

Further  
progress



Annual Report and Accounts 2018



## Tyman is a leading international supplier of engineered components to the door and window industry

### Investment case

Balanced financial discipline

[Read more on page 34](#)

Free Cash Flow

**+63%**

Increasing geographical reach

[Read more on page 3](#)

Countries with significant presence

**18**

Strong relationships with customers and suppliers

[Read more on page 4](#)

Sourcing and distribution sites

**18**

A proven growth strategy

[Read more on page 14](#)

Pedigree dating back to

**1838**



### Tyman's building products solutions include:

- a full suite of window and door hardware including high security locks, electronic access controls and perfectly matching hardware;
- compact balances, casement operators and hinges that enable windows to function efficiently and effectively;
- seals for doors and windows that determine their acoustic thermal insulation and energy efficiency performance;
- roof access hatches, riser doors, smoke vents and sidewalk doors used in residential, commercial and infrastructure applications;
- complex ancillary extrusions that improve window and door performance; and
- technical support for customers to help them meet design and production specifications.

[Find out more about Tyman's business on page 12](#)

# 02

## Strategic report

<b>IFC</b>	A brief overview
<b>02</b>	Highlights
<b>03</b>	Where Tyman operates
<b>04</b>	Customers
<b>05</b>	Year in review
<b>06</b>	Chairman's statement
<b>08</b>	Chief Executive Officer's review
<b>12</b>	Business model
<b>14</b>	Tyman's strategy
<b>16</b>	Tyman's markets
<b>18</b>	Key performance indicators
<b>22</b>	Operating review
<b>31</b>	Financial review
<b>39</b>	Risk management
<b>41</b>	Principal risks and uncertainties
<b>45</b>	Going concern and viability
<b>47</b>	Sustainability

# 56

## Governance and Directors' report

<b>56</b>	Board of Directors
<b>58</b>	Tyman Management Committee
<b>59</b>	Chairman's introduction to governance
<b>60</b>	Statement of governance
<b>66</b>	Audit Committee report
<b>74</b>	Nominations Committee report
<b>77</b>	Other statutory information
<b>80</b>	Remuneration report

# 100

## Financial statements

<b>100</b>	Independent auditors' report
<b>107</b>	Consolidated income statement
<b>108</b>	Consolidated statement of comprehensive income
<b>108</b>	Consolidated statement of changes in equity
<b>109</b>	Consolidated balance sheet
<b>110</b>	Consolidated cash flow statement
<b>111</b>	Notes to the financial statements
<b>156</b>	Independent auditors' report
<b>160</b>	Company balance sheet
<b>161</b>	Company statement of changes in equity
<b>162</b>	Notes to the Company financial statements
<b>166</b>	Alternative Performance Measures
<b>173</b>	Definitions and glossary of terms
<b>175</b>	Roundings and exchange rates
<b>176</b>	Five-year summary



[For latest news and more information about Tyman simply visit \[tymanplc.com\]\(http://tymanplc.com\)](#)

## Highlights

# Balanced financial discipline

## OPERATIONAL 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.

## FINANCIAL HIGHLIGHTS

### Revenue

**£591.5m**



### Dividend per share

**12.00p**



### Underlying Operating Profit <sup>(APM)</sup>

**£83.6m**



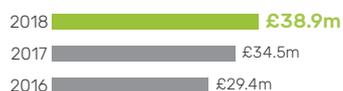
### Underlying Net Debt <sup>(APM)</sup>

**£210.7m**



### Profit Before Taxation

**£38.9m**



### Leverage <sup>(APM)</sup>

**1.96x**



### Underlying Earnings per Share <sup>(APM)</sup>

**27.68p**



### Basic Earnings per Share

**13.76p**



“

Leverage was back below 2.0x at the end of 2018 for the seventh consecutive year.”

**James Brotherton**  
Chief Financial Officer

<sup>(APM)</sup> Alternative Performance Measures provide additional useful information to shareholders on the underlying performance of the business. A detailed description of APMs, which have been consistently applied, is included on pages 166 to 172.

# A business of scale

Tyman operates facilities in 18 countries around the world.

**4**  
new acquisitions

**8**  
sites acquired

**4**  
sites closed

- Current locations
- 📍 New acquisitions this year



## Tyman's North American Division operates as AmesburyTruth.

AmesburyTruth is a prominent manufacturer of window and door hardware components, extrusions and sealing systems. With manufacturing and distribution capabilities throughout North America, AmesburyTruth is well positioned to offer leading window and door manufacturers innovative products and engineered solutions for both residential and commercial applications under the AmesburyTruth, Ashland and Giesse brands.

AmesburyTruth also owns Bilco, North America's leading manufacturer of smoke vents, roof access hatches and sidewalk doors.

Revenue	Underlying Operating Profit
<b>£378.7m</b>	<b>£62.3m</b>
2017: £332.7m	2017: £59.7m



## Tyman's UK and Ireland Division operates as ERA.

ERA is a leader in the design, development, manufacture and distribution of innovative solutions for the residential building and home improvement markets.

ERA provides a wide range of mechanical security hardware, decorative hardware, weather seals and electronic security systems including wireless alarms, CCTV and video. These products are brought to the market under the ERA, Zoo and Fab & Fix brands. ERA also owns Ventrolla, a leading sash window renovation business.

ERA's access solutions business includes Bilco, Howe Green and Profab.

Revenue	Underlying Operating Profit
<b>£95.7m</b>	<b>£12.5m</b>
2017: £80.3m	2017: £10.2m



## Tyman's international Division operates as SchlegelGiesse.

SchlegelGiesse comprises the Group's businesses outside North America, together with its UK sealing and extrusion businesses.

The Division has manufacturing operations in the UK, Germany, Italy, China, Brazil and Australia along with light assembly and distribution facilities in Argentina, France, Greece, India, Spain, Turkey and the United Arab Emirates.

The Division's products are sold in residential and commercial applications all over the world under the Schlegel, Reguitti and Giesse brands.

Revenue	Underlying Operating Profit
<b>£117.2m</b>	<b>£15.0m</b>
2017: £109.7m	2017: £12.8m

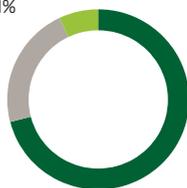
Customers

# Strong relationships with customers and suppliers

Tyman's businesses are market leaders in their chosen geographies. The Group provides innovative solutions to offer a complete range of hardware, seals and extrusions for both residential and commercial applications.

## Who Tyman sells to

- Manufacturers of doors and windows – 71%
- Distributors and wholesalers – 22%
- Other industrial uses – 7%



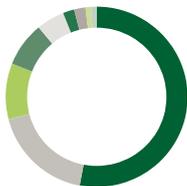
## Where Tyman's products are sold

- US – 57%
- UK – 17%
- Europe – 11%
- Canada – 7%
- Rest of the world – 6%
- Australia – 1%
- China – 1%



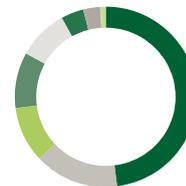
## Sourcing analysis

- US – 53%
- Far East (inc China) – 18%
- Italy – 10%
- UK – 8%
- Mexico – 5%
- Canada – 2%
- Europe – 2%
- Australia – 1%
- South America – 1%



## What Tyman sells

- Hardware – 48%
- Sealing – 15%
- Balances – 10%
- Speciality access products – 10%
- Operators – 9%
- Industrial and restoration – 4%
- Polymer extrusion – 3%
- Metal forming – 1%



## NEW PRODUCT DEVELOPMENT

Development of new products to satisfy customer requirements is a key element of Tyman's commitment to innovation. During 2018 the Group successfully launched a number of new products ranging from smartware, to next generation compact balances, to product family evolution in the SchlegelGiesse hinge ranges. These new products complement the offerings brought to the market in recent years such as the Elon Seal, the ERA range of bifold hardware that has taken significant UK market share and the Chic, Supra and Ultra family of hinges and handles designed by SchlegelGiesse.



