TYMAN PLC

("Tyman" or the "Group" or the "Company")

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Tyman plc, a leading international supplier of engineered components to the door and window industry, announces preliminary audited results for the year ended 31 December 2018.

Financial highlights

£'m unless stated	2018	2017	Change	*CC LFL*[1]
Revenue	**591.5**	522.7	**+ 13 %**	***+ 3 %***
Underlying Operating Profit	**83.6**	76.8	**+ 9 %**	***(5) %***
Underlying Operating Margin	***14.1 %***	*14.7 %*	**(60) bps**	***(50) bps***
Underlying Profit before Taxation	**72.7**	68.3	**+ 6 %**	
Underlying EPS	**27.68p**	26.91p	**+ 3 %**	
Dividend per share	**12.00p**	11.25p	**+ 7 %**	
Underlying Net Debt	**210.7**	163.7	**+ 29 %**	
Leverage	**1.96x**	1.83x	**+ 0.13x**	
Return on Capital Employed	***13.4 %***	*13.6 %*	**(20) bps**	

(1) CC LFL = Constant Currency Like for Like (see definition on page 45)

Included within this announcement are alternative performance measures which provide additional useful information to shareholders on the underlying performance of the business. A detailed description of key APMs is included on page 45. Details of other APMs can be found on the Group's website.

Statutory financial highlights

£'m unless stated	2018	2017	Change
Operating Profit	**50.5**	43.9	**+ 15 %**
Profit before Taxation	**38.9**	34.5	**+ 13 %**
Basic EPS	**13.76p**	17.61p	**(22) %**
Net Debt	**208.8**	162.9	**+ 28 %**

Business highlights

- Further year of profitable growth assisted by contributions from acquisitions, despite unfavourable foreign exchange movements
- AmesburyTruth reported Revenue and profitability ahead of last year despite challenging US new build market conditions in the second half; net operating margins fell by c. 150 bps
- Strong contributions in the year from Bilco and Ashland; physical moves in footprint project now complete
- ERA performance significantly improved in the second half with further growth from Zoo Hardware and margin expansion across the year of c. 40 bps
- Continued growth from SchlegelGiesse with significant outperformance of end markets in Europe and margins improving in the year by c. 130 bps

- Strong cash performance in the year with both Operating and Free cash flow significantly ahead of 2017 and cash conversion at 92.4 per cent. of operating profit
- Leverage back within the Group's target range of 1.50 to 2.00x at year end for the seventh consecutive year
- Appointment of Jo Hallas as Chief Executive from 1 April 2019 in succession to Louis Eperjesi, as announced on 20 November 2018

Acquired businesses highlights

- Strong trading from Ashland - acquired in March for an Enterprise Value of US$101.0 million
  - Ashland Revenue and Underlying Operating Profit significantly ahead of prior year
  - Integration ahead of schedule with positive customer and employee reaction
  - Synergy target increased by 25.0 per cent. to US$5.0 million by 2020
- Sustained strong trading from Zoo - acquired in May for an Enterprise Value of £19.0 million
  - Zoo Revenue and Underlying Operating Profit significantly ahead of prior year
- Profab and Reguitti performing in line with expectations
- Bilco Run Rate final ROAI two years post acquisition confirmed at 17.0 per cent.; and Giesse's 26.7 per cent. both significantly ahead of the Group's target threshold

2019 trading

- Trading in 2019 to date is in line with expectations with a promising order book in each Division
- Banking facilities extended by a further twelve months to February 2024
- Acquisition of Y-cam by ERA to enhance smart home capabilities

Louis Eperjesi, Chief Executive, commented:

"Tyman made further progress in 2018 in developing its people, enhancing its product offering, expanding its manufacturing and distribution capabilities as well as focussing on its customers in order to improve market positions across each of the Divisions.

"The physical moves of plant and machinery into new facilities in AmesburyTruth and ERA are now complete. AmesburyTruth's focus now moves to ensuring that each of the North American centres of excellence deliver the expected returns from the footprint project. ERA's strong second half performance illustrates the opportunities the new i54 facility gives to the Division.

"Volumes in 2019 to date are in line with our expectations across each of the Divisions with promising order books. AmesburyTruth is planning for volume growth in US residential and commercial and its profitability will benefit from the increased synergies generated by the integration of Ashland together with the footprint project and pricing initiatives.

"The UK market is likely to remain subdued in 2019; however ERA will continue to focus on further share gains, new product introductions with an emphasis on smartware, realising synergies from the acquisitions of Profab and Zoo along with management of costs and overheads.

"SchlegelGiesse expects to take further market share, driven by ongoing investment in innovation, expansion of the product range and "all in one" cross selling activity.

"Despite current market uncertainties, the Group remains well positioned to build on the progress made over the last nine years and to deliver sustainable profitable growth going forward."

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Analyst and investor presentation

Tyman will host an analyst and investor presentation at 9.30 a.m. today, Tuesday 5 March 2019, at the offices of MHP.

The presentation will be webcast at the Group's website - www.tymanplc.com

Webcast link

http://webcasting.brrmedia.co.uk/broadcast/5c76c694bb4afe3a3603ed3a

Forthcoming dates

Ex-dividend date	18 April 2019
Dividend record date	23 April 2019
Annual General Meeting	9 May 2019
Dividend payment date	24 May 2019
Interim results announcement	25 July 2019
Autumn trading update	6 November 2019

Notes to editors

Tyman is a leading international supplier of engineered components to the door and window industry. The Group's three Divisions – AmesburyTruth, ERA and SchlegelGiesse – are market leaders in their respective geographies.

The Group employs over 4,200 people and operates facilities in 18 countries worldwide. Tyman is listed on the London Stock Exchange under the ticker TYMN.

Further information on the Group and the Group's products are available at the Group's website - www.tymanplc.com.

RESULTS OVERVIEW

2018 saw a year of further progress for Tyman with improvements in Revenue, profit and cashflow assisted by strong initial contributions from the acquisitions of Ashland and Zoo Hardware.

Progress against key priorities

The Group delivered further progress in 2018 with Revenue and Underlying Operating Profit increasing to £591.5 million and £83.6 million respectively, assisted by the contributions from the four acquisitions made in the year underpinned by strong cash generation.

Performance in North America was impacted by the slowing in the residential new build market that was evident in the second half of the year; however, both ERA and SchlegelGiesse delivered strong performances across generally less favourable market backdrops.

During 2018, Tyman continued to deliver against the priorities that were set out in last year's Annual Report and Accounts. The Group has made further progress in the year in developing its people, enhancing its product offering, expanding its manufacturing and distribution capabilities as well as focusing on its customers in order to improve market positions across each of the Divisions.

Health, safety and sustainability

The Group has made considerable progress in the last nine years in developing a health and safety culture where each employee takes responsibility for their own safety and for the safety of others and it is pleasing to be able to report reductions in the number and severity of incidents in 2018. Greater employee engagement is also demonstrated by the increase in the number of near miss incidents identified and resolved in the year before they caused injury or harm.

The recruitment of Tyman's first Group Health, Safety and Sustainability Director will help to provide the correct level of senior executive oversight to this critical area, will enhance the sharing of best practice across the three Divisions and should allow the Group to deliver the measurable and sustained improvements in health and safety performance that it is undoubtedly capable of.

A Group level focus on sustainability will also allow Tyman to draw together in a more coherent manner the various initiatives that are taking place in each Division in this critical area as the businesses seek to minimise the impact of their activities on the environment.

Footprint

The significant and necessary investments that the Group has made in its footprint and manufacturing processes in recent years are indicative of the priority that Tyman attaches to operational excellence and to making the Group's businesses the best that they can be. The key driver behind the footprint projects has been to ensure that each Division has the safe, modern and flexible facilities necessary to support customers' needs, increase product quality, encourage innovation and improve service levels.

The physical moves of plant and machinery into new facilities are now complete. ERA's new facility, i54 in Wolverhampton, is fully operational and has absorbed four distribution warehouses together with the balance manufacturing business formerly based in Martock, UK. ERA's strong 2018 second half illustrates the opportunities the new facility gives to the Division to improve its financial performance.

AmesburyTruth has successfully transferred manufacturing from the Amesbury, MA, and Rochester, NY, facilities to the new centre of excellence in Statesville, NC. The complexity of the site moves, combined with the need to recruit and train up new personnel, has been a headwind to the Division's financial performance over the past two years.

AmesburyTruth's focus is now on ensuring that each of the North American centres of excellence perform to their capabilities and deliver the expected returns from the footprint project.

Group collaboration

The Divisions have continued to work collaboratively with an emphasis in 2018 on NPD and cross-selling of product with a particular focus on showcasing Giesse hardware in both AmesburyTruth and ERA as well as taking Bilco products into new markets, such as the Gulf.

Other areas of collaboration include the well established inter-Divisional teams that meet regularly to share best practice in the areas of IT, health and safety, operations and risk management. TSA continues to make good progress in developing the Group's Far Eastern logistics and supply chain capabilities and the Zoo Hardware sourcing team was successfully integrated into TSA during the year.

Financial objectives

The Group's financial performance against its key objectives was more mixed during 2018. While it was pleasing to report constant currency like for like Revenue growth in AmesburyTruth and SchlegelGiesse, like for like Revenue in ERA was broadly flat.

AmesburyTruth's margin contracted during the year as a result of slower markets and short term operational inefficiencies; however, both SchlegelGiesse and ERA successfully expanded their margins, SchlegelGiesse through cross-selling of products and significant market share gains in Europe and ERA as a result of the greatly improved performance that came through in the second half.

Cash generation was very strong in the year with a high level of Operating Cash Conversion and a significant increase in Free Cash Flow. Return on capital performance for Tyman was not as strong as planned; however, the Group remains committed to its medium term ROCE target of 15.0 per cent. under 2018 accounting policies which it will achieve through improvements in profitability and close scrutiny of the capital base of the business.

For 2019 the Group has budgeted for margin expansion and improvements in its returns on capital.

Self-help initiatives

In recent years the Group has demonstrated its ability to improve performance through self-help initiatives across all aspects of the business. Self-help initiatives in 2019 will continue to focus on the areas of new product development, with an emphasis on smartware and next generation hardware, investment in people and the supply chain, together with capital projects that can deliver attractive returns.

M&A

M&A supports the Group's strategy for growth, giving access to new products that enhance the customer offer or to new markets. The Group has a strict set of acquisition criteria, based around financial metrics, market position, ease of integration, scalability of the acquired business and the capabilities of its business model.

Tyman made four acquisitions in the year, each of which brings different but complementary characteristics to the Group. All the acquired businesses have bedded in well, with Ashland and Zoo delivering notably strong performances in the period under the Group's ownership. Since the year end ERA has acquired Y-cam which will help to enhance its smartware offer in the UK.

AmesburyTruth disposed of its legacy automotive and copier business based in Rochester, NY, at the end of the year for a nominal sum, which was not viable to relocate.

Integration

The integrations of Giesse and Bilco completed during the year. These acquisitions, which were both made in 2016, have integrated well into their respective Divisions and delivered a ROAI significantly ahead of the Group's target run rate of 15.0 per cent..

For 2019 the integration focus will be on the four businesses acquired in 2018 as well as the integration of Y-cam into the ERA smartware offer in order to ensure that these businesses deliver against their acquisition plans.

Outlook

The Group is well placed to take advantage of opportunities as they arise in 2019 and where they can generate attractive returns for Tyman shareholders. Despite current market uncertainties, the Group remains well positioned to build on the progress made over the last nine years and to deliver sustainable profitable growth going forward.

AmesburyTruth Division

£'m except where stated	2018	2017	Change	CC LFL
Revenue	378.7	332.7	+ 14 %	*+ 3 %*
Underlying Operating Profit	62.3	59.7	+ 4 %	*(8) %*
Underlying Operating Margin	*16.4 %*	*17.9 %*	*(150) bps*	*(180) bps*

US$'m except where stated	2018	2017	Change	CC LFL
Revenue	505.5	428.8	+ 18 %	*+ 3 %*
Underlying Operating Profit	83.1	77.0	+ 8 %	*(8) %*
Underlying Operating Margin	*16.4 %*	*17.9 %*	*(150) bps*	*(180) bps*

US Dollar data for the Division, translated at average exchange rates for the relevant year, is presented as an APM to aid comparability as US Dollars are the principal currency in which the Division transacts.

Markets

US residential single family construction declined in 2018 with permits decreasing by 5.5 per cent., starts by 10.5 per cent. and completions by 5.6 per cent.. The second half of 2018 saw more challenging market conditions with seasonally adjusted single family start and completions both down 8.9 per cent. at December compared with June 2018. Total residential completions in the US in the year declined by 8.4 per cent. to 1.1 million. New build activity levels in the US remain materially below long run average levels on both absolute and per capita measures.

US repair and remodelling continued to recover during the year with the LIRA index increasing by 7.4 per cent. and the NAHB RMI sentiment index averaging 57 across the year (2017: 57).

New housing starts were flat in Canada in the year with continued growth in multifamily, offset by declines in single family starts.

Business performance and developments

Softer US residential market conditions in the second half meant that AmesburyTruth had a more challenging year in 2018. On a reported basis, Revenue grew by 17.9 per cent. to US$505.5 million (2017: US$428.8 million) with the increase principally due to the strong initial contribution from Ashland, assisted by pricing initiatives across the Division. Like for like Revenue increased by 2.5 per cent., reflecting the slower second half trading environment, with volumes broadly flat across the year.

Input costs continued to increase in 2018, although moderated somewhat in the second half, and there were higher levels of scrap write-off in the year. Overheads for the Division increased with higher healthcare and freight costs incurred.

Reported Underlying Operating Profit increased by 8.0 per cent. to US$83.1 million (2017: US$77.0 million), principally due to the strong performance from Ashland. Like for like Underlying Operating Profit fell by 7.8 per cent. in 2018 and the Division's Underlying Operating Margin decreased by 150 bps to 16.4 per cent. (2017: 17.9 per cent.).

AmesburyTruth remains confident that a blended Underlying Operating Margin of 20.0 per cent. is achievable for the Division over the medium term.

Like for like order books in the Division at the year end were 8.0 per cent. ahead of the position at 31 December 2017.

Residential and commercial

Like for like volumes into residential were broadly flat in the year. The Division's commercial offer continued to grow with Revenue increasing by 6.1 per cent. to US$66.5 million (US$62.7 million) principally due to Bilco's strong performance in the year.

