | **(2,055)** | **(2,108)** |
| | **Total liabilities** | **(2,926)** | **(2,922)** |
| | **Net assets** | **7,732** | **7,916** |
| | **Equity:** | | |
| Note 41 | Share capital | 3,270 | 3,270 |
| | Share premium | 638 | 638 |
| | Treasury shares | (2,447) | (2,447) |
| | Retained earnings | 6,271 | 6,455 |
| | **Shareholders' funds** | **7,732** | **7,916** |

The financial statements were approved by the board of directors and authorised for issue on 21 September 2016 and were signed on its behalf by :

**E Bell**
Director

**JHC Haynes**
Director

# Financial Statements

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

**Year ended 31 May 2016**

| | Share capital £000 | Share premium £000 | Treasury shares £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|
| Balance at 1 June 2014 | 3,270 | 638 | (2,447) | 6,450 | 7,911 |
| Profit for the period | - | - | - | 1,340 | 1,340 |
| *Other comprehensive income:* | | | | | |
| Actuarial gains/(losses) on defined benefit plan (net of tax) | - | - | - | (202) | (202) |
| Total comprehensive income | - | - | - | 1,138 | 1,138 |
| Dividends payable (note 33) | - | - | - | (1,133) | (1,133) |
| **Balance at 31 May 2015** | **3,270** | **638** | **(2,447)** | **6,455** | **7,916** |
| Profit for the period | - | - | - | 1,045 | 1,045 |
| *Other comprehensive income:* | | | | | |
| Actuarial gains/(losses) on defined benefit plan (net of tax) | - | - | - | (96) | (96) |
| Total comprehensive income | - | - | - | 949 | 949 |
| Dividends payable (note 33) | - | - | - | (1,133) | (1,133) |
| **Balance at 31 May 2016** | **3,270** | **638** | **(2,447)** | **6,271** | **7,732** |

# Financial Statements

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 31 Principal accounting policies

### Basis of accounting

The financial statements of the parent company, Haynes Publishing Group P.L.C., have been prepared under the historical cost convention and in accordance with the provisions of FRS 101 and the Companies Act 2006.

During the year the Company has transitioned to the new FRS 101, having previously prepared its financial statements under United Kingdom General Accepted Accounting Practice (UK GAAP). In line with the new requirements, the prior year figures have been restated and note 43 provides a reconciliation of the material changes from UK GAAP to FRS 101. As the Company meets the definition of a qualifying entity under FRS 101 *'Reduced Disclosure Framework'*, the Company has taken advantage of the following disclosure exemptions :

- To prepare a Cash Flow Statement and related notes.
- To provide comparative period reconciliations for share capital and tangible assets.
- To provide disclosures in relation to the Company's capital management.
- To disclose the effect of new accounting standards not yet adopted.
- To provide related party disclosures in connection with wholly owned subsidiaries.
- To provide disclosures in respect of compensation to key employees.

Unless stated separately, the following significant accounting policies have been applied consistently in the financial statements for the financial years ending 31 May 2016 and 31 May 2015. The same policies have also been applied to the opening balance sheet as at 1 June 2014 in line with the transitional provisions of FRS 101.

### Foreign currencies

Transactions in foreign currencies are translated to sterling at the rate ruling on the date of the transaction. Exchange differences arising from the movement in rates between the date of transaction and the date of settlement are taken to the income statement as they arise.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

### Property, plant and equipment

Property, plant and equipment assets are held in the balance sheet at cost (cost comprising the acquisition cost of the assets plus any other attributable costs at the time of acquisition). Depreciation is provided to write-off the cost of property, plant and equipment less any estimated current residual values, by equal instalments over their economic useful lives. Residual values are based on commercial and industry experience and where appropriate using the services of professional surveyors.

Where the estimated useful life of an asset is determined on acquisition, using best estimates, both residual values and estimated useful lives are monitored on an annual basis. Where the estimated current residual value is in excess of the net book value of the asset concerned, no depreciation is charged during the period.