# M&A investment to expand the Group's product offering

The Group acquired four businesses during 2018, each of which complements the respective Division's product offering and expands the customer base.

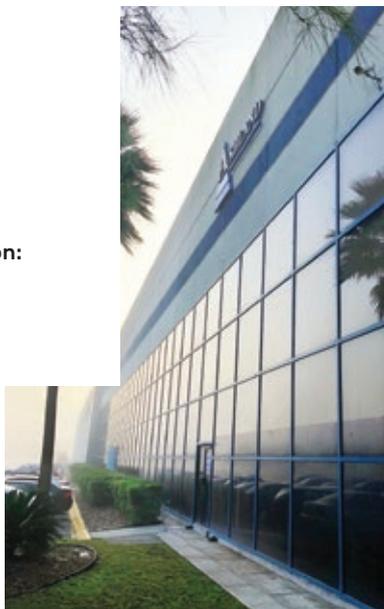
## ASHLAND

**Location:**  
Irving, USA

**Size:**  
264,000 sq. ft

**People:**  
483 employees

**Date of acquisition:**  
14 March 2018



## REGUITTI

**Location:**  
Agnosine, Italy

**Size:**  
117,000 sq. ft

**People:**  
60 employees

**Date of acquisition:**  
30 August 2018



## PROFAB

**Location:**  
Atherstone, England

**Size:**  
46,000 sq. ft

**People:**  
68 employees

**Date of acquisition:**  
31 July 2018



## ZOO

**Location:**  
Carlisle, England

**Size:**  
43,000 sq. ft

**People:**  
54 employees

**Date of acquisition:**  
10 May 2018

## Chairman's statement

# Another year of progress

2018 saw a year of further progress for Tyman with improvements in Revenue, profit and cash flow.



**Martin Towers**  
Non-executive Chairman

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

The investment phase of the North American footprint project is nearing completion with the Statesville, NC, site now fully operational. AmesburyTruth's focus for 2019 is on ensuring that this significant investment delivers a meaningful step change in the Group's profitability.

It is pleasing to be able to report that the ERA and SchlegelGiesse Divisions both had strong years, despite challenging market conditions.

The Board is proposing a total dividend for the 2018 financial year of 12.00 pence per share and remains committed to growing the dividend in line with earnings over the medium term. With this in mind, and to preserve flexibility around the Group's capital structure, the Board intends to seek shareholder and court approval to increase the size of the Company's distributable reserves at the upcoming AGM.

### Health, safety and sustainability

The way Tyman is run as a business is of critical importance to the Board and is fundamental to the Group's long term sustainability.

It is pleasing to be able to report an improvement in the Group's health and safety record in terms of numbers of incidents and severity rates for the first time since 2015; despite this progress, the Board is aware that Tyman's performance in this area remains below that of its peers.

In 2019 Tyman has appointed its first Director of Health, Safety and Sustainability who will be responsible for the co-ordination and further development of programmes across the Group in this critical area. Further details on the Group's approach to sustainability are set out on pages 47 to 55.

### Board changes

There were a number of changes to the Board announced during the course of 2018 and further details concerning the work of the Nominations Committee during the year are set out on pages 74 to 76.

In January Pamela Bingham joined the Board as an Independent Non-executive Director. Pamela brings current operational experience to the Board in her role as a divisional director of Weir Group plc.

In May, Dr Angelika Westerwelle stepped down from the Board at the conclusion of the AGM.

In November the Group announced the planned retirement of Louis Eperjesi from the Group and the appointment of Jo Hallas as his successor. The last nine years have seen significant operational progress and growth for Tyman under the leadership of Louis, who retires with the Board's best wishes.

Louis will step down as CEO on 1 April 2019 and retire from the Group on 30 June 2019. Jo joined the Group on 1 March 2019 and will succeed Louis as CEO and join the Board on 1 April 2019.

Jo's broad experience in leading international industrial and consumer businesses has equipped her to grow businesses through innovation, customer focus and operational excellence as well as through targeted M&A. I am confident that Jo will build on the Group's strong track record to lead Tyman to continued future success.

On behalf of the Board I would like to thank Louis and Angelika for their contributions to Tyman and its development and to welcome Pamela and Jo to the Group.

## Governance

The Board remains committed to ensuring that Tyman is governed in the right way at all times. The Group's Governance report may be found on pages 56 to 99 and provides an overview of Tyman's governance framework, as well as the work of the Board and its Committees.

## M&A activity

The Group acquired four businesses during 2018, each focused on those market segments that offer the Group the best opportunities for growth: Ashland Hardware in North America, Zoo Hardware and Profab in the UK, and Reguitti in Italy. Each of the acquisitions has made a contribution to the 2018 performance and the integration of these businesses remains on schedule.

The acquisition of businesses brings growth and expansion opportunities to Tyman; however, the Board remains cognisant of the risks that attach to acquisitions and seeks to mitigate these risks through a rigorous due diligence process and the full integration of each acquired business into the relevant Division.

## Our people

Tyman employs over 4,200 people in its operations around the world and benefits significantly from the diverse nature of its workforce and their commitment to the delivery of the Group's strategy.

On behalf of the Board I would like to welcome those individuals who joined the Group in 2018 and thank all Tyman employees for their collective hard work and efforts during the year.

## Sustainable shareholder returns

The investments in operational improvements and M&A that the Group has made across each of its Divisions over the past nine years put Tyman in a strong position to deliver sustainable quality growth going forward.

Significant growth opportunities lie ahead for the business, notwithstanding current market uncertainties, and I remain optimistic that Tyman will be able to capitalise on these opportunities and create further sustainable value for shareholders.

## Martin Towers Chairman

5 March 2019



The Board receiving a demonstration of a Bilco roof hatch, Juárez Mexico.

## TYMAN'S CULTURE

Tyman operates through a decentralised model that gives each of its Divisions real autonomy, responsibility and accountability for the development of the business in their respective markets.

The Group's culture is one of openness, collegiality, operational excellence and problem solving where the contribution of each employee towards the success of their Division is valued and appreciated.

This culture extends to how each Division interacts with the customer base through collaboration on NPD initiatives, investment in the supply chain and the Group's desire to operate industry-leading levels of service.

The duration of these customer relationships, with some dating back over 80 years, is testimony to Tyman's culture and the willingness of its employees to ensure each Division provides world class engineered component solutions.

The Group's approach to the integration of acquired businesses and induction of new recruits ensures that every employee who joins Tyman understands and adopts the Group's culture.

## Chief Executive Officer's review

# Progress against key priorities

In 2018 Tyman has continued to deliver against its priorities and made further progress.



**Louis Eperjesi**  
Chief Executive Officer

“

The Group 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.”

### 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.

Further information may be found in the Sustainability report on pages 47 to 55.