Tier three and four account coverage

In 2018, trading in tier three and four accounts increased by 3.7 per cent., principally due to pricing initiatives, and over $4.0 million of annualised incremental orders were secured by ISC in the year which are expected to convert into Revenue in 2019. A second distribution location for tier three and four accounts opened in Nashville, TN, in April 2018 to complement the existing facility in Dallas, TX.

Canada

Despite flat construction markets, the Division's performance in Canada continued to improve with Revenue in the market increasing by 12.0 per cent. to US$51.5 million (2017: US$46.0 million), assisted by the initial contribution from Ashland.

Ashland

Ashland was acquired on 14 March 2018. The business performed very strongly in the year recording US Dollar Revenue for the full year approximately 6.3 per cent. higher than in 2017. This positive trading performance, combined with the early delivery of synergies, meant that Underlying US Dollar Operating Profit for Ashland increased by 62.4 per cent. over the full year 2017.

The acquisition has been well received by key customers and employees and integration initiatives have proceeded ahead of schedule, including the successful migration of IT systems over to the AmesburyTruth platform. The largest integration project, the closure of the Ashland facility in Toronto, Canada, completed in September, with production moving to the Monterrey, Mexico, facility. Other integration initiatives, including the alignment of sales and marketing resources and co-ordination of supply chain activities, meant that synergy benefits were generated in the period under ownership of US$1.3 million, significantly ahead of schedule.

The progress made to date with the integration has meant that the annualised pre tax cost and revenue synergy target for Ashland has been increased by 25.0 per cent. to US$5.0 million from 2020.

Bilco

Bilco had another strong year generating a 9.1 per cent. improvement in Revenue with good performance seen across both commercial and residential markets. Notable installations of Bilco products in the year included the New York City Transit, Dallas Fort Worth Airport, and the Gonzaga Performing Arts Centre.

The integration of Bilco is now complete with synergy benefits of US$3.5 million recorded over the two years of ownership to 30 June 2018, some 40.0 per cent. ahead of the original targets put in place at the date of acquisition. Bilco's run rate ROAI after two years of ownership was 17.0 per cent., 200 bps ahead of the Group target of 15 per cent..

Footprint project

The second phase of the footprint project, which involved the consolidation of four sites into a single centre of excellence based in Statesville, NC, was substantially complete at the year end.

The Amesbury, MA, site closed in December and the freehold sold. Production at the Rochester, NY, site will cease by the end of the first quarter of 2019 and the site will be returned to the landlord at the half year. The legacy automotive and copier business based in Rochester, NY, which was not viable to relocate, was sold at the year end for a nominal sum. In 2018 this legacy business generated Revenue of US$7.1 million (2017: US$8.6 million).

In 2018 the footprint project generated US$1.7 million of incremental benefit for the Division. The focus in 2019 is on improving the operational performance of the four centres of excellence such that the project delivers the expected US$10.0 million of incremental benefit from 2020.

Footprint project financials

US$'million	Inception to date	2019 Forecast	2020 Estimate
P&L charge	**22.1**	3.0	1.5
Operational expenditure	**16.7**	11.0	1.0
Capital expenditure	**13.6**	1.0	–
Cash receipts	**(6.7)**	–	–
Total cash costs	**23.6**	**12.0**	**1.0**
Total cumulative cash costs	**23.6**	**35.6**	**36.6**
Incremental P&L saving	**1.7**	**3.3**	**5.0**
Cumulative annual P&L saving	**1.7**	**5.0**	**10.0**

Cash costs incurred during 2018 in connection with the footprint project were US$6.9 million which was substantially offset by net cash receipts of US$4.6 million arising from the sales of the Amesbury, MA, and Statesville, NC, facilities. In aggregate since the start of the project, cash receipts of US$6.7 million have been realised from disposals of surplus properties and equipment.

The estimate for the overall net project cash cost remains at c. US$37.0 million (2017: US$37.0 million.

Outlook

AmesburyTruth is planning for volume growth in US residential and commercial construction in 2019. Despite more challenging markets the business is well placed to make progress this year through continued recovery of market share among smaller customers, price realisation, synergy benefits arising from the integration of Ashland and improved utilisation of the new facilities.

ERA Division

£'m except where stated	2018	2017	Change	CC LFL
Revenue	95.7	80.3	+ 19 %	*(1) %*
Underlying Operating Profit	12.5	10.2	+ 22 %	*(10) %*
Underlying Operating Margin	*13.1 %*	*12.7 %*	+ 40 bps	*(110) bps*

Market

The UK market stabilised as the year progressed following further contraction in the first half of 2018. RMI investment, which comprises the majority of the market, was lower than in 2017 overall and new build construction saw further modest growth.

Overall, ERA estimates that the UK market for doors and windows was c. 4.0 per cent. lower than 2017, with the improvement in the second half offsetting a first half decline of c. 8.0 per cent..

Business performance and developments

Despite challenging market conditions, ERA made good progress against its strategic objectives by delivering further share growth in its core hardware market, improving margins and lowering costs. After a difficult start to the year, the stabilising market combined with targeted price increases, operational efficiencies and procurement savings led to a significantly improved second half performance and meant the business ended 2018 with positive momentum.

ERA's like for like Revenue for the year decreased by 1.0 per cent. reflecting the impact of subdued market conditions on volumes, offset by the benefit of price increases implemented in November 2017 and May 2018. On a reported basis, Revenue increased by 19.3 per cent., principally due to the incremental contribution from Howe Green and contributions from Zoo Hardware and Profab. Order books on a like for like basis at the year end were slightly higher than at the end of 2017.

The cost of goods imported from the Far East continued to increase through the first half however costs started to moderate as the second half progressed such that across the year imported costs on the representative basket of goods were marginally lower than in 2017.

Despite increased property costs of the new i54 facility, overheads in the Division fell slightly due to savings from restructuring initiatives and the consolidation of further sites into the i54 facility.

Lower volumes and under-recovery of input cost inflation meant that like for like Underlying Operating Profit in the period was £1.0 million lower than in 2017; however the reported Underlying Operating Profit increased by 22.2 per cent. and the Underlying Operating Margin increased by c. 40 bps assisted by the strong performance from Zoo Hardware. ERA continues to target an Underlying Operating Margin in the mid-teens in the medium term.

OEM and distribution

Hardware sales into OEM continued to outperform the market with volumes decreasing by only 2.2 per cent., reflecting the continued growth in bifold hardware products and patio door locks together with encouraging take-up from new product introductions. The volume reduction was largely mitigated through pricing actions.

The Division made further progress in distribution with like for like Revenue increasing by 2.0 per cent. in the year. This was further assisted by the addition of Zoo products to the range which significantly strengthens ERA's position in the distribution route to market. The combined ERA/Zoo sales into distribution increased by an estimated 7.0 per cent. year on year.

Further progress has been made in developing an aluminium hardware range for the UK market and there continues to be good take-up of Giesse's products in the UK. There is a good portfolio of new hardware products including the innovative ERA Lockdown range to be launched in 2019.

Zoo Hardware

The acquisition of Zoo Hardware completed on 10 May 2018 and the business traded strongly in its first eight months of ownership. Zoo's Revenue for the full year was 11.3 per cent. ahead of 2017 at £19.5 million, representing the business' eighth successive year of double digit Revenue growth and profitability for the business year on year increased by 33.8 per cent.. Zoo continues to gain share in the commercial sector and new products launched in the second half of the year have been well received.

ERA Home

Smartware sales declined in the year as a result of some one-off orders in 2017 which were not repeated. During 2018, the ERA Doorcam was brought to market and the ERA Home Installer scheme was launched. The TouchKey night latch is in beta testing phase and is expected to be launched commercially during 2019 with the TouchKey multipoint lock offering to follow.

The ERA Home range is gaining traction and growing share in the smartware market is a strategic priority for ERA. On 18 February 2019, ERA completed the acquisition of Y-cam, a smart home security business which operates a proprietary cloud based platform, together with a range of award-winning security cameras, alarms and sensors. This acquisition will strengthen ERA's presence in the smart security market considerably.

Access Solutions

The Access Solutions business was further expanded with the acquisition of Profab in July 2018. Combined with Bilco UK and Howe Green, this creates a comprehensive offering covering all aspects of the building envelope.

Access Solutions recorded Revenue of £10.3 million in the year, slightly lower on a like for like basis due to the timing of specification led projects, with the large Crossrail project nearing completion and delays on the Battersea Power Station project, combined with supply chain delays early in the year which impacted Bilco UK. The businesses have promising order books going into 2019.

Profab has performed encouragingly in the period since acquisition and has a healthy pipeline of opportunities in the UK and export markets.

The Access Solutions management team was strengthened during the year with new hires. The enlarged business provides ERA with a meaningful commercial and light infrastructure access offer for the UK market.

ERA's sales into the commercial and light infrastructure sectors through Zoo and Access Solutions now account for approximately a third of ERA's sales, up from 13.0 per cent. in 2017.

Ventrolla

Reported Revenue at Ventrolla, the Division's sash window refurbishment business, increased by 8.0 per cent. to £5.8 million following the acquisition of the London commercial franchise during the year. Performance of the ongoing business was disappointing, with like for like Revenue declining 7.8 per cent. and profitability deteriorating as a result of a fall in the number of installers and a lower level of enquiries. A new management team has been put in place to address the performance issues and the business has launched a new website which is expected to generate increased levels of enquiries.

Ventrolla has a promising order book for 2019 and has secured a number of commercial contract wins to be delivered in early 2019.

Tyman Sourcing Asia

TSA reports through ERA and is responsible for the Group's Far Eastern sourcing operations. TSA manages the supply chain for the majority of the Division's UK sales. In 2018 purchases made by TSA on behalf of all Group companies totalled US$78.9 million (2017: US$75.1 million) across 51 (2017: 47) active suppliers, with the increase being driven by the stock build at ERA and a scale-up in sourcing activity for the AmesburyTruth Division. The Group continues to focus on streamlining the supply chain and realising the benefits from consolidation of purchasing activities.

New facility

The final warehouse moves to i54, the purpose-built 136,000 sq. ft. facility took place in the first two months of 2018. In addition, the Ash Vale and Martock sites were also consolidated into i54 during the year. The Willenhall site was sold in April 2018 and, subsequent to the year end, the Martock site was sold. i54 is the industry-leading facility that provides the Division with a competitive advantage and has assisted in improving customer engagement, service levels and operational efficiencies. Further benefits of the new facility are expected to be realised in 2019.

Brexit

The Division has implemented plans to mitigate possible disruption to customer service in the event that Brexit impacts supply chains. These plans include holding increased levels of inventory in the UK at the year end and regular pro-active communication with customers and suppliers. The significant majority of the Division's products are sourced from the Far East through TSA; accordingly changes to the UK/EU trade arrangements are not expected to have a material direct impact on the Division's performance.

Outlook

There remains uncertainty in the UK market ahead of Brexit. In the event of an orderly withdrawal, ERA expects the UK residential RMI market will be flat in 2019. However, in the event of a disruptive Brexit, it is likely the market would contract further. The CPA estimates the UK total RMI market will contract by 3.3 per cent. in 2019 excluding the indirect effects of a decline in consumer confidence. New build construction is expected to show continued modest growth.

Given the subdued market backdrop the focus of the Division will continue to be on further share gains, new product introductions with an emphasis on smartware and the launch of the ERA Lockdown security product, realising synergies from the integration of the acquired businesses and management of costs and overheads.

The outlook for ERA's commercial and light infrastructure products remains promising in 2019, with a number of large infrastructure projects in prospect for both the UK and export markets.

SchlegelGiesse Division

£'m except where stated	2018	2017	Change	CC LFL
Revenue	117.2	109.7	+ 7 %	+ 6 %
Underlying Operating Profit	15.0	12.8	+ 18 %	+18 %
Underlying Operating Margin	*12.8 %*	*11.6 %*	*+ 120 bps*	*+ 130 bps*

€'m except where stated	2018	2017	Change	CC LFL
Revenue	132.4	125.2	+ 6 %	+ 6 %
Underlying Operating Profit	17.0	14.6	+ 17 %	+18 %
Underlying Operating Margin	*12.8 %*	*11.6 %*	*+ 120 bps*	*+ 130 bps*

Euro data for the Division, translated at average exchange rates for the relevant year, is presented as an APM to aid comparability as Euros are the principal currency in which the Division transacts.

Market

The majority of European markets produced flat to modest growth in 2018. The Iberian market continued its strong recovery and Russia improved compared with recent years. The UK, Polish and Turkish markets each declined year on year.

There was strong growth in the RMI segment of the market in China and, as a consequence, SchlegelGiesse benefited from its increased exposure to the retail distributor route to market. Latin American markets remained subdued across the year although there were indications of demand improving in the second half.

Weakening demand in the Middle East and Australia reflected local macroeconomic trends and, while demand improved in the second half of the year in Asia Pacific markets, overall it remained below prior year.

Business performance and developments

SchlegelGiesse produced strong Revenue and profitability growth in 2018, enhanced by the acquisition of Reguitti, price increases and significant outperformance of end markets in Europe.

Revenue of €132.4 million for the year (2017: €125.2 million) was 6.0 per cent. higher than the prior year on a reported basis, assisted by the contribution from Reguitti from the end of August 2018. On a constant currency like for like basis, Revenue increased by 6.0 per cent. demonstrating the success of the Division's "all in one" selling model in driving organic growth.

Pricing discipline helped secure price increases in each of the Division's markets, including the high inflationary markets in Latin America, and as a consequence SchlegelGiesse recorded an improvement in Underlying Operating Profit of 17.0 per cent. to €17.0 million (2017: €14.6 million), an improvement of 18.1 per cent. on a constant currency like for like basis.

The strong growth in Revenue improved operational gearing and efficiencies, which resulted in continued expansion in the Division's Underlying Operating Margin of 120 bps, to 12.8 per cent. (2017: 11.6 per cent.), making significant further progress towards SchlegelGiesse's medium term target of a 15.0 per cent. net operating margin.

Like for like order books at the year end were 8.2 per cent. ahead of 2017.