The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Freehold land | Nil |
| Freehold buildings | 40 years |
| Leasehold property | The period of the lease |
| Plant and equipment | 3 years to 10 years |

The gain or loss on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

# 31 Principal accounting policies (continued)

## Taxation

The tax expense represents the aggregate of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Where there is no clear relationship between the pension expense recognised in the income statement and the tax deductions received in the period on pension contributions paid, deferred tax movements during the period are first allocated to items recognised in the income statement and then the remainder, if any, is allocated to items in other comprehensive income.

## Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

## Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and recorded in the statement of comprehensive income. Past service costs are recognised immediately.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

## Treasury shares

Shares in Haynes Publishing Group P.L.C. held by the Company are classified as part of shareholders equity as treasury shares and are recognised at cost. The consideration received for the sale of shares held in treasury is also recognised in equity, with any difference between the proceeds from the sale of the shares and their original cost being taken directly to revenue reserves. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale or cancellation of the treasury shares.

## Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets which include trade receivables and cash and cash equivalents are treated as loans and receivables and carried at amortised cost.

# Financial Statements

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 31 Principal accounting policies (continued)

### Trade and other receivables

Trade receivables are recorded at original invoice amount less an allowance for estimated irrecoverable amounts.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the balance sheet and the cost of irrecoverable trade receivables is recognised in the income statement immediately.

### Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value and carried at amortised cost.

### Trade payables

Trade payables are not interest bearing and are recognised and carried at the original invoice amount.

### Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision will be made by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Investments

Investments in subsidiaries are held at historical cost less any provision for impairment.

### Dividends payable

The liability for final dividends is recorded when the dividends are approved by the Company's shareholders. For interim dividends, the liability is recorded when the dividends are paid.

## 32 Profit of the parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements.

The profit dealt with in the Company accounts was £1.0 million (2015: £1.3 million) which includes dividends received from subsidiaries of £1.3 million (2015: £1.3 million).

| **Employees** | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Aggregate remuneration of employees: | | |
| Wages and salaries | 535 | 302 |
| Employer's social security costs | 65 | 39 |
| Employer's pension costs | 6 | 8 |
| | **606** | **349** |
| Employee numbers | 10 | 9 |

Two of the directors were employed by a subsidiary company based in the US, one director is employed by a subsidiary company based in the Netherlands and one director is employed by a subsidiary company based in the UK. In all cases the directors are remunerated by the subsidiary company only.

Full details concerning the Director's emoluments, pension entitlements and long-term incentive schemes are shown in the Board Report on Remuneration on pages 37 to 46.

# 32 Profit of the parent company (continued)

**Auditor's remuneration**

The fees payable by the Company to BDO LLP for work performed in respect of the audit of the Company was £38,950 (2015: £38,625). Fees paid to BDO LLP by the Company for non-audit services was £46,400 (2015: £16,200).

# 33 Dividends

| **Dividends paid and proposed** | 2016 £000 | 2015 £000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 May 2015 of 4.0p per share (2014: 4.0p per share) | 604 | 604 |
| Interim dividend for the year ended 31 May 2016 of 3.5p per share (2015: 3.5p per share) | 529 | 529 |
| | **1,133** | **1,133** |

| | | |
|---|---|---|
| Proposed final dividend for the year ended 31 May 2016 of 4.0p per share (2015: 4.0p per share) | 604 | 604 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 9 November 2016 and has not been included as a liability in these financial statements.

As at 31 May 2016, the Company holds 1,240,000 ordinary shares in treasury which represents 16.9% of the ordinary share capital and 7.6% of the Company's total share capital. The Company is not able to vote on the treasury shares and the treasury shares carry no right to receive any dividend or other distribution of assets other than in relation to an issue of bonus shares.