## 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 Giese 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.

DEVELOPMENT OF TYMAN

# Nine years of progress

2009–2010

2011–2012

2013–2018

2019 and beyond

## Reorganisation and deleveraging

- > Board reorganisation
- > Cost reduction programmes
- > Focus on cash generation
- > Re-engaging with stakeholders
- > Communicating strategy

## Positioning

- > Management restructure
- > New product introductions
- > Overland acquisition
- > Disposal of Gall Thomson
- > Fab & Fix acquisition
- > Exit Composite Doors

## Growth and...

- > Name change to Tyman
- > Truth transaction and integration to create AmesburyTruth
- > Move to official list of LSE
- > North American Footprint rationalisation
- > Bilco, Giesse, Howe Green, Vedasil, Ashland, Zoo, Profab, and Reguitti acquisitions
- > New ERA facility opened

## Expansion

- > Integration of Ashland, Zoo, Profab, and Reguitti
- > Realisation of Footprint rationalisation benefits
- > Full service offering available in SchlegelGiesse
- > Next generation of new product introductions
- > Jo Hallas appointed as next Group CEO

### Revenue

**£591.5m**



### Underlying operating profit

**£83.6m**



### CAGR

**+10.5%**

### CAGR

**+14.1%**

“

The Group remains well positioned to build on the progress made over the last nine years.”

## Strategic acquisitions:

### Ashland

Acquired to broaden and deepen AmesburyTruth's offering to the residential components market in North America, giving the enlarged Division a viable "Good, Better, Best" product range across multiple categories.

Ashland's Mexican manufacturing base gives the Division optionality of manufacturing.

### Profab

Acquired to complement the existing commercial and light infrastructure businesses of Howe Green and Bilco, Profab is a manufacturer of riser doors based in Atherstone, Warwickshire. ERA Access Solutions is now able to offer customers a complete range of access products for floor, wall and roof applications.

### Zoo

Acquired to extend ERA's product offering to include architectural hardware for the UK residential and commercial markets, and to gain access to the trade distribution channel.

Zoo brings innovative, fast growing brands to the Division's existing portfolio as well as new product sourcing relationships.

### Reguitti

Acquired to enhance SchlegelGiesse's hardware range, bringing a range of design-led interior and exterior door handles to the Division across a variety of substrates. Reguitti products will be sold proactively through the SchlegelGiesse sales force as well as through the other two Divisions.



### M&A continued

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.

### Conclusion

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.

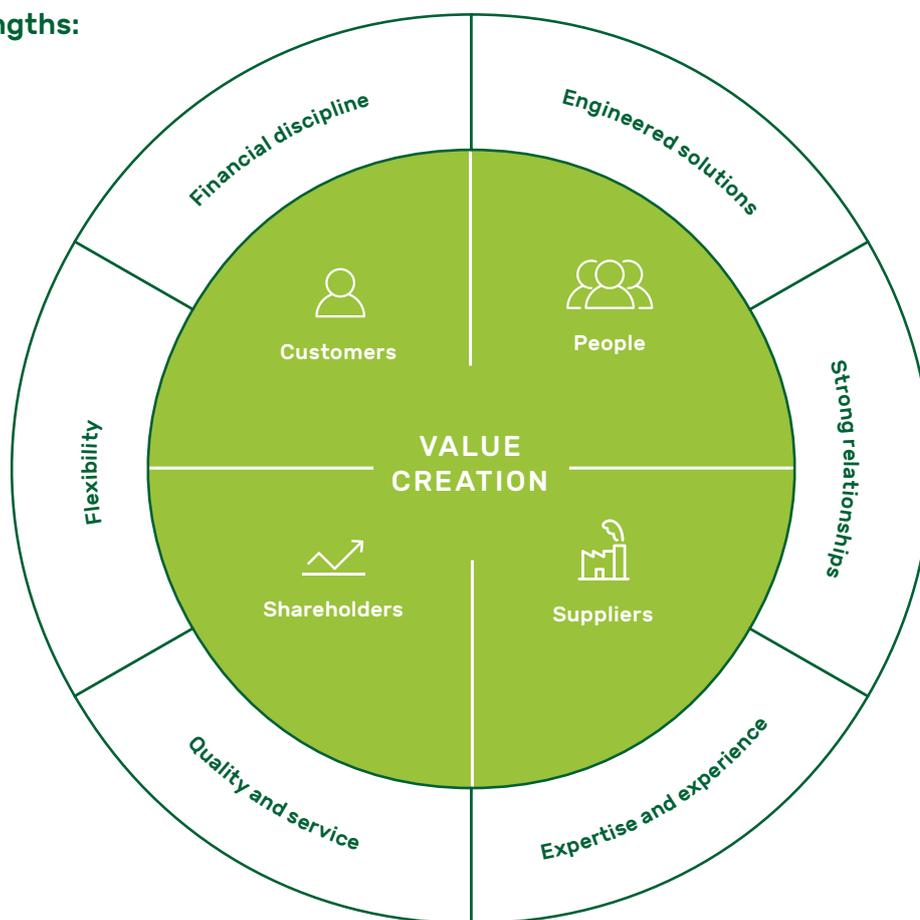
**Louis Eperjesi**  
Chief Executive Officer  
5 March 2019

Business model

# Creating value for stakeholders

The Group's business model is driven by its key strengths, which deliver value to Tyman's customers, shareholders, people and suppliers.

Tyman's strengths:



## TYMAN'S STRATEGY

Market share gain and pricing discipline

Maximising margins through elimination of cost and waste

Capital allocation and cash generation

[See our strategy on pages 14 and 15](#)

## TYMAN'S KEY STRENGTHS

### Engineered solutions

Substantially all of the components supplied to Tyman's customers – whether manufactured by Divisions in their own plants or sourced externally – are engineering-led, value-added products made to Tyman's designs, protected where possible and practical by patents and intellectual property, and manufactured on the Group's proprietary tooling.

Patents owned by AmesburyTruth

**Over 200**

### Financial discipline

Tyman focuses on financial disciplines that encompass margin targets for each product, close scrutiny of the cost base, optimisation of working capital, and a rigorous approach to return on capital and its allocation, both internally in the form of capital investment and externally in the form of M&A.

Operating margin

**14.1%**

### Expertise and experience

Tyman invests in its people through employee training, career path development, and improvement of working practices and conditions. Training schemes around the Group include apprenticeship schemes and vocational training, as well as personal development programmes.

Investment in people

**ERA IiP Gold**

### Flexibility

Tyman chooses to manufacture certain products, such as complex balances, extrusions and seals, close to the customer base when flexibility, variety or complexity are key to the component manufacturing process and the customer.

Number of manufacturing sites across the Group

**26**

### Quality and service

The manufacturing decision for Tyman comes back to the Group's desire to differentiate its product offering from the Group's competitors by providing customers with the highest quality product at the relevant price point, delivered to specification on time and in full.

Operating to

**ISO 9001:2015**

### Strong relationships

Tyman believes in establishing an honest and fair long term relationship with suppliers and customers based on value, quality and range of products, industry-leading service and value-added technical support.

Revenue

**£591.5m**

## VALUE CREATION



### Customers

- > Providing customers with the engineered components they need to add form and function to their end products.
- > Providing the highest quality product for the relevant price point.
- > Offering industry-leading levels of service.
- > Investing in products and processes such that Tyman is the partner of choice.

Increase in organic Revenue in 2018

**2.7%**



### Shareholders

- Increasing shareholder value through:
- > Focusing on returns through capital allocation and cash generation.
  - > Profitable growth in market share year on year.
  - > Pricing discipline to ensure a fair return on investment.
  - > Year on year dividend growth.