Europe

Growth ahead of underlying markets was achieved in Continental Europe with Revenue increasing by 6.0 per cent. on a constant currency like for like basis. The business took significant share in most European end markets in 2018 through cross-selling of the portfolio without price concessions or diluting margins. Spain, France, Russia and Greece all saw high double digit growth in the year, particularly in aluminium hardware sales. In addition, Norway achieved good growth in seal products. All other major markets in Continental Europe, including the largest end market of Italy, achieved positive growth, with the exception of Turkey and Poland.

Continuous improvement in customer service and the expansion of the range of product offering in Continental Europe all contributed to Revenue growth rates above the level of local underlying market demand.

The UK market remained subdued in 2018 with sealing Revenue down 3.0 per cent. on 2017 as a whole; however the Division recorded a significantly stronger performance in the second half, despite macro uncertainties, giving good momentum into 2019.

Middle East

Despite positive Revenue growth in the first half of the year in the Middle East, activity in the second half slowed, such that the year ended with full-year Revenue 6.0 per cent. lower than 2017. Delays to projects contributed to this slowdown and strict compliance with Tyman credit control policies ensured top line growth was not pursued at the expense of increased credit risks.

Relationships with distributors and system providers in the region have been strengthened during 2018 and the year ended with an encouraging order book for the Middle East.

The Middle East is an attractive market for the Group's access solution businesses and in 2018 SchlegelGiesse started to establish routes to market and inventory stocking programmes to support prospective demand for Bilco, Howe Green and Profab products.

China and Asia Pacific

Following a review of the Division's route to market strategy in China in 2017, the decision was made to expand the retail distributor route, thereby increasing exposure to the high growth RMI sector in China and reducing reliance on the more volatile new project sector. The subsequent inventory build orders from distributors boosted Revenue in China in 2018, resulting in Revenue growth of 36.0 per cent. over prior year. The strong order book at the end of 2018 provides good momentum into 2019.

Revenue from Asia Pacific markets was weaker than prior year; however this remains an attractive market for SchlegelGiesse and increased sales and technical resources have been established locally to address future project opportunities. Australasian Revenue was lower than the prior year, primarily due to reduced demand for seal products, with hardware products remaining flat, reflecting the continuing decline in the residential housing market.

Latin America

After a slow start, Euro translated Revenue in Latin America recovered in the second half to end the year broadly flat compared to 2017. In Argentina, volumes were flat across the year which represents significant outperformance of the underlying market. Frequent price increases were secured throughout the year to combat the impact of the continuing high inflation and devaluation of the local currency. Brazil remained difficult and measures were taken to address the cost base towards the end of the year.

Reguitti acquisition

On 30 August 2018 SchlegelGiesse acquired Reguitti, a manufacturer of door hardware sold under the Reguitti, Tropex and Jatec brands, based in Agnosine, Italy. This strategic acquisition expands the SchlegelGiesse product portfolio with the addition of the design-led Reguitti range of interior and exterior handles and door furniture products and further expands the portfolio of renowned brands within the Division.

Reguitti offers 120 different models of handles for over 25,000 finished products across all materials including brass, aluminium, stainless steel, metal alloy and porcelain. Reguitti brings significant knowledge and experience of handle design, technology and finishes that offer an immediate synergy and enhances the SchlegelGiesse product offering. Integration of the business is progressing well and the business has encouraging prospects for 2019.

NPD and investment

Consumer preferences in the aluminium casement window sector are evolving towards a minimalist aesthetic with ultra slim profiles and technologically advanced concealed hardware. Innovative concealed hardware design allows frame profiles to be reduced to a bare minimum, thereby providing more daylight and improved thermal performance from the wider expanse of glass.

In response to this trend SchlegelGiesse launched its range of CHIC concealed hinges and slim design Supra and Ultra handles in 2016 and continued to expand the range in 2017 and 2018, with increased load capacity to cover all applications. The combination of aesthetic design and technical performance of the range has been well received across all major markets with the Revenue from this product range increasing by 77.0 per cent. in 2018 to c.€4.6 million with a strong contribution margin.

SchlegelGiesse continues to invest in its portfolio of seals and hardware products with further capital investment projects underway for the launch of further new product designs and extensions to the CHIC, Supra and Ultra ranges planned.

The Henlow facility completed its migration to the Divisional SAP platform during the year and plans have been approved to move the Aycliffe facility onto SAP during 2019. Significant additional investments in manufacturing capability and automation are expected in 2019 including the commissioning of a new chemical kitchen in the UK to assist the development of next generation seal technology.

Brexit

SchlegelGiesse, in conjunction with ERA, has implemented plans to mitigate possible disruption to customer service if a disruptive Brexit materialises in 2019. Mitigating actions taken include holding increased inventories in the UK of raw materials sourced in the EU and in the EU of finished goods manufactured in the UK.

Outlook

SchlegelGiesse expects to benefit from modest growth in most Continental European markets in 2019. The Division is well placed to take further market share, driven by ongoing investment in innovation, expansion of the product range and cross-selling activity to capitalise on the "all in one" strategy for hardware and seals that has been well received across the customer base.

Markets outside Europe are expected to be more variable. The Division should continue to benefit from the trend towards residential RMI in China and the ASEAN region is expected to grow in line with construction markets in most locations. Latin America will remain difficult with the market in Brazil likely to be flat year on year and further declines in Argentina expected. Credit and liquidity issues are likely to constrain market growth in the Middle East.

Overall the Division is confident that its broad range of seal and hardware products, strong brands and NPD pipeline will enable it to take further share and allow it to capitalise on the opportunities available in each of its markets. SchlegelGiesse is well positioned for further progress in 2019.

FINANCIAL REVIEW

INCOME STATEMENT

Revenue and profit

Reported Group Revenue increased by 13.2 per cent. to £591.5 million (2017: £522.7 million), assisted by the four acquisitions made in 2018, however was impacted by unfavourable exchange movements. 100 bps of the increase was a result of freight income now recognised on a gross basis following adoption of IFRS 15. On a constant currency like for like basis, Group Revenue was 2.7 per cent. ahead of last year, principally due to pricing and surcharge actions.

Reported Gross Margin of 35.2 per cent. (2017: 36.5 per cent.) was impacted by higher input costs and other inflationary increases; however it remained ahead of the Group's target threshold Gross Margin of 35.0 per cent.. Underlying Administrative Expenses increased to £124.7 million (2017: £114.1 million), with £5.6 million of the increase due to the reclassification of freight income to Revenue, and the balance principally due to acquisitions, offset in part by less favourable foreign exchange movements. Centrally incurred costs in the year remain well controlled at £6.3 million (2017: £5.9 million).

Underlying Operating Profit increased by 8.8 per cent. to £83.6 million (2017: £76.8 million), and decreased by 4.8 per cent. on a constant currency like for like basis. The favourable impact on the full-year Underlying Operating Profit from acquisitions and pricing actions was partially offset by the higher input costs, other inflationary increases and adverse foreign exchange movements. The Group's Underlying Operating Margin decreased by 57 bps to 14.1 per cent. (2017: 14.7 per cent.).

Underlying Profit before Taxation increased by 6.4 per cent. to £72.7 million (2017: £68.3 million), and decreased by 9.4 per cent. on a constant currency like for like basis. Reported Profit before Taxation increased by 12.5 per cent. to £38.9 million (2017: £34.5 million).

Materials and input costs

£'m except where stated	2018 Materials[1]	Average[2]	Spot[3]
Aluminium (Euro)	**20.8**	+ 3.2 %	+ 1.8 %
Polypropylene (Euro)	**32.1**	+ 5.4 %	+ 0.9 %
Stainless steel (US)	**47.8**	+ 1.4 %	(0.5) %
Zinc (US)	**34.8**	+17.0%	(0.9) %
Far East components (UK)[4]	**37.7**	(1.4) %	(2.8) %

[1] FY 2018 materials cost of sales for raw materials, components and hardware for overall category.

[2] Average 2018 tracker price compared with average 2017 tracker price.

[3] Spot tracker price as at 31 December 2018 compared with spot tracker price at 31 December 2017.

[4] Pricing on a representative basket of components sourced from the Far East by ERA.

Raw material costs continued to increase in the year with average prices across most commodity categories being higher than 2017. Prices began to moderate in the second half of the year and on a spot basis at the year end commodity prices were broadly in line with those at 31 December 2017. The average cost for other steel purchases in North America was higher than 2017 as a result of the direct and indirect impacts of US tariff changes.

The Group will manage the impact of input cost inflation in 2019 through a combination of effective purchasing, pricing actions, surcharging and cost reduction programmes.

Exceptional items

£'m	2018	2017
Footprint restructuring - costs	4.7	16.4
Footprint restructuring - credits	(0.9)	(5.7)
Footprint restructuring - net	3.8	10.7
M&A and integration – costs	1.7	2.2
M&A and integration – credits	–	(2.9)
M&A and integration - net	1.7	(0.7)
Write-off of inventory fair value adjustments	2.5	-
Other	(0.7)	-
Total exceptional items	7.3	10.0

These items are regarded by the Group as exceptional as they are significant and non-recurring in nature. Despite the increased number of acquisitions completed during the year, exceptional items decreased by 27.0 per cent. to £7.3 million (2017: £10.0 million).

Footprint restructuring

As announced in March 2015 and reported in previous periods, footprint restructuring principally relates to directly attributable costs incurred in the ongoing North American footprint project. Gross costs attributable to footprint restructuring in the period amounted to £4.7 million. Against this has been credited £0.9 million related to the profits on disposal of the Willenhall, UK, Statesville, NC, and Amesbury, MA, properties. The North American footprint project is expected to conclude during 2020.

M&A and integration

M&A and integration costs of £1.7 million relate to legal, financial, taxation and consultancy costs associated with the Ashland, Zoo, Profab, and Reguitti acquisitions and the integration of businesses acquired in the 2016 and 2017 years.

Write-off of inventory fair value adjustments

The write-off of inventory fair value adjustments of £2.5 million relates to the acquisition of Ashland and is a non-cash adjustment relating to the IFRS 3 requirement that finished goods held in inventory must be revalued to their market value on acquisition. As substantially all of the finished goods inventory acquired with Ashland has been sold in 2018, this uplift in the book value is considered to be of a one-off nature and is of a magnitude that would distort the underlying trading result of the business in the period.

This treatment of finished goods acquired on acquisition has been consistently applied to each of the Group's acquisitions in recent years. The equivalent revaluation of inventory acquired in other acquisitions in the year was immaterial.

Other

Other includes the release of excess legal provisions in connection with IP litigation, the release of an excess property provision and receipt of settlement monies from a longstanding raw material class action.

Finance costs

Net finance costs increased to £11.6 million (2017: £9.4 million). Interest payable on bank loans, private placement notes and overdrafts increased to £10.7 million (2017: £8.2 million), reflecting additional finance charges incurred on higher drawdowns and an increase in base rates.

Non-cash movements charged to net finance costs in the year include amortisation of borrowing costs of £1.0 million (2017: £0.4 million), pension interest of £0.3 million (2017: £0.6 million) and a gain on the revaluation of fair value currency hedges of £0.3 million (2017: loss of £0.4 million).

Income from short term bank deposits decreased to £0.1 million (2017: £0.2 million).

Underlying net finance costs increased by £2.4 million to £10.9 million (2017: £8.5 million).

Interest rates on borrowings

The Group's average cost of funds and margin payable over the year increased by 40 bps to 3.8 per cent. (2017: 3.4 per cent.) reflecting increased base rates.

Interest rate swap contracts

A portion of the Group's floating rate borrowings are held at fixed rates via interest rate swap contracts. At the year end, the notional value to swap of the Group's outstanding borrowings under the revolving credit facility was 10.4 per cent. (2017: 14.0 per cent.). The weighted average fixed rate of the swap contracts was 1.7 per cent. (2017: 1.7 per cent.).

In addition, the Group has issued US$100 million in aggregate under its US Private Placement programme, all of which is held at fixed rates. In total, 29.9 per cent. (2017: 35.9 per cent.) of the Group's Underlying Gross Indebtedness is effectively held at fixed rates of interest.

At 31 December 2018, the Group held interest swap contracts amounting to a fair value liability of £0.3 million (2017: £0.3 million).

Forward exchange contracts

At 31 December 2018, the Group's portfolio of forward exchange contracts at fair value amounted to a net asset of £0.3 million (2017: £0.1 million). The notional value of the portfolio amounted to £12.6 million, comprising US$ and Chinese Renminbi forward exchange contracts with notional values of US$10.3 million and RMB40.0 million respectively. These contracts have a range of maturities up to 30 September 2019.

During the year, a fair value gain of £0.3 million (2017: fair value loss of £0.4 million) was recognised directly in the income statement.

Taxation

The Group's income tax charge increased significantly during the year to £12.5 million (2017: £3.3 million), comprising a current tax charge of £15.4 million (2017: £15.0 million) and a deferred tax credit of £2.9 million (2017: £11.7 million). The deferred tax credit includes a £1.1 million (2017: £6.9 million) credit in respect of the revaluation of the Group's net deferred tax liabilities following the reduction in the US federal tax rate. As this credit is exceptional in nature it is excluded from the Group's Underlying tax charge.

The Underlying Tax charge was £19.7 million (2017: £20.6 million), representing an Underlying Effective Tax Rate for the year of 27.1 per cent. (2017: 30.1 per cent.).

The 300bps reduction in the effective Underlying Tax rate year on year is primarily driven by the changes in US tax legislation which came into force on 1 January 2018. The most significant change is to the US federal tax rate which reduced from 35.0 per cent. to 21.0 per cent. The reduced rate applies to a broader tax base under the new legislation as certain credits and deductions are removed, most notably the §199 domestic production activities deduction.

During 2018 the Group paid corporation tax of £12.3 million (2017: £15.1 million) which equates to a cash tax rate on Underlying Profit Before Taxation of 17.0 per cent. (2017: 22.1 per cent.).

Earnings per Share

Basic Earnings per Share decreased by 21.8 per cent. to 13.76 pence (2017: 17.61 pence). Diluted Earnings per Share decreased to 13.66 pence (2017: 17.49 pence). The decrease in statutory Earnings per Share measures reflects the higher income tax charge in the year and the increase in weighted average number of shares in issue following the placing completed in March 2018.

Underlying Earnings per Share increased by 2.8 per cent. to 27.68 pence (2017: 26.91 pence). Underlying Diluted Earnings per Share increased to 27.47 pence (2017: 26.73 pence). The increase in Underlying Earnings per Share measures reflects the increased Underlying Operating Profit, partially offset by increased finance costs in the year and the higher number of shares in issue.