# 34 Tangible fixed assets

| | Land and buildings £000 | Plant and equipment £000 | Total £000 |
|---|---|---|---|
| Cost at 1 June 2015 | 4,055 | 104 | 4,159 |
| Additions | - | 3 | 3 |
| Disposals | (300) | - | (300) |
| **Cost at 31 May 2016** | **3,755** | **107** | **3,862** |
| | | | |
| Accumulated depreciation at 1 June 2015 | 1,808 | 97 | 1,905 |
| Charge for year | 76 | 6 | 82 |
| Disposals | (69) | - | (69) |
| **Accumulated depreciation at 31 May 2016** | **1,815** | **103** | **1,918** |
| | | | |
| **Net book value at 31 May 2016** | **1,940** | **4** | **1,944** |
| Net book value at 31 May 2015 | 2,247 | 7 | 2,254 |

The depreciation charge on freehold buildings is calculated on buildings with an original cost of £3,313,000 (2015: £3,613,000). There were no assets financed through finance leases or hire purchase arrangements during the current or prior year.

# Financial Statements

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 35 Investment in subsidiary undertakings

| | Shares in subsidiary undertakings | Loans to subsidiary undertakings | Total |
|---|---|---|---|
| **The Company** | £000 | £000 | £000 |
| **Cost** | | | |
| Cost at 1 June 2015 and 31 May 2016 | 7,556 | - | 7,556 |

As at 31 May 2016 there were the following subsidiary undertakings. All subsidiaries are wholly owned, within the Group and all with financial year-ends of 31 May:

| | **Country of incorporation, registration and operation** |
|---|---|
| JH Haynes & Co Ltd (Publisher and Printer) | United Kingdom |
| JH Haynes (Overseas) Ltd (Holding Company) | United Kingdom |
| Haynes North America, Inc (Publisher)* | USA |
| Haynes Manuals, Inc (Book Distributor)* | USA |
| Odcombe Press LP (Printer)* | USA |
| Haynes Publishing Nordiska AB (Sales and Marketing) | Sweden |
| HaynesPro Holdings BV (Holding) | Holland |
| HaynesPro BV (Data production, IT development and sales)* | Holland |
| HaynesPro (UK) Ltd (Data Production)* | United Kingdom |
| HaynesPro Espana SL (Sales)* | Spain |
| HaynesPro srl (Sales)* [1] | Italy |
| HaynesPro Data srl (Data production and IT development)* | Romania |
| HaynesPro GmbH (Sales)* | Germany |

As at 31 May 2016, there were the following dormant subsidiary undertakings, all wholly owned within the Group: Camway Autographics Ltd, *Haynes Garages Ltd, GT Foulis & Co Ltd, Oxford Illustrated Press Ltd, Patrick Stephens Ltd, *Camelot Inc, *Odcombe Press (Nashville) Inc, *E-Commerce Management Ltd, *HaynesPro Commerce (UK) Ltd and *Partsdoc Holding BV.

[1] During the year HaynesPro BV acquired the 40% minority equity in HaynesPro srl increasing the Group holding in HaynesPro srl to 100%.

* Shares of those subsidiaries marked with an asterisk are held by subsidiary undertakings. All other shares are held by the Company.

# 36 Trade and other receivables

| **Amounts falling due within one year:** | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | 774 | 640 |
| Other debtors and prepayments | 31 | 57 |
| | **805** | **697** |

# 37 Trade and other payables

| **Amounts falling due within one year:** | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Trade creditors | 38 | 17 |
| Amounts owed to subsidiary companies | 113 | 122 |
| Other taxes and social security costs | 3 | 3 |
| Other creditors and accruals | 684 | 672 |
| | **838** | **814** |

# 38 Financial risk management, objectives and policies

Note 21 to the Consolidated Financial Statements provides details of the Group's financial risk management, objectives and policies.

These policies also apply to the Company.

# 39 Retirement benefit obligation

The retirement benefit obligation recorded in the balance sheet represents the share of net liabilities relating to current or past employees of the Company who are either active, deferred or retired members of the UK Scheme. Full details of the UK Scheme are contained in note 22 of the consolidated financial statements.