Dividend CAGR since 2010

**25.1%**



### People

- > Giving employees a modern and safe operating environment and opportunities for career development.
- > Investment in facilities across all three Divisions.
- > Commitment to improving health and safety across the Group.
- > Enhanced training and development programmes.

Tyman employees

**4,235**



### Suppliers

- > Strong development of long term relationships with partner suppliers which adhere to the Group's values and innovation ethos.
- > A number of the Group's products are manufactured by partner suppliers in the Far East under the supervision of Tyman Sourcing Asia.

TSA partner suppliers

**51**

Tyman's strategy

# Delivering the strategy

The Group's strategy is to create shareholder value through being a leading international supplier of engineered components to the door and window industry.

Market share gain and pricing discipline

Maximising margins through elimination of cost and waste

## A Market share gain

### Strategic objectives

Tyman aims to secure profitable market share increases annually through deeper penetration of the existing customer base, the development of new products and winning new customers. The breadth of the Group's product offering and Tyman's ability to offer engineered solutions to customers means that in each market there remain opportunities for the Group to continue to increase its market share.

### Performance in 2018

SchlegelGiesse and ERA made market share gains ahead of underlying market conditions in both Europe and the UK.

AmesburyTruth held market share in North America.

### 2019 priorities

Incremental market share gain in all markets with a particular emphasis on North America.

### Risks

- > Market conditions
- > Competitors
- > Loss of major customers
- > Raw material costs and supply chain failures
- > Business integration

### Key performance indicators

- > Like for like Revenue growth
- > Underlying Operating Margin
- > OTIF performance

## B Pricing discipline

### Strategic objectives

Divisions target minimum gross margin thresholds for each product line, and in pricing consider the end to end cost of providing the necessary product and service to customers. For the ultimate customer, wherever they are located, Tyman's aim is to provide a differentiated product offering at an appropriate price, delivered to specification, on time and in full.

### Performance in 2018

Commodity costs were more stable than the previous year and price increases secured by each of the Divisions recovered raw material cost increases. There were some timing differences between cost increases and passing these on to customers.

### 2019 priorities

Focus on securing real price increases across each Division to reflect the increased cost of doing business and the value add of Tyman's product to customers.

### Risks

- > Market conditions
- > Competitors
- > Loss of major customers

### Key performance indicators

- > Like for like Revenue growth
- > Underlying Operating Margin
- > Underlying EPS

## C Process scrutiny

### Strategic objectives

Divisions scrutinise Tyman's manufacturing and sourcing processes to ensure that they are providing products to the customer in the most efficient manner. Divisions operate rolling programmes of process improvement engineering designed to eliminate unnecessary cost from our processes and reduce scrap levels.

### Performance in 2018

Integration of the acquisitions made in 2018 is progressing to plan. The main elements of the footprint rationalisation, including the major site and plant moves, have been completed. All sites are operating at optimal output. Improved health and safety performance demonstrates improved processes throughout the business.

### 2019 priorities

Particular focus on ensuring the Group's centres of excellence reach their potential and that the newly acquired businesses operate in accordance with Tyman's established processes.

### Risks

- > Competitors
- > Loss of major customers
- > Raw material costs and supply chain failures
- > Footprint rationalisation
- > Business integration
- > Key Executives and personnel

### Key performance indicators

- > Like for like Revenue growth
- > Underlying Operating Margin
- > Return on Capital Employed and Return on Controllable Capital Employed
- > Return on Acquisition Investment
- > Underlying basic EPS
- > OTIF performance

## Capital allocation and cash generation

### D Capital allocation

#### Strategic objectives

The Group adopts a rigorous appraisal process for all items of capital expenditure, including system development, in order to ensure that investments are supported by a robust business case. Divisional investment plans are required to provide an attractive return to the Group overall, while also ensuring that Divisions continue to invest in making facilities safe, leading edge and attractive working environments that are fit for purpose for an international manufacturing organisation.

#### Performance in 2018

Acquisitions and continued investment in the footprint projects, together with the impact of the lower Underlying Operating Margin recorded in AmesburyTruth in the year have resulted in a slight decrease in the return on capital employed to 13.4 per cent (2017: 13.6 per cent).

#### 2019 priorities

Continued investment to improve manufacturing processes, enhance health and safety and position the Group for further growth.

- > Risks
- > Footprint rationalisation
- > Business integration
- > Financial risks
- > Liquidity and credit risks

#### Key performance indicators

- > Leverage
- > Return on Capital Employed and Return on Controllable Capital Employed
- > Return on Acquisition Investment
- > Dividend growth
- > Operating Cash Conversion

### E Cash generation

#### Strategic objectives

Each Division is targeted on conversion of 100.0 per cent of its Underlying Operating Profit into operating cash.

In any one year, a Division may need to invest in working capital in order to support customers' needs; however, a focus on cash conversion ensures that working capital investment receives the necessary scrutiny.

#### Performance in 2018

During the year the Group raised £50.4 million through the issue of shares to part fund the acquisition of Ashland Hardware. Working capital remains well managed with Free Cash Flow increasing by 63 per cent in the year to £51.5 million (2017: £31.7 million).

#### 2019 priorities

Continued conversion of substantially all profits made by the Group into cash combined with a critical review of working capital levels across the Group.

#### Risks

- > Key Executives and personnel
- > Financial risks
- > Liquidity and credit risks

#### Key performance indicators

- > Leverage
- > Return on Acquisition Investment
- > Dividend growth
- > Operating Cash Conversion

“

Particular focus in 2019 on ensuring that the Group's centres of excellence reach their potential and that the newly acquired businesses operate in accordance with Tyman's established processes.”

**James Brotherton**  
Chief Financial Officer

[See risks on pages 41 to 44](#)

[See key performance indicators on pages 18 to 21](#)

Tyman's markets

# The market

With long term structural trends in the Group's favour across each of the Divisions, Tyman has a strong and diverse mix of growth opportunities.

## DIVISIONAL OPPORTUNITY



Further market recovery



Residential construction starts remain significantly below previous cycle peaks and below long run averages.

Positive first-time buyer demand for affordable new home construction and existing home sales.

Median age of US homes is now 42 years fuelling demand for repair and remodelling of housing stock.



Smartware



Growing demand for integrated residential smart security in the UK market.

Consumers seek reliable, high performance integrated mechanical and electronic security solutions.



All-in-one



The combination of Schlegel and Giesse has allowed the Division to offer an integrated hardware and seal package to customers for the first time.

Customers are looking to well invested innovative suppliers who can help them respond to market trends and create a position of differentiation.

## STRUCTURAL TRENDS

Emphasis on high performance window and door systems.

Increased requirements for air, water and impact performance.

Demand for cost effective engineered solutions to satisfy select geographical areas.

Home construction supply to satisfy demand is being modestly constrained by skilled labour availability.

## CONSEQUENCES

Increased industry supply chain pressure to mitigate costs and reduce complexity.

Increased reliance on North American engineering and product development resources as customers seek differentiation and cost reductions.

## OPPORTUNITIES

Investing in infrastructure for future capacity and efficiency.

Expanded North American distribution in Tiers 3 and 4 driving customer satisfaction.

AmesburyTruth is the stand out market leader in residential component supply in North America and is the only supplier of scale that can offer the full range of engineered components to customers.

UK is the fastest growing smart home market in Europe.

Security is the second most appealing smart home product category (GfK Global, 2018).

Increased end-consumer demand for knowledge, purchase and installation of smart security products.