CASH GENERATION, INVESTMENT, FUNDING AND LIQUIDITY

Cash and cash conversion

£'m	**2018**	2017
Net cash generated from operations	**72.6**	**51.9**
Add: Pension contributions	**1.1**	**1.2**
Add: Income tax paid	**12.3**	**15.1**
Less: Purchases of property, plant and equipment	**(15.7)**	**(15.4)**
Less: Purchases of intangible assets	**(1.5)**	**(1.1)**
Add: Proceeds on disposal of PPE	**5.3**	**3.8**
Operational Cash Flow after exceptional cash costs	**74.1**	**55.5**
Exceptional cash costs	**3.2**	**10.2**
Operational Cash Flow	**77.3**	**65.7**
Less: Pension contributions	**(1.1)**	**(1.2)**
Less: Income tax paid	**(12.3)**	**(15.1)**
Less: Net interest paid	**(9.2)**	**(7.5)**
Less: Exceptional cash costs	**(3.2)**	**(10.2)**
Free Cash Flow	**51.5**	**31.7**

Operational Cash Flow increased by 17.5 per cent. to £77.3 million (2017: £65.7 million). The increase is principally driven by the improvement in Operating Profit and the lower net investment in PPE. Net exceptional cash costs settled in the year were £3.2 million (2017: £10.2 million), comprising £5.5 million of cash inflows primarily generated on disposal of properties as part of the footprint reorganisation and £8.7 million of cash outflows (see Exceptional items on page 17).

Free Cash Flow in the year increased significantly by 62.5 per cent. to £51.5 million (2017: £31.7 million), due to the £11.5 million increase in Operational Cash Flow, the £2.7 million lower income tax paid (see Taxation on page 18) and lower net exceptional cash costs.

The Group's Operating Cash Conversion in 2018 improved to 92.4 per cent. (2017: 85.6 per cent.). Over the past nine years, a period which has seen significant capital investment made in the Group, Operating Cash Conversion has averaged 90.6 per cent. and each Division remains targeted on delivery of 100 per cent. cash conversion of Underlying Operating Profit.

Bank facilities and US private placement notes

Total facilities available to the Group, as at 5 March 2019, were as follows:

Facility	Maturity	Currency	Committed	Uncommitted
2018 Facility	Feb 2024	Multicurrency	£240.0m	£70.0m
4.97 % USPP	Nov 2021	US$	US$55.0m	-
5.37 % USPP	Nov 2024	US$	US$45.0m	-
Other facilities	Various	Various	£2.3m	-

On 19 February 2018, the Group entered into the 2018 Facility and incurred upfront financing costs of £2.1 million. Since the year end, an option to extend the Facility by one year has been exercised and the Facility now expires in February 2024. On signing the 2018 Facility, the 2014 Facility was repaid in full and cancelled. Unamortised financing costs of £0.5 million relating to the 2014 Facility were written off on cancellation.

Liquidity

At 31 December 2018, the Group had gross outstanding borrowings of £262.5 million (2017: £206.2 million), cash balances of £51.9 million (2017: £42.6 million) and committed but undrawn facilities of £58.5 million (2017: £50.0 million). In addition, the Group has potential access to the uncommitted £70.0 million accordion facility.

Underlying Net Debt at the year end was £210.7 million (2017: £163.7 million). Under IFRS, which reduces gross debt by the unamortised portion of finance arrangement fees, net debt was £208.8 million (2017: £162.9 million).

Covenant performance

At 31 December 2018	Test ratio	Covenant performance[1]	Headroom[2] £'m	Headroom[2] %
Leverage	<3.0x	1.96x	35.9	34.7
Interest Cover	>4.0x	9.27x	56.0	56.8

[1] Calculated covenant performance consistent with the Group's banking covenant test.

[2] The approximate amount by which EBITDA would need to decline before the relevant covenant is breached.

The Group continues to retain significant headroom on its banking covenants.

Leverage, which is measured on an average exchange rate basis across the trailing 12 months, increased to 1.96x (2017: 1.83x) reflecting the incremental indebtedness taken on by the Group to fund the Ashland and Zoo acquisitions. During the year Leverage averaged 2.05x (2017: 2.04x) and peaked at 2.21x (2017: 2.15x). Leverage at the year end was below 2.00x for the seventh year in succession.

Interest Cover decreased to 9.27x from 11.38x in 2017, reflecting the increased interest expense on higher drawdowns and the increase in the US federal interest rate.

BALANCE SHEET – ASSETS AND LIABILITIES

Goodwill and intangible assets

At 31 December 2018, the carrying value of Group goodwill and intangible assets was £516.9 million (2017: £427.2 million). Amortisation of intangible assets through the income statement during the year was £27.3 million (2017: £24.2 million). Of the movement in carrying values, £91.3 million related to acquisitions and £24.2 million to exchange movements. The exchange movement reflects the average appreciation of Sterling against the US Dollar over the year impacting the translation of the underlying US Dollar denominated carrying values of intangible assets into the Group's functional currency at the year end.

Capital expenditure

Gross capital expenditure increased by £0.9 million to £17.3 million (2017: £16.4 million) or 1.25x Depreciation (2017: 1.27x).

Property, plant and equipment gross expenditure increased by £0.3 million to £15.7 million (2017: £15.4 million) as a result of capital investment projects, predominantly in the AmesburyTruth Division.

Gross expenditure on intangible assets increased by £0.5 million to £1.5 million reflecting the upgrade of ERP systems in the SchlegelGiesse Division.

Net capital expenditure decreased in the year to £12.0 million (2017: £12.6 million) or 0.87x Depreciation (2017: 0.98x) principally due to significant receipts from the sale of properties.

Property

As part of the footprint consolidation projects taking place across the Group, a number of property transactions took place during the year. Three of the freehold properties that were marketed for sale at the end of 2017 were sold in the year as summarised below.

Date	Location	Sq. ft.	Proceeds
February 2018	Statesville, NC	53,000	US$1.4m
April 2018	Willenhall, UK	64,000	£1.4m
December 2018	Amesbury, MA	83,000	US$3.2m

Since the year end the Martock, UK facility has been sold for consideration of £0.3 million. The Group continues to market for sale the Fossatone, IT property.

Trade working capital

£'m	FY 2017	Mvt	Acqns [2]	FX	2018
Inventories	75.3	4.5	21.9	3.6	**105.3**
Trade receivables [1]	56.7	0.8	12.5	1.6	**71.6**
Trade payables	(37.8)	(4.4)	(8.9)	(1.5)	**(52.6)**
Trade working capital	94.2	0.9	25.5	3.7	**124.3**

[1] The FY 2017 trade receivables balance has been restated to include the adjustment made to the opening balance of trade receivables on application of IFRS 15. See note 12 for further details.

[2] The fair value of working capital items assumed at the acquisition date, less IFRS 3 exceptional inventory fair value adjustments.

Trade working capital was well controlled across the year with the first half net investment of £19.3 million more than unwinding in the second half.

At the year end trade working capital, net of provisions, was £124.3 million (2017 restated: £94.2 million). Of the increase, £28.0 million relates to working capital assumed on acquisitions and £1.6 million relates to the net cash outflow of trade working capital across the year, offset by £3.7 million of exchange movements.

Inventories increased by £30.0 million to £105.3 million (2017: £75.3 million). The majority of the movement relates to acquisitions and exchange rate movements, as well as some temporary investment in inventory at AmesburyTruth to support service levels and at ERA as part of plans to build inventories ahead of the UK's scheduled Brexit departure date. The provision for slow-moving and obsolete inventory increased to £19.2 million (2017: £12.9 million), largely reflecting the level of aged stock held by the businesses acquired during the year.

Trade receivables increased by £14.9 million to £71.6 million (2017 restated: £56.7 million) and trade payables increased by £14.8 million to £52.5 million primarily as a result of acquisitions and exchange movements. In both 2018 and 2017, bad debts written off as a percentage of Revenue were negligible.

Pension and post-retirement medical benefit obligations

£'m	2018	2017
Post-retirement pension/TFR	(10.8)	(12.1)
Post-retirement medical	-	(0.3)
Net post-retirement benefit obligation	**(10.8)**	(12.4)

At 31 December 2018, the Group's gross pension obligations under IAS 19 were £29.1 million (2017: £42.8 million). Net obligations were £10.8 million (2017: £12.4 million). The obligations arise from five defined benefit schemes that were in operation across the Group at the year end 2018; three in Italy and two in the US.

The two AmesburyTruth schemes are closed to new entrants. From January 2019, accrual of further service ceased on closure of the Rochester, NY, and Amesbury, MA, facilities, although the Group retains the obligations related to these schemes. Gross obligations under the AmesburyTruth schemes at the year end were US$32.2 million (2017: US$35.4 million).

£1.6 million of the reduction in net obligations was due to completion of the buyout of the Bilco retirement benefit plan during the year. No cash outflow or gain or loss on this buyout was recorded by the Group. £0.3 million of the reduction was due to the closure of the Rochester, NY post-retirement medical benefit plan at the end of 2018.

The Italian schemes relate to TFR termination obligations payable to employees of the Group's Italian operations. As at 31 December 2018, the Group's TFR termination obligations amounted to €4.3 million (2017: €3.4 million). €1.1 million of the increase relates to the acquisition of Reguitti, which operates two TFR schemes. TFR payments made to former Italian employees in the year were €0.3 million (2017: €0.2 million). TFR termination obligations are unfunded.

Cash contributions made to the schemes during the year were £1.1 million (2017: £1.2 million). Remeasurement gains of £1.1 million were offset by expenses of £0.9 million and an exchange loss of £0.4 million.

Provisions

£'m	2017	(Charge)/ Release to P&L	Utilised	Other mvt	2018	Expected utilisation by
Property	(3.5)	0.3	0.3	(0.3)	**(3.2)**	2042
Restructuring	(8.0)	1.0	0.4	(0.4)	**(7.0)**	2021
Warranty	(0.9)	(0.2)	0.1	(1.5)	**(2.5)**	2025
Other	(5.0)	0.8	1.7	0.1	**(2.4)**	2021
Total	(17.4)	1.9	2.5	(2.1)	**(15.1)**	

Property related

Property provisions include provisions for onerous leases of £1.3 million (2017: £2.1 million) and leasehold dilapidations of £1.9 million (2017: £1.4 million). The movement in the year principally relates to costs associated with the UK properties offset by the release of an onerous lease provision that is no longer required.

Restructuring

Restructuring provisions predominantly relate to provisions for the closures of the Rochester, NY, and Amesbury, MA, facilities. The utilisation in the year principally relates to costs incurred to date in respect of the closure of these facilities. The release in the year is largely a result of the revised estimate of expected net costs of closure of the Amesbury, MA, facility.

Warranty

Warranty provisions include provisions for the ultimate cost of settling product warranty claims. The increase in the year principally relates to warranty provisions made on acquisition.

Other

Other provisions include various provisions for potential obligations mainly arising from the Group's M&A activities. The utilisation in the year principally relates to the settlement of a fully indemnified pre-acquisition tax liability. No cash outflow was recorded by the Group.

BALANCE SHEET – EQUITY

Shares in issue

At 31 December 2018, the total number of shares in issue was 196.8 million (2017: 178.6 million). In addition, the Group held 0.5 million shares in Treasury (2017: 0.5 million).

On 13 March 2018 the Group issued 17.8 million shares by way of a placing at a price of 290 pence per share with institutional investors to part fund the acquisition of Ashland. On 15 May 2018 the Group issued 0.4 million shares as part consideration for the acquisition of Zoo.

The basic weighted average number of shares at the year end was 191.4 million (2017: 177.2 million). The diluted weighted average number of shares was 192.9 million (2017: 178.4 million).

Employee Benefit Trust purchases

At the year end, the Tyman Employee Benefit Trust held 1.5 million shares (2017: 0.8 million). During the year, the EBT purchased 1.1 million shares in Tyman plc at a total cost of £3.2 million to satisfy certain share awards vested in March 2018 as well as future obligations under the Group's various share plans.

Dividends

A final dividend of 8.25 pence per share (2017: 7.75 pence), equivalent to £16.1 million based on the shares in issue as at 31 December 2018, will be proposed at the Annual General Meeting (2017: £13.7 million). The total dividend declared for the 2018 financial year is therefore 12.00 pence per share (2017: 11.25 pence), an increase of 6.7 per cent.. This equates to a Dividend Cover of 2.31x, above the mid-point of the Group's target range of 2.00x to 2.50x.

The ex-dividend date will be 18 April 2019 and the final dividend will be paid on 24 May 2019 to shareholders on the register at 18 April 2019.

Only dividends paid in the year have been charged against equity in the 2018 financial statements. In aggregate £22.4 million (2017: £19.5 million) of dividend payments, representing 43.3 per cent. of 2018 Free Cash Flow, were made to shareholders during 2018.

Distributable reserves

During the year the Group carried out a review of Tyman plc's distributable reserves position. This review considered interpretation guidance issued by the ICAEW, which clarified that reserves arising on 'cash box' placing transactions used to fund acquisitions were not realised profits. Consequently, it was determined that the portion of the Company's reserves which arose on such transactions was not distributable.

The review confirmed that all dividends paid by the Group to date have been paid lawfully from reserves available for distribution. In order to ensure sufficient reserves remain available to pay future dividends with a suitable level of headroom, the Company undertook an internal reorganisation during the year the effect of which was to increase the level of distributable reserves.

At 31 December 2018, the Company's reserves available for distribution to shareholders were £90.3 million. The Group expects this would to be sufficient to pay dividends in line with the Group's dividend policy for the foreseeable future. To provide additional headroom and to preserve flexibility around the Group's capital structure, the Group intends to seek approval to convert the Company's unrealised profits into distributable reserves by way of a bonus share issue and capital reduction. Further details can be found in the Notice of AGM.

OTHER FINANCIAL MATTERS

Returns on Capital

ROCE decreased slightly by 19 bps to 13.4 per cent. (2017: 13.6 per cent.) and ROCCE decreased by 490 bps to 44.7 per cent. (2017: 49.6 per cent.). The fall in both measures is due to increases in the average capital and controllable capital employed, as a result of acquisitions and continued investment in the footprint projects, together with the impact of the lower Underlying Operating Margin recorded in AmesburyTruth in the year.