The net obligation as shown in the balance sheet is analysed as follows:

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Present value of defined benefit obligation | (4,418) | (4,282) |
| Fair value of scheme assets | 2,709 | 2,695 |
| | **(1,709)** | **(1,587)** |

# Financial Statements

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 39 Retirement benefit obligation (continued)

The changes in the present value of the net defined obligation are as follows:

| | Present value of defined obligation £000 | Fair value of scheme assets £000 |
|---|---|---|
| Balance at 1 June 2014 | (3,855) | 2,509 |
| Current service cost | (23) | - |
| Net interest (expense)/income | (155) | 106 |
| Employee contributions | (14) | 14 |
| Employer contributions | - | 82 |
| Actuarial (losses)/gains | (314) | 63 |
| Benefits paid | 79 | (79) |
| **Balance at 31 May 2015** | **(4,282)** | **2,695** |
| Current service cost | (27) | - |
| Past service cost | (36) | - |
| Net interest (expense)/income | (153) | 97 |
| Employee contributions | (12) | 12 |
| Employer contributions | - | 84 |
| Actuarial gains/(losses) | - | (87) |
| Benefits paid | 92 | (92) |
| **Balance at 31 May 2016** | **(4,418)** | **2,709** |

## 40 Deferred tax assets and liabilities

| | Property Plant and Equipment £000 | Employee Benefits £000 | Short-term temporary differences £000 | Total £000 |
|---|---|---|---|---|
| Deferred tax asset / (liabilities) at 1 June 2014 | (394) | 269 | 10 | (115) |
| Transfer to Consolidated Income Statement | (2) | (2) | (2) | (6) |
| Transfer to equity | - | 50 | - | 50 |
| **Deferred tax asset / (liabilities) at 31 May 2015** | **(396)** | **317** | **8** | **(71)** |
| Transfer to Consolidated Income Statement | 50 | 6 | 38 | 94 |
| Transfer to equity | - | (16) | - | (16) |
| **Deferred tax asset / (liabilities) at 31 May 2016** | **(346)** | **307** | **46** | **7** |

| | 2016 Assets £000 | 2016 Liabilities £000 | 2016 Total £000 | 2015 Assets £000 | 2015 Liabilities £000 | 2015 Total £000 |
|---|---|---|---|---|---|---|
| Property Plant and Equipment | - | (346) | (346) | - | (396) | (396) |
| Employee Benefits | 307 | - | 307 | 317 | - | 317 |
| Short-term temporary differences | 46 | - | 46 | 8 | - | 8 |
| | **353** | **(346)** | **7** | **325** | **(396)** | **(71)** |

# 41 Share capital

| | 2016 No | 2015 No | 2016 £000 | 2015 £000 |
|---|---|---|---|---|
| **Allotted, called up and fully paid:** | | | | |
| 'A' Ordinary shares of 20p | 9,000,000 | 9,000,000 | 1,800 | 1,800 |
| Ordinary shares of 20p | 7,351,540 | 7,351,540 | 1,470 | 1,470 |
| | **16,351,540** | **16,351,540** | **3,270** | **3,270** |

The 31 March 1982 share price for capital gains tax purposes is 125p and after adjusting for the 1989 (1 for 1) and 1993 (1 for 2) capitalisation issue this becomes 41.67p. At 31 May 2016 the share price was 99p (2015: 131p), with a high of 260p (2015: 131p) and a low of 99p (2015: 113p) for the financial year.

Both the 'A' Ordinary shares and the Ordinary shares carry equal voting rights of one vote per share where a matter is decided other than on a show of hands. Both classes of share rank 'pari passu' (including any distribution by way of dividend and on a return of capital ), save that a transfer of 'A' Ordinary shares will not be permitted by the Directors other than to a member of the holder's immediate family or to family settlements. The holders of 'A' Ordinary shares may convert such shares into Ordinary shares at the rate of one Ordinary share for each 'A' Ordinary , subject to the further provisions of the Articles of Association and the Companies Acts.