Smart security demands a higher degree of brand trust than other areas of the smart home.

Through brand reassurance built over 180 years, cutting-edge product innovation and a pre-existing installer network, ERA has the opportunity to capture a significant share of this market.

Increasing demand for high performance and innovative solutions in line with improving building regulations, increased energy efficient requirements, and evolving aesthetics in window and door design.

A requirement for continually improving components to achieve the increasing performance and innovation/futureproofing requirements of the window and door.

Focus on new product development and range extension through innovation, capital investment in manufacturing and targeted M&A for both seals and hardware.

SchlegelGiesse is uniquely positioned to deliver an all-in-one solution to customers.

Key performance indicators

# Tracking performance

Tyman measures success through a focus on KPIs which are measured, reported on and challenged at all levels of the business.

**Revenue** **Trend**  
▲

**Constant currency like for like Revenue growth** <sup>(APM)</sup>

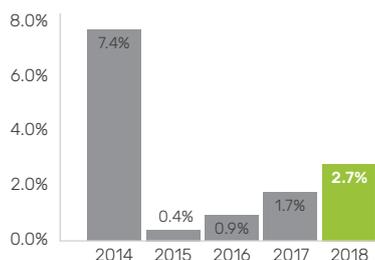
Year on year Revenue growth from continuing operations measured on a constant currency like for like basis. The KPI is used to evaluate the ability of the Group to grow its business organically year on year.

**Strategic pillars**



**Like for like Revenue growth**

**2.7%**



**2018 performance**

Organic Revenue grew by 2.7 per cent, principally through pricing and surcharge actions.

**Target**

To grow Revenue organically year on year.

**Margin** **Trend**  
▼

**Underlying Operating Margin** <sup>(APM)</sup>

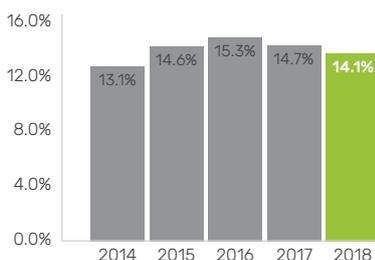
Underlying Operating Profit from continuing operations as a percentage of Revenue from continuing operations. The KPI is used to evaluate the profitability and financial health of the Group.

**Strategic pillars**



**Underlying Operating Margin**

**14.1%**



**2018 performance**

Underlying Operating Margin decreased by 57 bps, with the favourable impact from acquisitions and pricing actions offset by higher input costs, other inflationary increases and adverse foreign exchange movements.

**Target**

To maintain and improve operating margins through the management control of the Group's processes as well as overheads and administrative costs.

**Leverage** **Trend**  
▶

**Leverage** <sup>(APM)</sup>

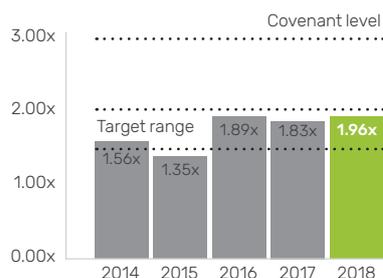
Underlying Net Debt divided by Adjusted EBITDA both calculated at average exchange rates. The KPI is used to evaluate the ability of the Group to generate sufficient cash flows to cover its contractual debt servicing obligations.

**Strategic pillars**



**Leverage**

**1.96x**



**2018 performance**

Leverage increased from 1.83x to 1.96x 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.

**Target**

To maintain a core Leverage ratio of between 1.50x to 2.00x at the year end throughout the cycle.

## TYMAN'S STRATEGY

- A Market share gain
- B Pricing discipline
- C Process scrutiny
- D Focus on capital allocation
- E Focus on cash generation

**Returns on Capital**
**Trend** ▼

### Return on Capital Employed and Return on Controllable Capital Employed <sup>(APM)</sup>

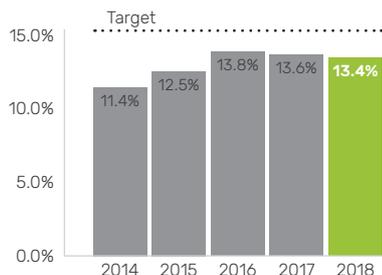
Return on Capital Employed is defined as the Underlying Operating Profit as a percentage of the LTM average capital employed. Return on Controllable Capital Employed is defined as the Underlying Operating Profit as a percentage of the LTM average controllable capital employed. The KPIs are used to evaluate how efficiently the Group's capital and controllable capital are being employed to improve profitability.

#### Strategic pillars

- A
- B
- C
- D
- E

#### ROCE

# 13.4%



#### 2018 performance

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.

#### Target

To maintain and steadily improve ROCE and ROCCE with a medium term target for ROCE of 15.0 per cent.

<sup>(APM)</sup> [See Alternative Performance Measures on pages 166 to 172.](#)

**Earnings per share**
**Trend** ▲

### Underlying basic EPS <sup>(APM)</sup>

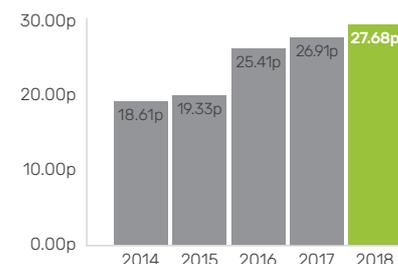
Underlying Profit After Taxation divided by the basic weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares. The KPI is used to assess the trading performance per share in issue.

#### Strategic pillars

- A
- B
- C
- D
- E

#### Underlying basic EPS

# 27.68p



#### 2018 performance

Underlying Earnings per Share increased by 2.8 per cent to 27.68 pence. This reflects the higher Underlying Operating Profit, partially offset by increased finance costs in the year and the higher number of shares in issue.

#### Target

To improve underlying EPS performance year on year.

## Key performance indicators continued

### TYMAN'S STRATEGY

- A** Market share gain
- B** Pricing discipline
- C** Process scrutiny
- D** Focus on capital allocation
- E** Focus on cash generation

#### Acquisitions Trend

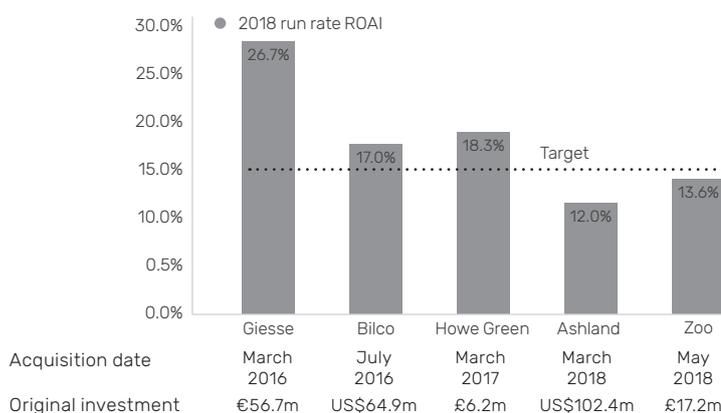
##### Return on Acquisition Investment (APM)

Underlying Operating Profit including synergies generated by an acquisition divided by the total cost of the acquisition. This KPI is monitored during the first two years of ownership. The KPI is used to evaluate the efficiency and returns achieved by the Group from its investments in recent material business acquisitions.

##### Strategic pillars

- A**
- B**
- C**
- D**
- E**

##### Return on Acquisition Investment



##### 2018 performance

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 10 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.

Regutti and Profab were acquired in the second half of 2018 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.