At 31 December 2018, average capital employed was £621.8 million (2017: £563.6 million) and average controllable capital employed was £186.9 million (2017: £154.8 million).

The Group continues to target ROCE under 2018 accounting policies of 15.0 per cent. over the medium term.

Returns on Acquisition Investment

Acquisition	Acquisition date	Original Acquisition	2018 run rate	Annualised ROAI since
Giesse	Mar 2016	€56.7m	**26.7 %**	20.7 %
Bilco	Jul 2016	US$64.9m	**17.0 %**	12.8 %
Howe Green	Mar 2017	£6.2m	**18.3 %**	19.7 %
Ashland	Feb 2018	US$102.4m	**12.0 %**	15.0 %
Zoo Hardware	May 2018	£17.2m	**13.6 %**	21.9 %

Giesse has made a significant contribution to the Group since its acquisition in March 2016 and its run rate ROAI of 26.7 per cent. after two years of ownership materially exceeded the Group's minimum target return threshold of 15.0 per cent.. The integration of Bilco is now complete and its run rate ROAI after two years of ownership is 17.0 per cent.; 200 bps ahead of the Group's minimum target return threshold.

Howe Green has been owned by the Group for 22 months and has exceeded the Group's minimum run rate ROAI threshold by 330 bps. Ashland and Zoo have been owned by the Group for ten months and eight months respectively at the year end. Both businesses have performed strongly in the period under the Group's ownership and are expected to exceed the Group's minimum target return threshold.

Reguitti and Profab were acquired in the second half of 2018 for an aggregate Enterprise Value of approximately €19.0 million and ROAI has not been reported at 31 December 2018 for these acquisitions. Both businesses have performed encouragingly in the period since acquisition, have good prospects and are on track to meet or exceed the minimum return threshold.

Currency

Currency in the consolidated income statement

The principal foreign currencies that impact the Group's results are the US Dollar, the Euro, the Australian Dollar and the Canadian Dollar. In 2018 each of these currencies, other than the Euro, was weaker against Sterling when compared with the prevailing average exchange rates in 2017.

Translational exposure

Currency	US$	Euro	AUS$	CA$	Other	Total[1]
% movement[2]	3.6 %	(1.0) %	6.3 %	3.4 %		
£'m Revenue impact	(13.3)	0.7	(0.5)	(0.3)	(4.3)	**(17.7)**
£'m Profit impact[3]	(2.1)	0.1	(0.1)	(0.1)	(0.5)	**(2.7)**
1c decrease impact[4]	426k	94k	6k	15k		

[1] Impact of other currencies is immaterial.

[2] Percentage movement in average exchange rate December 2018 to December 2017.

[3] Underlying Operating Profit impact.

[4] Defined as the approximate favourable translation impact on the Group's Underlying Operating Profit of a 1c decrease in the Sterling exchange rate of the respective currency.

The net effect of currency translation caused Revenue and Underlying Operating Profit from ongoing operations to decrease by £17.7 million and £2.7 million respectively compared with 2017. This result is driven by the increased proportion of the Group's earnings made in currencies other than Sterling combined with the strengthening of Sterling compared with most major currencies during 2018.

Transactional exposure

The strengthening of the Sterling against the US Dollar was offset by a weakening against the Renminbi, resulting in a small cost of £0.4 million (2017: £3.2 million cost) to the Operating Profit of ERA in 2018 compared to 2017. In the year ERA benefited from surcharge recoveries of £2.9 million (2017: £3.7 million) and gains on hedges of £0.3 million (2017: £0.2 million). From March 2018, the surcharge was consolidated into a general price increase.

The Group's other transactional exposures generally benefit from the existence of natural hedges or are immaterial.

Currency in the consolidated balance sheet

The Group aims to mitigate the translational impact of exchange rate movements by denominating a proportion of total borrowings in those currencies where there is a material contribution to Underlying Operating Profit. Tyman's banking facility allows for funds to be drawn in currencies.

The Group's gross borrowings (excluding finance leases) are denominated in the following currencies:

	2018		2017	
£'m	**Gross**	**%**	Gross	%
Sterling	**(5.8)**	**2.2**	(38.0)	18.4
US Dollars	**(188.1)**	**71.7**	(104.9)	50.9
Euros	**(68.4)**	**26.1**	(63.3)	30.7
Gross borrowings	**(262.3)**		(206.2)	

New IFRS standards

The following standards became effective and were adopted from 1 January 2018:

IFRS 9 – Financial instruments

IFRS 9 provides revised guidance on the classification, impairment and measurement of financial assets and amendments to hedge accounting. The aspect of IFRS 9 that impacts the Group's financial statements is the guidance on recognition and measurement of impairments in loans and receivables that are measured at amortised cost. This has affected the measurement of impairment of the Group's trade receivables.

IFRS 9 requires the Group to estimate and recognise expected credit losses and means impairment losses are recognised sooner under the new standard.

Application of the new standard has resulted in an increase in the Group's provision for bad debts of £0.4 million as at 1 January 2018. This has been recorded as an adjustment to opening reserves as at 1 January 2018 and comparatives have not been restated. For further details of the application of IFRS 9, see note 12.

IFRS 15 – Revenue from contracts with customers

IFRS 15 provides revised guidance on revenue recognition. In applying the new standard, from 1 January 2018 the Group has recorded income from freight charges where the Group is deemed to be acting as principal in the arrangement on a gross basis within Revenue. This resulted in an increase in Revenue of £5.6 million and an equivalent increase in administrative expenses for the year ended 31 December 2018.

In applying the guidance for accounting for the right to return products and service credits, adjustments were made to opening balances as at 1 January 2018 to increase trade and other receivables by £0.1 million and to increase trade and other payables by £0.4 million. IFRS 15 was adopted without restating comparatives. For further details of the application of IFRS 15, see note 12.

The following standard was issued but not effective and has not been adopted by the Group in 2018:

IFRS 16 – Leases

Tyman will implement IFRS 16 for the financial year beginning 1 January 2019. IFRS 16 will result in almost all leases being recognised on the balance sheet. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Instead of recognising a rental expense over the term of the lease, a depreciation charge will be recognised on the right to use asset, and a finance charge will be recognised on the lease liability.

The Group has substantially completed its IFRS 16 implementation project and subject to finalisation of the review process, the Group expects to recognise lease liabilities and corresponding right of use assets of c. £64.0 million as at 1 January 2019. It is estimated that the application of IFRS 16 will increase Underlying Operating Profit by c. £2.0 million and reduce profit before tax by c. £2.0 million. The Group intends to apply the modified retrospective approach and will not restate comparatives. For further details of the estimated impact of IFRS 16 on key metrics for the Group, see note 12.

2019 summary guidance

Exceptional items charged to the income statement are expected to be c. £3.0–£4.0 million, reflecting costs associated with the integration of 2018 acquisitions and footprint projects. Exceptional costs paid in cash in 2019 are expected to be c. £8.0–£10.0 million.

Interest payable on borrowings for the full year is expected to be c. £12.0–£13.0 million. The actual interest payable will be dependent on Leverage and the currency of borrowing. The non-cash amortisation and accelerated amortisation of capitalised borrowing costs is expected to be c. £0.5 million. The interest charge related to lease liabilities following adoption of IFRS 16 is expected to be c. £3.0–£3.5 million.

The Underlying Effective Tax Rate for Tyman in 2019 is expected to be c. 26.0-27.0 per cent.. 2019 cash taxation rates are expected to be somewhat lower than the Underlying Effective Tax Rate.

Trade working capital trough to peak for the year is expected to be c. £15.0–£20.0 million with the working capital peak occurring around the half year.

Maintenance and investment capital expenditure for the year for the Group is expected to be c. £17.0–£20.0 million.

Share purchases by the Employee Benefit Trust to satisfy LTIP and other share plan awards are expected to be c. £2.0 million. The share-based payments charge will be c. £1.2 million.

Tyman plc
Consolidated income statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	3	**591,542**	522,700
Cost of sales	3	**(383,264)**	(331,831)
Gross profit		**208,278**	190,869
Administrative expenses		**(157,828)**	(146,962)
Operating profit		**50,450**	43,907
Analysed as:			
Underlying[1] operating profit	3	**83,584**	76,817
Exceptional items	4	**(7,285)**	(9,976)
Amortisation of acquired intangible assets	7	**(25,849)**	(22,934)
Operating profit		**50,450**	43,907
Finance income		**377**	224
Finance costs		**(11,966)**	(9,597)
Net finance costs		**(11,589)**	(9,373)
Profit before taxation		**38,861**	34,534
Income tax charge	5	**(12,514)**	(3,334)
Profit for the year		**26,347**	31,200
Basic earnings per share	6	**13.76p**	17.61p
Diluted earnings per share	6	**13.66p**	17.49p

Non-GAAP Alternative Performance Measures[1]			
Underlying[1] operating profit	3	**83,584**	76,817
Underlying[1] profit before taxation	6	**72,658**	68,284
Basic underlying earnings per share	6	**27.68p**	26.91p
Diluted underlying earnings per share	6	**27.47p**	26.73p

[1] Before amortisation of acquired intangible assets, deferred taxation on amortisation of acquired intangible assets, impairment of goodwill, exceptional items, unwinding of discount on provisions, gains and losses on the fair value of derivative financial instruments, amortisation of borrowing costs and the associated tax effect. See definitions and reconciliations on page 45 for non-GAAP Alternative Performance Measures.

Tyman plc
Consolidated statement of comprehensive income
For the year ended 31 December 2018

	2018 **£'000**	2017 £'000
Profit for the year	**26,347**	31,200
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations	**861**	(1,366)
Total items that will not be reclassified to profit or loss	**861**	(1,366)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**15,343**	(24,069)
Effective portion of changes in value of cash flow hedges	**9**	16
Total items that may be reclassified to profit or loss	**15,352**	(24,053)
Other comprehensive income/(expense) for the year, net of tax	**16,213**	(25,419)
Total comprehensive income for the year	**42,560**	5,781

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 5.

Tyman plc
Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Other reserves[1] £'000	Treasury reserve £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	8,929	81,407	8,920	(3,338)	(291)	80,135	201,329	377,091
Total comprehensive income/(expense)	–	–	–	–	16	(24,069)	29,834	5,781
Profit for the year	–	–	–	–	–	–	31,200	31,200
Other comprehensive income/(expense)	–	–	–	–	16	(24,069)	(1,366)	(25,419)
Transactions with owners	–	–	–	562	–	–	(18,919)	(18,357)
Share-based payments[2]	–	–	–	–	–	–	1,987	1,987
Dividends paid	–	–	–	–	–	–	(19,497)	(19,497)
Issue of own shares from EBT	–	–	–	1,409	–	–	(1,409)	–
Purchase of own shares by EBT	–	–	–	(847)	–	–	–	(847)
At 31 December 2017	8,929	81,407	8,920	(2,776)	(275)	56,066	212,244	364,515
Change in accounting policy[3]	–	–	–	–	–	–	(687)	**(687)**
At 1 January 2018	8,929	81,407	8,920	(2,776)	(275)	56,066	211,557	**363,828**
Total comprehensive income	–	–	–	–	9	15,343	27,208	**42,560**
Profit for the year	–	–	–	–	–	–	26,347	**26,347**
Other comprehensive income	–	–	–	–	9	15,343	861	**16,213**
Transactions with owners	909	50,812	(8,920)	(2,114)	–	–	(13,229)	**27,458**
Share-based payments[2]	–	–	–	–	–	–	1,251	**1,251**
Dividends paid	–	–	–	–	–	–	(22,362)	**(22,362)**
Issue of shares	909	50,812	–	–	–	–	–	**51,721**
Transfer of merger reserve[1]	–	–	(8,920)	–	–	–	8,920	**–**
Issue of own shares from EBT	–	–	–	1,105	–	–	(1,038)	**67**
Purchase of own shares by EBT	–	–	–	(3,219)	–	–	–	**(3,219)**
At 31 December 2018	**9,838**	**132,219**	**–**	**(4,890)**	**(266)**	**71,409**	**225,536**	**433,846**

[1] Other reserves relate to a merger reserve which arose on a previous acquisition. The acquired business was disposed of in a previous period and the reserve became a realised profit. This was transferred to retained earnings in the year on the basis that this reserve is available for distribution.

[2] Share-based payments include a tax debit of £0.1 million (2017: tax credit of £0.5 million) and a release of the deferred share-based payment bonus accrual of £0.3 million (2017: £0.4 million).

[3] The change in accounting policy relates to the adoption of new accounting standards IFRS 15 and IFRS 9. See note 12.