As at 31 May 2016, the Company holds 1,240,000 ordinary shares in treasury which represents 16.9% of the ordinary share capital and 7.6% of the Company's total share capital. The Company is not able to vote on the treasury shares and the treasury shares carry no right to receive any dividend or other distribution of assets other than in relation to an issue of bonus shares.

# 42 Contingencies

Details of the UK banking arrangements are contained in note 18 to the consolidated financial statements. The performance guarantees and indemnities have been entered into in the normal course of business and a liability would only arise if one of the parties to the Group arrangement failed to fulfil its obligations.

In March 2012, the Company put in place a guarantee with the UK Pension Scheme to cover an amount equal to the lowest non-negative amount which, when added to the assets of the Scheme, would result in the Scheme being at least 105 percent funded on the date on which any liability under the guarantee arises, calculated on the basis set out in section 179 of the Pensions Act 2004, were a valuation to be conducted at that date. In September 2015 the guarantee was increased to 110 per cent.

# Financial Statements

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

**Year ended 31 May 2016**

## 43 Transition to FRS 101

This is the first set of Company financial statements prepared in accordance with the new FRS 101.

In 2015 the Company's profit for the year under UK GAAP was £1,264,034. Following credit adjustments of £9,878 in relation to the defined benefit scheme, £83,444 in relation to property depreciation and a charge of £16,689 relating to deferred tax on the property depreciation, the restated Company profit for the year under FRS 101 was £1,340,667.

In preparing the Company balance sheet under FRS 101 certain adjustments have been made to the amounts previously reported in the financial statements prepared under UK GAAP. The table on the following page and notes to the table provides an explanation of the adjustments which have been made to the comparative balance sheet.

| | 31 May 2015 | | | 1 June 2014 | | |
|---|---|---|---|---|---|---|
| | UK GAAP £000 | FRS101 Adjustment £000 | FRS 101 £000 | UK GAAP £000 | FRS101 Adjustment £000 | FRS 101 £000 |
| **Non-current assets** | | | | | | |
| Property, plant and equipment [A] | 2,087 | 167 | 2,254 | 2,182 | 83 | 2,265 |
| Investments | 7,556 | - | 7,556 | 7,106 | - | 7,106 |
| Deferred tax assets [B] | 8 | 317 | 325 | 8 | 269 | 277 |
| **Total non-current assets** | **9,651** | **484** | **10,135** | **9,296** | **352** | **9,648** |
| **Current assets** | | | | | | |
| Trade and other receivables | 697 | - | 697 | 533 | - | 533 |
| Cash and short-term deposits | 6 | - | 6 | 86 | - | 86 |
| **Total current assets** | **703** | **-** | **703** | **619** | **-** | **619** |
| **Total assets** | **10,354** | **484** | **10,838** | **9,915** | **352** | **10,267** |
| **Liabilities:** | | | | | | |
| **Current liabilities** | | | | | | |
| Trade and other payables | (814) | - | (814) | (616) | - | (616) |
| Bank overdraft and loans | - | - | - | - | - | - |
| **Total current liabilities** | **(814)** | **-** | **(814)** | **(616)** | **-** | **(616)** |
| **Non-current liabilities** | | | | | | |
| Deferred consideration | (125) | - | (125) | - | - | - |
| Retirement benefit obligation [C] | - | (1,587) | (1,587) | - | (1,346) | (1,346) |
| Deferred tax liabilities | (216) | (180) | (396) | (231) | (163) | (394) |
| **Total non-current liabilities** | **(341)** | **(1,767)** | **(2,108)** | **(231)** | **(1,509)** | **(1,740)** |
| **Total liabilities** | **(1,155)** | **(1,767)** | **(2,922)** | **(847)** | **(1,509)** | **(2,356)** |
| **Net assets** | **9,199** | **(1,283)** | **7,916** | **9,068** | **(1,157)** | **7,911** |
| **Equity:** | | | | | | |
| Share capital | 3,270 | - | 3,270 | 3,270 | - | 3,270 |
| Share premium | 638 | - | 638 | 638 | - | 638 |
| Treasury shares | (2,447) | - | (2,447) | (2,447) | - | (2,447) |
| Retained earnings [D] | 7,738 | (1,283) | 6,455 | 7,607 | (1,157) | 6,450 |
| **Shareholders' funds** | **9,199** | **(1,283)** | **7,916** | **9,068** | **(1,157)** | **7,911** |