##### Target

For all acquisitions to achieve a run rate of ROAI greater than 15.0 per cent within two years of acquisition.

#### Dividends Trend

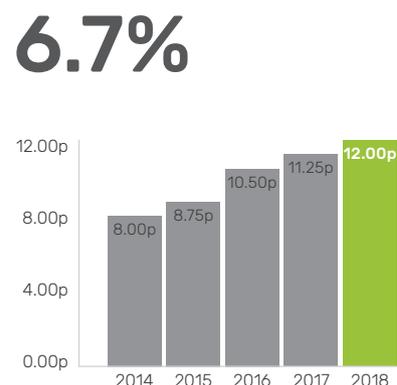
##### Dividend growth (APM)

Year on year growth in dividends per share. The KPI is used to evaluate the delivery of consistent and balanced returns to shareholders in the form of dividends.

##### Strategic pillars

- A**
- B**
- C**
- D**
- E**

##### Dividend growth



##### 2018 performance

Dividends have grown consistently, with an increase of 6.7 per cent to 12.00 pence per share in 2018. 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.

##### Target

To grow dividends annually at least in line with underlying earnings.

APM [See Alternative Performance Measures on pages 166 to 172.](#)

## Cash

## Trend



### Operating Cash Conversion <sup>APM</sup>

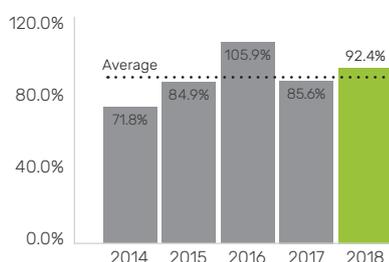
Operational Cash Flow divided by Underlying Operating Profit. The KPI is used to evaluate the cash flow generated by the business operations in order to pay down debt, return cash to shareholders and invest in acquisitions.

#### Strategic pillars



### Operating Cash Conversion

# 92.4%



#### 2018 performance

The Group's Operating Cash Conversion in 2018 improved from 85.6 per cent to 92.4 per cent principally driven by the increase in Operational Cash Flow in the year. 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.

#### Target

To maximise conversion of the Group's Underlying Operating Profit into cash over any 12-month period while continuing to make the necessary capital investments to support the growth of the business.

## Service delivery

## Trend



### On time in full delivery rate

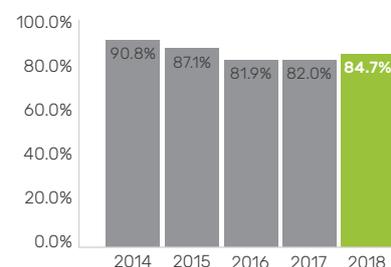
Proportion of customer orders that are delivered in full within the customer required time slot. The KPI is used to evaluate manufacturing productivity and how efficient the business is at meeting delivery deadlines.

#### Strategic pillars



### On time in full delivery rate

# 84.7%



#### 2018 performance

The OTIF rate improved in the year for the first time in five years reflecting the significant progress the Group has made in improving the operational excellence of its facilities following the factory moves in North America and the UK.

#### Target

To improve the on-time delivery rate in order to achieve an on time in full delivery performance to customer requests of over 95.0 per cent.

## Safety

## Trend



### Lost time injuries

The number of lost time injuries and the lost time injury rate are used to evaluate the frequency and directional trend of reported injuries.

#### Strategic pillars



### Lost time injuries

# 44



#### 2018 performance

The number of lost time injuries and the lost time injury rate fell to the lowest level in the last five years. The lost time injury rate has fallen by 38.5 per cent from its peak in 2015. The severity of incidents in the year was minor and most were preventable.

The Group continues to place a high priority on delivering tangible improvements to its health and safety record.

#### Target

To reduce the number of injuries and lost work time hourly rates year on year.



See Alternative Performance Measures on pages 166 to 172.



## Second phase of footprint project substantially complete



**Jeff Graby**  
President and Chief Executive Officer –  
AmesburyTruth

“

Softer US residential market conditions meant that AmesburyTruth had a more difficult year in 2018. On a reported basis, Revenue grew by 17.9 per cent with the increase principally due to the strong initial contribution from Ashland, assisted by pricing initiatives across the Division.”

### Markets

US residential single family construction declined in 2018 with permit 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.

## Revenue

**£378.7m**Change: +14%  
CC LFL: +3%

## Underlying Operating Profit

**£62.3m**Change: +4%  
CC LFL: (8)%

## Underlying Operating Margin

**16.4%**Change: (150)bps  
CC LFL: (180)bps

## Revenue

**US\$505.5m**Change: +18%  
CC LFL: +3%

## Underlying Operating Profit

**US\$83.1m**Change: +8%  
CC LFL: (8)%

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

**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.



Production line, Ashland, Monterrey, Mexico.



Precision assembly, Ashland, Monterrey, Mexico.

Operating review continued



**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).



Steel strip coil.

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
<b>P&amp;L charge</b>	<b>22.1</b>	<b>3.0</b>	<b>1.5</b>
Opex	16.7	11.0	1.0
Capex	13.6	1.0	—
Cash receipts	(6.7)	—	—
<b>Total cash costs</b>	<b>23.6</b>	<b>12.0</b>	<b>1.0</b>
<b>Total cumulative cash costs</b>	<b>23.6</b>	<b>35.6</b>	<b>36.6</b>
<b>Incremental P&amp;L saving</b>	<b>1.7</b>	<b>3.3</b>	<b>5.0</b>
<b>Cumulative annual P&amp;L saving</b>	<b>1.7</b>	<b>5.0</b>	<b>10.0</b>

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.

**Jeff Graby**

President and Chief Executive Officer – AmesburyTruth

## Ending 2018 with positive momentum



**Darren Waters**  
Chief Executive Officer – ERA

“

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.”

### 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 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.

Operating review continued

# ERA



Zoo product display board. ERA showroom, Wolverhampton, England.



Profab riser door, in client location.

## 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,

**Revenue****£95.7m**Change: +19%  
CC LFL: (1)%**Underlying Operating Profit****£12.5m**Change: +22%  
CC LFL: (10)%**Underlying Operating Margin****13.1%**Change: +40%  
CC LFL: (110)bps

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.

**Darren Waters****Chief Executive Officer – ERA**



## Significant outperformance of end markets in Europe



**Peter Santo**  
Chief Executive Officer – SchlegelGiesse

“

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.”

### 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.

**Revenue****£117.2m**Change: +7%  
CC LFL: +6%**Underlying Operating Profit****£15.0m**Change: +18%  
CC LFL: +18%**Underlying Operating Margin****12.8%**Change: +120 bps  
CC LFL: +130 bps**Revenue****€132.4m**Change: +6%  
CC LFL: +6%**Underlying Operating Profit****€17.0m**Change: +17%  
CC LFL: +18%

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

**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**

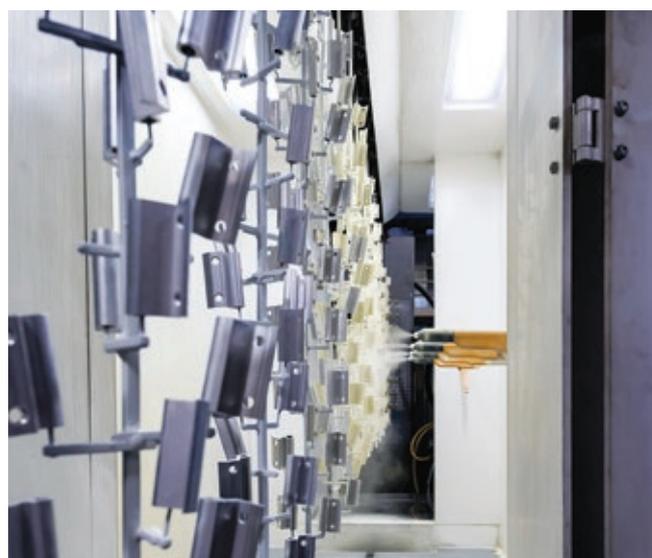
Despite positive Revenue growth in the first half of the year in the Middle East, activity in the second half slowed, such that the year ended with full-year Revenue 6.0 per cent lower than 2017. Delays to projects contributed to this slowdown and strict compliance with Tyman credit control policies 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.