Tyman plc
Consolidated balance sheet
As at 31 December 2018

	Note	2018 £'000	2017 £'000
TOTAL ASSETS			
Non-current assets			
Goodwill	7	**382,136**	323,799
Intangible assets	7	**134,763**	103,393
Property, plant and equipment		**76,963**	68,424
Financial assets at fair value through profit or loss		**1,178**	1,112
Deferred tax assets		**17,423**	11,851
		612,463	508,579
Non-current assets held for sale		**–**	1,275
		612,463	509,854
Current assets			
Inventories		**105,292**	75,341
Trade and other receivables		**87,338**	70,062
Cash and cash equivalents		**51,871**	42,563
Derivative financial instruments		**322**	94
		244,823	188,060
TOTAL ASSETS		**857,286**	697,914
LIABILITIES			
Current liabilities			
Trade and other payables		**(87,021)**	(65,916)
Derivative financial instruments		**–**	(29)
Borrowings	8	**(1,522)**	(1,108)
Current tax liabilities		**(7,411)**	(3,964)
Provisions		**(6,955)**	(11,024)
		(102,909)	(82,041)
Non-current liabilities			
Borrowings	8	**(259,183)**	(204,309)
Derivative financial instruments		**(266)**	(275)
Deferred tax liabilities		**(38,193)**	(24,949)
Retirement benefit obligations		**(10,781)**	(12,407)
Provisions		**(8,155)**	(6,435)
Other payables		**(3,953)**	(2,983)
		(320,531)	(251,358)
TOTAL LIABILITIES		**(423,440)**	(333,399)
NET ASSETS		**433,846**	364,515
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**9,838**	8,929
Share premium		**132,219**	81,407
Other reserves		**–**	8,920
Treasury reserve		**(4,890)**	(2,776)
Hedging reserve		**(266)**	(275)
Translation reserve		**71,409**	56,066
Retained earnings		**225,536**	212,244
TOTAL EQUITY		**433,846**	364,515

Tyman plc
Consolidated cash flow statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before taxation	3	**38,861**	34,534
Adjustments	10	**53,648**	50,443
Changes in working capital[1]:			
Inventories		**(4,451)**	(8,104)
Trade and other receivables		**(2,777)**	(3,884)
Trade and other payables		**3,302**	(2,668)
Provisions utilised		**(2,510)**	(2,184)
Pension contributions		**(1,110)**	(1,171)
Income tax paid		**(12,344)**	(15,078)
Net cash generated from operations		**72,619**	51,888
Cash flow from investing activities			
Purchases of property, plant and equipment		**(15,687)**	(15,353)
Purchases of intangible assets	7	**(1,647)**	(1,076)
Proceeds on disposal of property, plant and equipment		**5,302**	3,803
Acquisitions of subsidiary undertakings, net of cash acquired	9	**(106,382)**	(5,136)
Purchase of financial asset		**–**	(1,164)
Interest received		**69**	416
Net cash used in investing activities		**(118,345)**	(18,510)
Cash flow from financing activities			
Interest paid		**(9,143)**	(7,973)
Dividends paid		**(22,362)**	(19,497)
Net proceeds on issue of shares		**50,381**	–
Purchase of own shares for Employee Benefit Trust		**(3,219)**	(847)
Refinancing costs paid		**(2,013)**	–
Proceeds from drawdown of revolving credit facility		**272,733**	48,623
Repayments of revolving credit facility		**(229,553)**	(51,531)
Net cash generated from/(used in) financing activities		**56,824**	(31,225)
Net increase in cash and cash equivalents		**11,098**	2,153
Exchange losses on cash and cash equivalents		**(1,790)**	(507)
Cash and cash equivalents at the beginning of the year		**42,563**	40,917
Cash and cash equivalents at the end of the year		**51,871**	42,563

[1] Excluding the effects of acquisition and exchange differences on consolidation.

1. General information

Tyman plc and its subsidiaries is a leading international manufacturer and supplier of engineered components to the door and window industry. At 31 December 2018 the Group had 26 manufacturing sites in nine countries along with a further 18 sourcing and distribution sites across North America, Europe, South America, and Asia Pacific with its products being found in homes and buildings worldwide.

Tyman plc is a public limited company listed on the London Stock Exchange, incorporated and domiciled in England and Wales. The address of the Company's registered office is 29 Queen Anne's Gate, London SW1H 9BU.

2. Accounting policies and basis of preparation

The accounting policies in this section relate to the financial statements in their entirety. Accounting policies, including critical accounting judgements and estimates used in the preparation of the financial statements, that relate to a particular note are described in the specific note to which they relate. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Tyman plc have been prepared in accordance with IFRS as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements are principally prepared on the basis of historic cost. Where other bases are applied, these are identified in the relevant accounting policy.

2.2 Going concern

The Directors are confident, on the basis of current financial projections, the banking facilities available, and after considering sensitivities, that the Company and the Group have sufficient resources for its operational needs that will enable the Group to remain in compliance with its financial covenants in its bank facilities for at least the next 12 months. Accordingly, the Directors continue to adopt the going concern basis.

2.4 Changes in accounting policies and disclosures

2.4.1 New, revised and amended EU-endorsed accounting standards

Certain new or amended standards became applicable for the current reporting period. The Group changed certain accounting policies and made adjustments to opening balances as at 1 January 2018 as a result of adopting the following standards:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

Details of the impact of the adoption of these standards are disclosed in note 12.

The other standards that became applicable in the period did not impact on the Group's accounting policies and did not require retrospective adjustments.

2.4.2 New, revised and amended accounting standards currently EU-endorsed but not yet effective

A number of new, revised and amended accounting standards and interpretations are currently endorsed but are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these consolidated financial statements. The only one of these standards expected to have a material impact on the consolidated financial statements of the

Group is IFRS 16 'Leases'. A description of the change and the expected impact on the Group is disclosed in note 12.

3. Segment reporting

3.1 Accounting policy

3.1.1 Revenue recognition

Policy applicable from 1 January 2018

The Group derives revenue solely from the sale of goods to customers. This revenue recognition policy applies to all product types and sales channels. Revenue from the sale of goods is recognised when control of the goods has been transferred to the buyer. Control transfers when the customer has the ability to direct the use of and obtain substantially all of the benefits of the goods. This is either on dispatch of the goods or on receipt of goods by the customer, depending on the terms of shipment.

Where the Group is responsible for arranging shipping services, an evaluation is made to determine whether the shipping services are a separate performance obligation. Where these are considered to be a separate performance obligation, the revenue recognition criteria are applied to the performance obligations of sale of goods and shipping services separately. Revenue is allocated to each performance obligation based on its standalone selling price.

The Group is considered to be acting as the principal in shipping arrangements when it has discretion over setting prices, has primary responsibility for fulfilling the obligation, and retains inventory risk. In these circumstances, as the cost of freight to customers is considered a distribution expense. The cost of freight is recorded within administrative expenses.

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents the amounts receivable for goods supplied, stated net of discounts, returns, rebates and value-added taxes. Where customers have a right to return goods, a refund liability is recognised (included in trade and other payables) for the expected value of refunds to be provided to customers. A corresponding contract asset is recognised reflecting the value of goods expected to be returned (included in other receivables).

Accumulated experience is used to estimate and provide for rebates, discounts, and expected returns using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Incremental costs of obtaining a contract, such as sales commissions are expensed as incurred, as the period over which the Group obtains benefit from these is less than twelve months.

Policy applicable prior to 1 January 2018

This revenue recognition policy applies to all product types and sales channels. Revenue is measured at the fair value of the consideration received or receivable. Revenue represents the amounts receivable for goods supplied, stated net of discounts, returns, rebates and value-added taxes.

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and when the amount of revenue can be reliably measured. Revenue from the sale of goods is recognised when the risks and rewards of ownership of the goods have been substantially transferred to the buyer. This is usually on dispatch of goods or on receipt of goods by the customer.

3.2 Segment information

The reporting segments reflect the manner in which performance is evaluated and resources are allocated. The Group operates through three clearly defined divisions: AmesburyTruth, ERA and SchlegelGiesse.

AmesburyTruth comprises all the Group's operations within the US, Canada and Mexico. During the year, AmesburyTruth acquired Ashland and this business is now included in the

AmesburyTruth reporting segment. ERA comprises the Group's UK and Ireland hardware business, together with Ventrolla, Tyman Sourcing Asia, Howe Green, and Bilco UK. During the year, ERA acquired Zoo Hardware and Profab and these businesses are now included in the ERA reporting segment. SchlegelGiesse comprises the Group's remaining businesses outside the US, Canada, Mexico and the UK (although includes the two UK seal manufacturing plants). During the year, SchlegelGiesse acquired Reguitti and this business is now included in the SchlegelGiesse reporting segment.

Centrally incurred functional costs that are directly attributable to a Division are allocated or recharged to the Division. All other centrally incurred costs and eliminations are disclosed as a separate line item in the segment analysis.

Each reporting segment broadly represents the Group's geographical focus, being the North American, UK and international operations respectively. In the opinion of the Board, there is no material difference between the Group's operating segments and segments based on geographical splits. Accordingly, the Board does not consider geographically defined segments to be reportable. For completeness, the Group discloses certain financial data for business carried on in the UK that is not accounted for in ERA in notes 3.2.1 and 3.2.4.

The following tables present Group revenue and profit information for the Group's reporting segments, which have been generated using the Group accounting policies, with no differences of measurement applied, other than those noted above.

3.2.1 Revenue

	2018 **£'000**	2017 £'000
AmesburyTruth	**378,663**	332,746
ERA	**95,715**	80,252
SchlegelGiesse	**117,164**	109,702
Revenue	**591,542**	522,700

Included within the SchlegelGiesse segment is revenue attributable to the UK of £18.2 million (2017: £17.8 million).

No revenue from any single customer exceeds 10 per cent. of total revenue from continuing operations.

3.2.2 Profit before taxation

	Note	**2018** **£'000**	2017 £'000
AmesburyTruth		**62,284**	59,714
ERA		**12,502**	10,229
SchlegelGiesse		**15,049**	12,778
Underlying operating profit before centrally incurred costs		**89,835**	82,721
Centrally incurred costs		**(6,251)**	(5,904)
Underlying operating profit		**83,584**	76,817
Exceptional items	4	**(7,285)**	(9,976)
Amortisation of acquired intangible assets	7	**(25,849)**	(22,934)
Operating profit		**50,450**	43,907
Net finance costs		**(11,589)**	(9,373)
Profit before taxation		**38,861**	34,534

3.2.3 Operating profit disclosures

	Cost of sales		Depreciation		Amortisation	
	2018 **£'000**	2017 £'000	**2018** **£'000**	2017 £'000	**2018** **£'000**	2017 £'000
AmesburyTruth	**(256,035)**	(218,324)	**(8,687)**	(8,267)	**(21,321)**	(19,380)
ERA	**(61,998)**	(52,058)	**(1,148)**	(817)	**(2,980)**	(2,247)
SchlegelGiesse	**(65,231)**	(61,449)	**(2,622)**	(2,515)	**(2,963)**	(2,622)
Total	**(383,264)**	(331,831)	**(12,457)**	(11,599)	**(27,264)**	(24,249)

3.2.4 Segment assets and liabilities

	Segment assets		Segment liabilities[1]		Non-current assets[2]	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
AmesburyTruth	**562,129**	445,643	**(180,068)**	(76,932)	**428,129**	354,464
ERA	**132,780**	103,642	**(28,707)**	(22,428)	**82,110**	68,464
SchlegelGiesse	**156,344**	142,888	**(64,051)**	(44,500)	**84,801**	73,800
Unallocated	**6,033**	5,741	**(150,614)**	(189,539)	**–**	–
Total	**857,286**	697,914	**(423,440)**	(333,399)	**595,040**	496,728

[1] Included within unallocated segment liabilities are centrally held borrowings of £145.4 million (2017: £186.3 million), provisions of £0.4 million (2017: £0.4 million) and other liabilities of £4.8 million (2017: £2.8 million). Where borrowings can be directly attributed to segments, these have been allocated.

[2] Non-current assets exclude amounts relating to deferred tax assets and non-current assets held for sale.

3.2.5 Capital expenditure

Non-current assets of the SchlegelGiesse segment include £13.3 million (2017: £13.0 million) attributable to the UK.

	Property, plant and equipment		Intangible assets	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
AmesburyTruth	**11,154**	9,062	**874**	321
ERA	**1,262**	4,261	**290**	81
SchlegelGiesse	**3,286**	2,030	**501**	674
Total	**15,702**	15,353	**1,656**	1,076

3.2.6 Other disclosures

	Goodwill		Intangible assets		Retirement benefit obligations	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
AmesburyTruth	**286,044**	240,829	**91,622**	70,944	**(6,950)**	(9,355)
ERA	**59,655**	52,573	**14,500**	7,761	**–**	–
SchlegelGiesse	**36,437**	30,397	**28,641**	24,688	**(3,831)**	(3,052)
Total	**382,136**	323,799	**134,763**	103,393	**(10,781)**	(12,407)

4. Exceptional items

	2018	2017
	£'000	£'000
Footprint restructuring - costs	**(4,723)**	(16,414)
Footprint restructuring - credits	**922**	5,718
Footprint restructuring - net	**(3,801)**	(10,696)
M&A and integration - costs	**(1,731)**	(2,189)
M&A and integration - credits	**–**	2,931
M&A and integration - net	**(1,731)**	742
Write-off of inventory fair value adjustments	**(2,515)**	(22)
Loss on disposal of business	**(139)**	–
Other	**901**	–
Exceptional items	**(7,285)**	(9,976)

5. Taxation

5.1 Taxation – income statement and other comprehensive income

5.1.1 Tax on profit on ordinary activities

	2018 £'000	2017 £'000
Current taxation		
Current tax on profit for the year	**(15,616)**	(18,522)
Prior year adjustments	**227**	3,503
Total current taxation	**(15,389)**	(15,019)
Deferred taxation		
Origination and reversal of temporary differences	**4,005**	6,529
US Federal tax rate change adjustment	**1,079**	6,907
Prior year adjustments	**(2,209)**	(1,751)
Total deferred taxation	**2,875**	11,685
Income tax charge in the income statement	**(12,514)**	(3,334)
Total (charge)/credit relating to components of OCI		
Current tax (charge)/credit on translation	**(445)**	1,478
Current tax credit on share-based payments	**–**	185
Deferred tax charge on actuarial gains and losses	**(277)**	(1,181)
Deferred tax (charge)/credit on share-based payments	**(97)**	267
Deferred tax (charge)/credit on translation	**(336)**	1,939
Income tax (charge)/credit in the statement of OCI	**(1,155)**	2,688
Total current taxation	**(15,834)**	(13,356)
Total deferred taxation	**2,165**	12,710
Total taxation	**(13,669)**	(646)

The standard rate of corporation tax in the UK changed from 20.0 per cent. to 19.0 per cent. with effect from 1 April 2017. Accordingly, the Group's UK profits for this accounting period are taxed at an effective rate of 19.0 per cent. (2017: 19.25 per cent.).

A further reduction to the UK corporation tax rate to 17.0 per cent. was introduced in the Finance Act 2016 with effect from 1 April 2020. The deferred tax balances have been measured using these enacted rates.

Under the Tax Cuts and Jobs Act 2017 the US Federal tax rate reduced from 35.0 per cent. to 21.0 per cent. with effect from 1 January 2018. The Act was substantively enacted on 22 December 2017 and so the deferred tax balances that will be settled with the US tax authorities were remeasured to reflect the reduced rate in 2017. A further rate change adjustment arises in 2018 to remeasure changes to the opening deferred tax balances resulting from the 2017 Federal tax return prior year adjustment. The impact of the deferred tax change has been disclosed separately as a component of the income tax charge.

Taxation for other jurisdictions is calculated at rates prevailing in those respective jurisdictions.