# 43 Transition to FRS 101 (continued)

[A] Under FRS 101 no depreciation is charged on buildings where the estimated current residual value is deemed to be in excess of the net book value. Under UK GAAP depreciation was charged on freehold buildings on a straight line basis over 40 years. This change in treatment results in a lower accumulated depreciation charge in 2015 of £167,000 (2014: £83,000).

[B] The deferred tax balances have been recalculated to reflect the inclusion on the balance sheet of the defined benefit obligation and adjustment relating to depreciation as outlined in [A] above. The impact of the change has been to increase the deferred tax asset in 2015 by £317,000 (2014: £269,000) and to increase the deferred tax liabilities by £180,000 (2014: £163,000).

[C] FRS 101 requires that the Company's share of the defined benefit pension obligation be included on the Company balance sheet. The impact of the change increased the Company's non-current liabilities in 2015 by £1,587,000 (2014: £1,346,000).

[D] The net impact of the above changes on the retained earnings was as follows:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Adjustment to depreciation | 167 | 83 |
| Adjustment to deferred tax | 137 | 106 |
| Inclusion of retirement benefit obligation | (1,587) | (1,346) |
| | **(1,283)** | **(1,157)** |

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# Financial Calendar & Shareholder Information

## Calendar for financial year ended 31 May 2017

| | |
|---|---|
| Interim statement | January |
| Interim dividend paid | April |
| Company year-end | 31 May |
| Announcement of annual results and proposed final dividend | September |
| Annual General Meeting | November |
| Final dividend paid | November |

## Analysis of shareholders as at 31 May 2016

| Type of shareholder | Number of shareholders | Total shareholdings |
|---|---|---|
| Commercial and industrial companies | 19 | 17,470 |
| Directors beneficial / connected / non-beneficial | 6 | 10,577,567 |
| Nominee companies | 51 | 1,576,067 |
| Private holders | 357 | 1,583,705 |
| Investment trusts and funds | 6 | 714,657 |
| Charities | 3 | 642,074 |
| Shares held in treasury | 1 | 1,240,000 |
| | **443** | **16,351,540** |

## Share registrars

| | |
|---|---|
| Website: | **www.capitaregistrars.com** |

## Investors

| | |
|---|---|
| Company website: | **www.haynes.co.uk/investor** |
| Share price: | **www.londonstockexchange.com (code: hyns)** |

**Haynes** Investors

Company Information | Financial Reports | Shareholder Information | Contact Us

# Contact Us

### For enquiries about your share holding

The administration of our share register is held by Capita Asset Services who have a helpline and website. For information and help with your shares such as to register a change of address, obtain a replacement share certificate, to trace a lost dividend cheque etc.

**Telephone:** +44 (0) 871 664 0300 (calls cost 10p per minute plus additional network charges may apply - lines are open from 8:30am to 5:30pm Mon - Fri)
**Website:** www.capitaassetservices.com
**Address:** The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

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### For press, media and analyst meeting enquiries

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**Corporate Brokers:** Panmure Gordon (UK) Ltd
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**Telephone:** +44 (0)20 7886 2500

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### For general investor enquiries

For all other general investor relation enquiries please contact the Group Company Secretary

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