Precision engineering of CHIC hinge, Budrio, Italy.



Automatic powder coating process line, Budrio, Italy.

## Operating review continued



### Business performance and developments continued

#### 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 the 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.

**Peter Santo**  
Chief Executive Officer – SchlegelGiesse

# Strong cash generation



**James Brotherton**  
Chief Financial Officer

“

Operating Cash Conversion in 2018 improved to 92.4 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.”

## 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

The price of key raw materials and input costs are tracked closely by the Group to ensure the Divisions are procuring product at the optimal price for the quantities consumed and are in a position to secure price increases from customers where required.

Four principal categories of raw material are monitored at Group level by reference to the Division with the highest usage: steel, oil derivatives, zinc and aluminium. Tyman's largest raw material and component purchase is steel across many different types and grades. Within this, stainless steel is the Group's largest steel purchase so the pricing of US stainless steel is monitored as a proxy for the steel category. Oil derivatives are used in the manufacture of seal, extrusion and injection-moulded products. Zinc, aluminium and associated alloys are used in the manufacture of a number of hardware products.

In addition, ERA monitors the cost of a representative basket of those products sourced from the Far East by Tyman Sourcing Asia into the UK which is influenced by local labour and overhead rates, raw material price variations and exchange rates.

## Financial review continued

## Income statement continued

## Revenue and profit continued

£'million except where stated	2018 materials <sup>1</sup>	Average <sup>2</sup>	Spot <sup>3</sup>
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)%
Components (UK) <sup>4</sup>	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

£'million	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)	–
<b>Total exceptional items</b>	<b>7.3</b>	<b>10.0</b>

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&amp;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 300 bps 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.

### Taxation policy

The Group's tax affairs are managed in accordance with relevant laws and regulations in each jurisdiction in which the Group operates. The policy ensures that the approach to taxation is aligned with Tyman's commercial activities worldwide.

Tyman follows the terms of double taxation treaties and relevant OECD guidelines in dealing with issues such as transfer pricing, repatriation of profits and the establishment of a taxable presence in countries where it trades. The Group seeks to engage proactively with tax authorities in each of its key jurisdictions to ensure that the Group's tax affairs are clearly communicated.

Tyman aims to maintain straightforward legal and commercial structures to reduce risk and minimise compliance costs. Investments made in tax reporting systems and personnel across the Group have ensured tax reporting, compliance and disclosure that is more accurate and reliable.

The Group's key transfer pricing arrangements comprise commercial agreements relating to trade between Group entities, intragroup financing and the recharging of shared-service administrative costs.

Several factors impact the Group's taxation charge or credit in the income statement, including:

- The international nature of the Group's operations. In 2018, 69.3 per cent of Tyman's Underlying Operating Profit before central cost allocations were generated in North America, 15.8 per cent in the UK and 14.9 per cent in SchlegelGiesse's territories outside the UK. The Group's effective tax rate is therefore a function of the interaction of currency movements with different country, state and local taxation rates and allowances.

- The proactive capital investment programme in each of the Group's Divisions. These investments are amortised for tax purposes in accordance with the laws relating to capital allowances in each country, which may not match the Group's depreciation policy.
- Taxable losses generated by Group companies. Where these losses can be relieved or carried forward to be relieved in future periods, Tyman does so in accordance with the relevant laws. This treatment is, however, broadly dependent on sufficient eligible taxable profits being generated in the relevant jurisdiction.
- Certain expenses which cannot be relieved against taxable profits. Such expenses most notably relate to the amortisation and impairment of intangible assets and the write-off of goodwill arising on acquisition. As the Group has developed through acquisition, these charges have a material impact on the Group's statutory tax charge as a proportion of pre-tax profits.
- The changing attitude of tax authorities under the OECD BEPS Project. Under Action 2 of the OECD BEPS Project the UK government introduced new rules, the consequence of which is that more financing income is brought into the Group's UK taxable income.
- Ongoing developments in the international tax environment and global tax audit activity gives rise to tax uncertainties for the Group.
- Local tax incentives such as research and development tax credits and patent box regimes.
- Group share options and LTIPs will generate varying levels of tax relief to the Group dependent on the vesting outcomes of awards and the share price as at the date of vesting.

## Financial review continued

## Cash generation, investment, funding and liquidity

## Cash and cash conversion

£'million	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 PPE	(15.7)	(15.4)
Less: purchases of intangible assets	(1.5)	(1.1)
Add: proceeds on disposal of PPE	5.3	3.8
<b>Operational Cash Flow after exceptional cash costs</b>	<b>74.1</b>	55.5
Exceptional cash costs	3.2	10.2
<b>Operational Cash Flow</b>	<b>77.3</b>	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)
<b>Free Cash Flow</b>	<b>51.5</b>	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 32).

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 33) 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	2024	Multicurrency	£240.0m	£70.0m
4.97% USPP	2021	US\$	US\$55.0m	—
5.37% USPP	2024	US\$	US\$45.0m	—
Other	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 <sup>1</sup>	Headroom <sup>2</sup> £'million	Headroom <sup>2</sup> %
Leverage	<3.0x	1.96x	35.9	34.7
Interest Cover	>4.0x	9.27x	56.0	56.8

<sup>1</sup> Calculated covenant performance consistent with the Group's banking covenant test.

<sup>2</sup> 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

£'million	FY 2017 (restated) <sup>1</sup>	Movement	Acquisitions <sup>2</sup>	FX	2018
Inventories	75.3	4.5	21.9	3.6	105.3
Trade receivables <sup>1</sup>	56.7	0.8	12.5	1.6	71.6
Trade payables	(37.8)	(4.4)	(8.9)	(1.5)	(52.6)
<b>Trade working capital</b>	<b>94.2</b>	<b>0.9</b>	<b>25.5</b>	<b>3.7</b>	<b>124.3</b>

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 32 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, £25.5 million relates to working capital assumed on acquisitions and £4.5 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 £52.6 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

£'million	2018	2017
Post-retirement pension/TFR	(10.8)	(12.1)
Post-retirement medical	—	(0.3)
<b>Net post-retirement obligation</b>	<b>(10.8)</b>	<b>(12.4)</b>

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 and from December 2018 accrual of further service ceased on closure of the Rochester, NY, and Amesbury, MA, facilities. 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. AmesburyTruth's obligations under this plan were fully recoverable from, and indemnified by, the previous owners. No cash outflow or gain or loss on the 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.