5.1.2 Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of tax in the UK of 19.0 per cent. (2017: 19.25 per cent.). The differences are explained below:

	2018 £'000	2017 £'000
Profit before taxation	**38,861**	34,534
Rate of corporation tax in the UK of 19.0% (2017: 19.25%)	**(7,384)**	(6,648)
Effects of:		
Expenses not deductible for tax purposes	**(1,304)**	(1,034)
Overseas tax rate differences	**(2,923)**	(4,311)
US Federal tax rate change adjustment	**1,079**	6,907
Prior year adjustments	**(1,982)**	1,752
Income tax charge in the income statement	**(12,514)**	(3,334)

5.1.3 Factors that may affect future tax charges

On 16 November 2017, the European Commission published its preliminary decision on the Group Financing Exemption in the UK's Controlled Foreign Company legislation, finding that the legislation is in breach of the EU State Aid rules. Like many other multinational Groups that have acted in accordance with this UK legislation, the Group may be affected by the final outcome of this investigation. Should the European Commission conclude that the Group Financing Exemption constitutes unlawful State Aid, the Group estimates the potential range of exposure is between £nil and £4 million. The Group does not consider that a provision is required at this stage based on the status of the matter.

6. Earnings per share

	2018 **£'000**	2017 £'000
Profit for the year	**26,347**	31,200
Basic earnings per share	**13.76p**	17.61p
Diluted earnings per share	**13.66p**	17.49p

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the diluted potential ordinary shares into ordinary shares.

6.1.1 Weighted average number of shares

	2018 **'000**	2017 '000
Weighted average number of shares (including treasury shares)	**193,153**	178,583
Treasury and Employee Benefit Trust shares	**(1,737)**	(1,361)
Weighted average number of shares - basic	**191,416**	177,222
Effect of dilutive potential ordinary shares - LTIP awards and options	**1,467**	1,203
Weighted average number of shares - diluted	**192,883**	178,425

6.1.2 Non-GAAP Alternative Performance Measure: underlying earnings per share

The Group presents an underlying earnings per share measure which excludes the impact of exceptional items, certain non-cash finance costs, amortisation of acquired intangible assets and certain non-recurring items. Underlying earnings per share has been calculated using the Underlying profit before taxation and using the same weighted average number of shares in issue as the earnings per share calculation. See Alternative Performance Measures on page 45.

Underlying profit after taxation is derived as follows:

	Note	**2018** **£'000**	2017 £'000
Profit before taxation		**38,861**	34,534
Exceptional items	4	**7,285**	9,976
(Gain)/loss on revaluation of fair value hedge		**(308)**	440
Amortisation of borrowing costs		**971**	400
Amortisation of acquired intangible assets	7	**25,849**	22,934
Underlying profit before taxation		**72,658**	68,284
Income tax charge	5	**(12,514)**	(3,334)
Add back: US Federal rate change adjustment	5	**–**	(6,907)
Add back: Underlying tax effect[1]		**(7,167)**	(10,345)
Underlying profit after taxation		**52,977**	47,698

[1] Tax effect of exceptional items, amortisation of borrowings costs, amortisation of acquired intangible assets, gain or loss on revaluation of fair value hedge and unwinding of discount on provisions.

Underlying earnings per share is summarised as follows:

	2018	2017
Basic underlying earnings per share	**27.68p**	26.91p
Diluted underlying earnings per share	**27.47p**	26.73p

7. Goodwill and intangible assets

7.1 Carrying amount of goodwill

	Note	£'000
Net carrying value		
At 1 January 2017		344,873
Acquisitions of subsidiaries	9	3,158
Exchange difference		(24,232)
At 31 December 2017		323,799
Acquisitions of subsidiaries	9	**40,837**
Exchange difference		**17,500**
At 31 December 2018		**382,136**

Goodwill is monitored principally on an operating segment basis and the net book value of goodwill is allocated by CGU as follows:

	2018 **£'000**	2017 £'000
AmesburyTruth	**286,044**	240,829
ERA	**59,655**	52,573
SchlegelGiesse	**36,437**	30,397
Goodwill	**382,136**	323,799

7.2 Carrying amount of intangible assets

	Note	Computer software £'000	Acquired brands £'000	Customer relationships £'000	Total £'000
Cost					
At 1 January 2017		13,091	76,599	229,009	318,699
Additions		984	92	–	1,076
Acquisitions of subsidiaries	9	–	462	2,361	2,823
Transfers to property, plant and equipment		(184)	–	–	(184)
Exchange difference		(899)	(3,682)	(14,710)	(19,291)
At 31 December 2017		12,992	73,471	216,660	**303,123**
Additions		1,665	–	–	**1,665**
Disposals		(263)	(929)	–	**(1,192)**
Acquisitions of subsidiaries	9	–	12,298	38,137	**50,435**
Transfers to property, plant and equipment		(109)	–	–	**(109)**
Exchange difference		623	4,024	12,111	**16,758**
At 31 December 2018		**14,908**	**88,864**	**266,908**	**370,680**
Accumulated amortisation					
At 1 January 2017		(2,916)	(39,473)	(145,626)	(188,015)
Amortisation charge for the year		(1,315)	(4,366)	(18,568)	(24,249)
Exchange difference		155	2,263	10,116	12,534
At 31 December 2017		(4,076)	(41,576)	(154,078)	**(199,730)**
Amortisation charge for the year		(1,415)	(5,347)	(20,502)	**(27,264)**
Disposals		382	911	–	**1,293**
Impairment		(119)	–	–	**(119)**
Exchange difference		(277)	(2,062)	(7,758)	**(10,097)**
At 31 December 2018		**(5,505)**	**(48,074)**	**(182,338)**	**(235,917)**
Net carrying value					
At 1 January 2017		10,175	37,126	83,383	130,684
At 31 December 2017		8,916	31,895	62,582	103,393
At 31 December 2018		**9,403**	**40,790**	**84,570**	**134,763**

The amortisation charge for the year has been included in administrative expenses in the income statement and comprises £25.8 million (2017: £22.9 million) relating to amortisation of acquired intangible assets and £1.4 million (2017: £1.3 million) relating to amortisation of other intangible assets.

An impairment charge of £0.1 million was recognised on computer software in 2018. No impairments of intangible assets were recognised in 2017.

8. Interest-bearing loans and borrowings

8.1 Carrying amounts of interest-bearing loans and borrowings

	2018 **£'000**	2017 £'000
Unsecured borrowings at amortised cost:		
Bank borrowings	**(183,797)**	(132,098)
Senior notes	**(78,520)**	(74,115)
Finance leases	**(227)**	–
Capitalised borrowing costs	**1,839**	796
Interest-bearing loans and borrowings	**(260,705)**	(205,417)
Analysed as:		
Current liabilities	**(1,522)**	(1,108)
Non-current liabilities	**(259,183)**	(204,309)
Interest-bearing loans and borrowings	**(260,705)**	(205,417)

There were no defaults in interest payments in the year under the terms of the existing loan agreements.

The carrying amounts of interest-bearing loans and borrowings are denominated in the following currencies:

	2018 **£'000**	2017 £'000
Sterling	**(4,189)**	(37,244)
US Dollars	**(188,077)**	(104,921)
Euros	**(68,420)**	(63,252)
Other	**(19)**	–
Interest-bearing loans and borrowings	**(260,705)**	(205,417)

8.2.1 Bank borrowings

Multi-currency revolving credit facility

On 19 February 2018, the Group entered into the 2018 Facility. The 2018 Facility gives the Group access to up to £310.0 million of borrowings and comprises a £240.0 million committed revolving credit facility and a £70.0 million uncommitted accordion facility. Since the year end, an option to extend the Facility by one year has been exercised and the facility now expires in February 2024. On signing the 2018 Facility, the 2014 Facility was repaid in full and cancelled. The banking facility is unsecured and is guaranteed by Tyman plc and its principal subsidiary undertakings.

As at 31 December 2018, the Group has undrawn amounts committed under the multi-currency revolving credit facility of £58.5 million (2017: £50.0 million). These amounts are floating rate commitments which expire beyond 12 months.

Other borrowings

The Group acquired bank borrowings as part of the acquisitions of Giesse, Zoo Hardware, and Reguitti. At 31 December 2018, the remaining facilities have a carrying value of £2.3 million an undrawn value of £Nil. These facilities have a maturity ranging between 5 May 2019 and 10 September 2020. £0.8 million is secured against trade receivables in a factoring arrangement. The other facilities are unsecured.

8.2.2 Private placement notes

On 19 November 2014, the Group issued private debt placement notes with US financial institutions totalling US$100.0 million.

The debt placement is unsecured and comprises US$55.0 million debt with a seven-year maturity at a coupon of 4.97 per cent. and US$45.0 million with a 10-year maturity at a coupon of 5.37 per cent..

8.3 Net debt

8.3.1 Net debt summary

	2018 **£'000**	2017 £'000
Borrowings	(260,705)	(205,417)
Cash	51,871	42,563
At 31 December	**(208,834)**	**(162,854)**

8.3.2 Net debt reconciliation

	Note	**Cash** **£'000**	**Borrowings** **£'000**	**Total** **£'000**
At 1 January 2017		40,917	(216,470)	(175,553)
Cash flows		1,464	2,508	3,972
Acquisitions		689	(46)	643
Foreign exchange adjustments		(507)	8,591	8,084
Amortisation of borrowing costs		-	(400)	(400)
At 31 December 2017		42,563	(205,417)	**(162,854)**
Cash flows		9,560	(41,167)	**(31,607)**
Acquisitions	9	1,538	(2,553)	**(1,015)**
Foreign exchange adjustments		(1,790)	(10,597)	**(12,387)**
Amortisation of borrowing costs		-	(971)	**(971)**
At 31 December 2018		**51,871**	**(260,705)**	**(208,834)**

9. Business combinations

Summary of business combinations

The following table summarises the provisional consideration paid and the provisional fair value of assets acquired and liabilities assumed for all acquisitions in the year at the respective acquisition dates. The fair values will be finalised within twelve months of each acquisition date.

			Zoo			
		Ashland[1]	Hardware	Reguitti	Profab	Total
	Note	£'000	£'000	£'000	£'000	£'000
Intangible assets	7	34,567	6,401	6,437	3,030	**50,435**
Property, plant and equipment		5,023	370	325	569	**6,287**
Inventories		14,982	5,294	3,580	515	**24,371**
Trade and other receivables		4,535	4,406	3,488	1,155	**13,584**
Cash and cash equivalents		(105)	287	(37)	1,393	**1,538**
Trade and other payables		(7,128)	(1,507)	(2,220)	(853)	**(11,708)**
Current tax assets/(liabilities)		468	(66)	(422)	(293)	**(313)**
Borrowings		–	(1,799)	(556)	(198)	**(2,553)**
Derivative financial instruments		–	(51)	–	–	**(51)**
Deferred tax liabilities		(5,569)	(1,101)	(1,493)	(485)	**(8,648)**
Retirement benefit obligations		–	–	(964)	–	**(964)**
Provisions		(1,075)	(125)	(143)	(378)	**(1,721)**
Total identifiable net assets		45,698	12,109	7,995	4,455	**70,257**
Goodwill arising on acquisition	7	27,576	5,050	6,179	2,032	**40,837**
Total consideration		**73,274**	**17,159**	**14,174**	**6,487**	**111,094**
Satisfied by:						
Cash		73,274	14,259	13,900	6,487	**107,920**
Issue of shares		–	1,400	–	–	**1,400**
Deferred consideration		–	1,500	274	–	**1,774**
Total consideration		**73,274**	**17,159**	**14,174**	**6,487**	**111,094**
Net cash outflow arising on acquisition:						
Cash consideration		73,274	14,259	13,900	6,487	**107,920**
Net cash and cash equivalents acquired		105	(287)	37	(1,393)	**(1,538)**
Net cash outflow		**73,379**	**13,972**	**13,937**	**5,094**	**106,382**

[1] Subsequent to publishing the interim financial statements, the Group has made amendments to the fair value of inventory acquired, deferred tax liabilities, and consideration as part of the progression of the acquisition accounting process.

10. Adjustments to cash flows from operating activities

The following non-cash and financing adjustments have been made to profit before taxation to arrive at operating cash flow:

		2018	2017
	Note	**£'000**	£'000
Net finance costs		**11,589**	9,373
Depreciation		**12,457**	11,599
Amortisation of intangible assets	7	**27,264**	24,249
Impairment of computer software	7	**119**	114
Profit on disposal of property, plant and equipment		**(21)**	(878)
Write-off of inventory fair value adjustments	4	**2,515**	22
Pension service costs and expected administration costs		**557**	(3,363)
Non-cash provision movements		**(1,900)**	7,340
Share-based payments		**1,068**	1,987
Adjustments to cash flows from operating activities		**53,648**	50,443

11. Events after the balance sheet date

On 18 February 2019, ERA completed the acquisition of Y-cam Solutions Limited, a UK-based smart home security pioneer for initial cash consideration of £1.0 million. The agreement includes provision for additional consideration of up to £10 million, subject to reaching certain performance targets, to be paid in instalments over a three-year period.

12. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 and IFRS 15 on the Group's financial statements for the year ended 31 December 2018 and the expected impact of the adoption of IFRS 16 for the year commencing 1 January 2019.

12.1 IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers'

Both IFRS 9 and IFRS 15 were applied without restating comparatives. Adoption of the new standards did not have a material effect on opening retained earnings with the total reduction in retained earnings recorded at 1 January 2018 being £0.7 million.

The Group assessed whether it is acting as principal or agent where customers are charged for freight services under the revised guidance in IFRS 15. On the basis that the Group has discretion over setting prices, retains inventory risk, and has primary responsibility for fulfilling the contract from the customer's perspective, it was determined that in the majority of freight dispatch arrangements the Group is acting as a principal.

Income from freight services has therefore been recognised on a gross basis within revenue. This resulted in an increase in revenue of £5.6 million and an equivalent increase in administrative expenses for the year ended 31 December 2018.

Had the Group not adopted IFRS 9 and IFRS 15 for the year ended 31 December 2018, profit for the year would have been £0.3 million higher.

12.2 IFRS 16 'Leases'

The Group will apply IFRS 16 from 1 January 2019. The expected impact of adopting IFRS 16 is explained below.

Nature of the change

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. Instead of recognising a rental expense over the term of the lease, a depreciation charge will be recognised on the right to use asset, and a finance charge will be recognised on the lease liability.

The new standard will therefore significantly increase gross assets, liabilities, and operating profit. As finance charges are higher towards the beginning of the lease term, profit before tax in the earlier stages of the lease will be lower and in the latter stages will be higher. Although there will be no impact on net cash flow, operating cash flows will increase and financing cash flows will decrease because repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Expected impact on the Group's financial statements

The Group has substantially completed its review of leasing arrangements in light of the new accounting standard and is in the process of finalising the review of transition adjustments and judgements. As at 31 December 2018, the Group had gross operating lease commitments of £91.5 million. £0.7 million of these commitments relate to short term or low value leases to which IFRS 16 will not be applied. After the effect of discounting these future payments at the relevant incremental borrowing rates, the Group expects to recognise lease liabilities and corresponding right of use assets of £64.0 million as at 1 January 2019. £3.0 million of deferred lease incentive liabilities included in other payables, net of deferred tax of £0.5 million are no longer required under IFRS 16 and will be adjusted against opening retained earnings. The expected impact on affected balance sheet, income statement and cash flow metrics is illustrated below, with current policies reflecting 2018 financial information.

Balance sheet as at 1 January 2019

£'million	Current policies	Adjustment	IFRS 16
Non-current assets	612	64	676
Borrowings	(259)	(64)	(323)
Other liabilities	(250)	2	(248)
Net assets	434	2	436

Income statement for the year ended 31 December 2019

£'million	Current policies	Adjustments	IFRS 16
Underlying operating profit	84	2	86
Finance costs	(12)	(3)	(15)
Underlying profit before tax	73	(2)	71
Profit after tax	26	(2)	24
Basic earnings per share	13.76p	(0.76)p	13.00p
Underlying earnings per share	27.68p	(0.76)p	26.92p

Cash flow statement for the year ended 31 December 2019

£'million	Current policies	Adjustments	IFRS 16
Cash flows from operating activities	73	9	82
Cash flows from financing activities	57	(9)	48

Factors affecting the impact of IFRS 16

The impact of IFRS 16 on the Group's 2019 financial statements may differ from the analysis set out above for reasons including the following:

- The Group may enter into new leases during 2019.
- There are a number of judgements that must be made in applying IFRS 16, including expectations about future lease renewals or exercise of termination options. These judgements may change throughout the year.
- Certain of the Group's leasing arrangements contain variable rental payments that change in line with market rates or indexes such as CPI or RPI. Fluctuations in these payments will change the impact on both the balance sheet and income statement.

Treatment of comparatives

The Group expects to apply the 'modified retrospective approach', and will not restate comparative information. Instead, the cumulative effect of applying the standard will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019. Right of use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Impact on the Group's bank covenants

The adoption of IFRS 16 will not impact the Group's banking and private placement covenants as these are set and tested on the basis of the prevailing GAAP as at the date the relevant financing documentation was entered into.

ALTERNATIVE PERFORMANCE MEASURES

The Group uses a number of Alternative Performance Measures. APMs provide additional useful information to shareholders on the underlying performance of the business. These APMs are consistent with how business performance is measured internally by the Group, align with the Group's strategy, and remuneration policies. These measures are not recognised under IFRS and may not be comparable with similar measures used by other companies. APMs are not intended to be superior to or a substitute for GAAP measures.

The following table summarises the key APMs used, why they are used by the Group, and how they are calculated. Where appropriate, a reconciliation to the nearest GAAP number is presented. Details of other APMs are included on the Group's website.

APMS USED IN KEY PERFORMANCE INDICATORS

Like for like or LFL revenue and Underlying operating profit

Definition

The comparison of Revenue or Operating Profit, as appropriate, excluding the impact of IFRS 15, any acquisitions made during the current year and, for acquisitions made in the comparative year, excluding from the current year result the impact of the equivalent current year pre-acquisition period. For disposals, results are excluded for the whole of the current and prior period.

Change in current year

This measure has been amended in the current period to exclude the impact of recognising freight income within Revenue on a gross basis in 2018, following the adoption of IFRS 15. The Group considers this amendment provides shareholders with a comparable basis from which to understand the organic trading performance in the year.

Purpose

This measure is used by management to evaluate the Group's organic growth in revenue and Underlying operating profit, excluding the distortions cause by M&A and currency movements year on year.

Reconciliation/calculation

	2018 **£'000**	2017[1] £'000
Reported revenue	**591,542**	522,700
Revenue from entities acquired in current year	**(62,996)**	–
Revenue for equivalent period from entities acquired in prior year	**(863)**	–
Impact of IFRS 15	**(5,593)**	–
Like for like revenue	**522,090**	522,700
Effect of movement in exchange rates	**–**	(14,288)
Constant currency like for like Revenue	**522,090**	508,412
Underlying operating profit	**83,584**	76,817
Underlying operating profit from entities acquired in current year	**(12,510)**	–
Underlying operating profit for equivalent period from entities acquired in prior year	**(314)**	–
Like for like Underlying operating profit	**70,760**	76,817
Effect of movement in exchange rates	**—**	(2,464)
Constant currency like for like Underlying Operating Profit	**70,760**	74,353

[1] 2017 reflects reported figures used as the base for calculating like for like growth.

Underlying Operating Profit and Underlying Operating Margin

Definition

Operating Profit before Amortisation of acquired intangible assets, Impairment of acquired intangible assets, Impairment of goodwill, and Exceptional items.

Underlying operating margin is calculated as Underlying Operating Profit divided by revenue, expressed as a percentage.

Purpose

This measure is used to evaluate the trading operating performance of the Group.

Exceptional items are excluded from this measure as they are largely one off and non-trading in nature and therefore create volatility in reported earnings.

Amortisation of acquired intangible assets is excluded from this measure as this is a significant non-cash fixed charge that is not affected by the trading performance of the business.

Impairment of acquired intangible assets and goodwill is excluded, as this is a significant non-cash charge.

Reconciliation/calculation

Underlying operating profit is reconciled on the face of the income statement on page 28.

	2018	2017
	£'000	£'000
Underlying Operating Profit	**83,584**	76,817
Revenue	**591,542**	522,700
Underlying Operating Margin	**14.1%**	**14.7%**

Leverage

Definition

Underlying Net Debt translated at the average exchange rate for the year divided by Adjusted EBITDA, calculated using the prevailing GAAP at February 2018. This calculation is the covenant calculation defined in the Group's banking facility and private placement debt documents.

Purpose

This measure is used to evaluate the ability of the Group to generate sufficient cash flows to cover its contractual debt servicing obligations and to provide users of the accounts with details of whether the Group remains in compliance with its lending covenants.

Reconciliation/calculation

	2018	2017
	£'000	£'000
Underlying Net Debt (at average exchange rate)	**202,181**	166,947
Adjusted EBITDA	**103,250**	91,178
Leverage	**1.96x**	1.83x

Return on Capital Employed (ROCE)

Definition

Underlying Operating Profit as a percentage of the LTM average capital employed (expressed as a 13 point average).

Purpose

This measure is used to evaluate how efficiently the Group's capital is being employed to improve profitability.

Reconciliation/calculation

	2018 **£'000**	2017 £'000
Underlying Operating Profit	**83,584**	76,817
LTM average controllable capital employed	**621,771**	563,616
ROCE	**13.44%**	13.63%

Return on Controllable Capital Employed (ROCCE)

Definition

Underlying Operating Profit as a percentage of the LTM average controllable capital employed (expressed as a 13 point average).

Purpose

This measure is used to evaluate how efficiently the Group's trading capital (tangible fixed assets and working capital) is being employed to improve profitability.

Reconciliation/calculation

	2018 **£'000**	2017 £'000
Underlying Operating Profit	**83,584**	76,817
LTM average controllable capital employed	**186,870**	154,821
ROCCE	**44.73%**	49.62%

Return on Acquisition Investment (ROAI)

Definition

Annualised ROAI

Annualised Underlying Operating Profit attributable to the acquired business divided by the Acquisition Enterprise Value less the fair value of controllable capital employed as at the date of acquisition plus the value of controllable capital employed at the date of measurement. The denominator is adjusted for seasonality where appropriate.

Run rate ROAI

For acquisitions made in the current year, this reflects ROAI calculated on the basis of Underlying Operating Profit generated in the period since the acquisition date. For acquisitions made in previous years, this reflects ROAI calculated on the basis of Underlying Operating Profit generated in the year or the last 12 months to the end of the two year period since acquisition.

Purpose

These measures are used to evaluate the efficiency and returns achieved by the Group from its investments in recent material business acquisitions and allows users of the accounts to compare the relative performance of each acquisition made by the Group. ROAI is measured over a two year period following acquisition.

Reconciliation/calculation

	Giesse	Bilco	Howe Green	Ashland	Zoo
	€000	$000	£000	$000	£000
Annualised underlying operating profit	13,560	8,635	1,292	15,238	4,138
Acquisition enterprise value	62,661	65,904	6,398	103,391	18,975
Fair value of controllable capital employed at acquisition	(35,860)	(10,958)	(65)	(22,869)	(8,475)
Controllable capital employed at reporting date	38,310	12,743	217	20,843	9,110
Annualised ROAI	**20.8%**	**12.8%**	**19.7%**	**15.0%**	**21.1%**
Run rate underlying operating profit	17,379	11,519	1,200	12,190	2,675
Acquisition enterprise value	62,661	65,904	6,398	103,391	18,975
Fair value of controllable capital employed at acquisition	(35,860)	(10,958)	(65)	(22,869)	(8,475)
Controllable capital employed at reporting date	38,310	12,743	217	20,843	9,110
Run rate ROAI	**26.7%**	**17.0%**	**18.3%**	**12.0%**	**13.6%**

Underlying Earnings per Share

Definition

Underlying profit after tax divided by the basic weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares.

Purpose

This measure is used to assess the trading operating performance per share in issue. This is used as the basis of the Group's long-term incentive plan targets and is the measure used in determining the level of dividend to be paid under the Group's dividend policy.

Reconciliation/calculation

A reconciliation is provided in note 6 on page 38.

Dividend Cover

Definition

Underlying Earnings Per Share divided by the total Dividend Per Share declared for the financial year.

Purpose

The Group's dividend policy is set with reference to the Dividend Cover APM. This metric provides users of the accounts with information regarding the dividend declared relative to the target range under the policy.

Reconciliation/calculation

	2018	2017
Underlying Earnings Per Share (p)	**27.68**	26.91
Total Dividend Per Share declared (p)	**12.00**	11.25
Dividend Cover	**2.31x**	2.39x

Operating Cash Conversion and Operational Cash Flow

Definition

Operational Cash Flow

Net cash generated from operations before Income tax paid, Exceptional costs cash settled in the year and Pension contributions, and after Proceeds on disposal of property, plant and equipment, Payments to acquire property, plant and equipment and Payments to acquire intangible assets.

Operating Cash Conversion

Operational Cash Flow divided by Underlying Operating Profit.

Purpose

These measures are used to evaluate the cash flow generated by the business operations in order to pay down debt, return cash to shareholders and invest in acquisitions. Cash conversion provides users of the accounts with a measure of the extent that the Group's profitability converts into cash.

Reconciliation/calculation

	2018 **£'000**	2017 £'000
Net cash generated from operations	**72,619**	51,888
Income tax paid	**12,344**	15,078
Exceptional costs	**3,224**	10,245
Pension contributions	**1,110**	1,171
Proceeds on disposal of PPE	**5,302**	3,803
Payments to acquire PPE and intangible assets	**(17,334)**	(16,429)
Operational Cash Flow	**77,265**	65,756
Underlying Operating Profit	**83,584**	76,817
Operating Cash Conversion	**92.4%**	**85.6%**

DEFINITIONS AND GLOSSARY OF TERMS

APM	Alternative Performance Measure
ASEAN	Association of Southeast Asian Nations
Ashland or Ashland Hardware	Ashland Hardware Holdings Inc, acquired by AmesburyTruth on 15 March 2018
Bilco	The Bilco Company acquired by the Group's AmesburyTruth Division on 1 July 2016.
bps	Basis points
CGU	Cash Generating Unit
EBITDA	Earnings before Interest, Taxation, Depreciation and Amortisation
EBT	Employee Benefit Trust
EMEAI	Europe, Middle East and Africa and India region
EPS	Earnings per Share
EU	European Union
FVPL	Fair Value through Profit or Loss
Giesse	Giesse Group acquired by the Group's Schlegel International Division on 7 March 2016.
Howe Green	Howe Green Limited acquired by the Group on 3 March 2017
IFRS	International Financial Reporting Standards
JCHS	Joint Centre for Housing Studies of Harvard University
KPI	Key performance indicator
LIRA	Leading Indicator of Remodelling Activity published quarterly by JCHS
LTM	Last twelve months
M&A	Mergers and acquisitions
NAHB	The National Association of Home Builders
NPD	New Product Development
OCI	Other comprehensive income
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
PPE	Property, plant and equipment
Profab or Profab Access	Profab Access Solutions Limited acquired by ERA on 31 July 2018
Reguitti	Reguitti S.P.A acquired by SchlegelGiesse on 31 August 2018
Response or Response Electronics	Response Electronics Limited, acquired by ERA on 3 March 2017
Revenue	The gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of the Group.
RMI	Renovation, maintenance and improvement
SKU	Stock Keeping Unit
£ or Sterling	The lawful currency of the United Kingdom.
TFR	Trattamento di fine Rapporto
TSA	Tyman Sourcing Asia

US	United States of America
US$	The lawful currency of the United States of America
UK	United Kingdom
Zoo or Zoo Hardware	Zoo Hardware Limited acquired by ERA on 10 May 2018

EXCHANGE RATES

The following foreign exchange rates have been used in the financial information to translate amounts into Sterling:

Closing Rates	2018	2017
US Dollar	**1.2736**	1.3493
Euro	**1.1128**	1.1263
Australian Dollar	**1.8055**	1.7285
Canadian Dollar	**1.7360**	1.6936
Brazilian Real	**4.9410**	4.4695

Average Rates	2018	2017
US Dollar	**1.3350**	1.2887
Euro	**1.1302**	1.1414
Australian Dollar	**1.7862**	1.6811
Canadian Dollar	**1.7293**	1.6717
Brazilian Real	**4.8643**	4.1154

ROUNDINGS

Percentage numbers have been calculated using figures rounded to the nearest thousand from the financial statements, which may lead to small differences in some figures and percentages quoted.