## Financial review continued

## Provisions

£'million	2017	(Charge)/ release to P&L	Utilised	Other movement	2018	Expected utilisation date
Property	(3.5)	0.3	0.3	(0.3)	<b>(3.2)</b>	2042
Restructuring	(8.0)	1.0	0.4	(0.4)	<b>(7.0)</b>	2021
Warranty	(0.9)	(0.2)	0.1	(1.5)	<b>(2.5)</b>	2025
Other	(5.0)	0.8	1.7	0.1	<b>(2.4)</b>	2021
<b>Total</b>	<b>(17.4)</b>	<b>1.9</b>	<b>2.5</b>	<b>(2.1)</b>	<b>(15.1)</b>	

## 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

## Dividend policy

Tyman plc, the Parent Company of the Group, is a non-trading investment holding company that derives its distributable reserves principally from dividends received from subsidiary companies.

The Group's dividend policy targets a dividend cover of between 2.00x to 2.50x underlying Earnings per Share while being mindful of the Group's near term capital requirements.

The objective of this policy is to:

- align shareholder returns with growth in the Group's profitability;
- reinforce capital discipline; and
- help ensure that the Group's shares appeal to a wide range of investors.

While the Board's aim is to deliver progressive growth in dividends year on year, application of the Group dividend policy may lead to dividends paid to shareholders reducing in years where business performance has been weaker than expected or where other near term capital priorities are considered to be of greater importance.

The application of this policy has meant that the Group has delivered consistent dividend growth over the last nine years (see Dividend growth KPI on page 20) as the Group's Underlying Earnings per Share has increased.

The Board considers a number of factors that influence the level of dividend in any given year. These include:

- the cyclical nature of the industry in which the Group operates;
- the near term capital requirements of the business;
- the level of distributable reserves in the Parent Company; and
- the availability of liquid cash resources across the Group.

See pages 41 to 44 for the Group's principal risks and uncertainties which may have a negative impact on the performance of the Group and may influence how the dividend policy is implemented.

Dividends are paid bi-annually. The interim dividend, which is typically set at around one-third of that year's total dividend, is paid to shareholders in September. The final dividend is paid to shareholders in May following the conclusion of the Annual General Meeting.

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.

## 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\$	CAS\$	Other	Total <sup>1</sup>
% movement <sup>2</sup>	3.6%	(1.0%)	6.3%	3.4%		
£'million Revenue impact	(13.3)	0.7	(0.5)	(0.3)	(4.3)	<b>(17.7)</b>
£'million Profit impact <sup>3</sup>	(2.1)	0.1	(0.1)	(0.1)	(0.5)	<b>(2.7)</b>
1c decrease impact <sup>4</sup>	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

Divisions that purchase or sell products in currencies other than their functional currency will potentially incur transactional exposures. For purchases by ERA from the Far East, these exposures are principally Sterling/US Dollar or Chinese Renminbi. For purchases by SchlegelGiesse's Australian business from the US and the Far East, these exposures are principally Australian Dollar/US Dollar or Chinese Renminbi.

The Group's policy is to recover adverse transactional currency movements through price increases or surcharges. Divisions typically buy currency forward to cover expected future purchases for up to around six months. The objective is to achieve an element of certainty in the cost of landed goods and to allow sufficient time for any necessary price changes to be implemented.

## 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.

## Financial review continued

## Other financial matters continued

## Currency continued

## 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:

£'million	2018		2017	
	Gross borrowings	%	Gross borrowings	%
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
<b>Gross borrowings</b>	<b>(262.3)</b>		<b>(206.2)</b>	

## 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 32.1.

## 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 32.2.

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 32.3.

## 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.

# Managing risk

## Identifying and managing risk

The Group has policies and procedures in place to ensure that risks are properly identified, evaluated and managed at the appropriate level within the business. The identification of risks and opportunities, the development of action plans to manage the risks and maximise the opportunities, and the continual monitoring of progress against agreed plans are integral parts of the business process and core activities throughout the Group.

## Risk management structure



## Responsibilities for and structure of risk management

Responsible body	Areas of responsibility
<b>Board</b>	Overall responsibility for risk management. Defines the Group's risk appetite and culture. Reviews principal risks and uncertainties every six months and provides direction and tone of risk management.
<b>Audit Committee</b>	Assurance of the internal control and risk management systems.
<b>Risk Management Committee</b>	Regular review of risk registers and implementation of mitigation plans. Shares best practice in risk management and mitigation strategies across the Group.
<b>Executive and Divisional management</b>	Day-to-day operational management and management of risk. Design and implementation of the necessary systems of risk assessment and internal control.

## Risk management continued

### Responsibilities for and structure of risk management continued

Each Division maintains a comprehensive risk register which assesses all pertinent risks relevant to that Division, including operational, financial, compliance and strategic risks. The risk assessment is dynamic so includes emerging and retiring risks as a Division's risk landscape shifts. These risk registers are reviewed on a regular basis by the functional heads within each Division. Each risk is monitored and where necessary updated using a scoring system which seeks to assess the likelihood and the financial impact of the relevant risks crystallising. Against this an assessment is made of the controls that are in place to mitigate the relevant risk. The Risk Management Committee formally reviews each Division's risk register four times a year, the conclusions of which are submitted to the Audit Committee.

A shorter register of principal risks is specifically reserved for review by the Board. This is mainly, but not exclusively, comprised of risks above a certain threshold after mitigation. These principal risks and uncertainties are reported in the Annual Report.

### Risk management and internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness.

The internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to achieve business objectives. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

Through the work of the internal and external auditors and the reports to the Audit Committee, the Committee is satisfied that any audit issues raised by either of the auditors are managed and resolved effectively by management.

Key elements of Tyman internal control and risk management system	Description
<b>There is a clearly defined management structure.</b>	A framework of policies and procedures covering authority levels, responsibilities and accountabilities is in use throughout the Group.
<b>A three-year strategic plan is prepared for the Board's consideration each year.</b>	The strategic plan is appraised in light of the strategic and other relevant risks and uncertainties faced by the Group, the resources available and its objectives.
<b>Managers are responsible for the identification and evaluation of significant risks in their area of business, together with the design and operation of suitable internal controls.</b>	The Group has a detailed risk management process, which identifies the key risks faced by each Division and the Group as a whole and the actions and controls required to manage and mitigate these risks. Divisional risk registers are reviewed each quarter by the Risk Management Committee, which reports back to the Audit Committee.
<b>The Board approves the annual financial budget.</b>	Performance against these targets is monitored monthly and reported on at Board meetings and reasons behind variances are discussed.
<b>The Board approves the viability statement.</b>	The Board reviews and approves the viability statement (see page 45) and the associated sensitivity analysis and stress testing. This enables the Board to understand the Group's resilience to risk.
<b>There are established procedures for planning, approving and monitoring capital expenditure and major projects.</b>	Board approval is required for all major investment, divestment and strategic plans and projects, including all M&A activity.
<b>The Group operates an effective Group reporting and consolidation system.</b>	Written monthly reports, management accounts and key performance indicators analysing performance by operating unit are reviewed with each Division every month by senior management.
<b>An annual review is performed on the effectiveness of the system of internal control.</b>	<p>The Audit Committee receives regular reports throughout the year to assure itself that the Group's internal control systems comply with the requirements of the Code.</p> <p>Divisional management is required to implement base financial and other controls in line with a clear set of detailed Group policies relating to financial reporting and other accounting matters and to act in accordance with the Group Code of Conduct. Each Division completes a bi-annual self-certification of compliance and implementation of internal controls by its businesses which is submitted to the Committee for review.</p> <p>The internal and external audits test various aspects of internal controls, including their adequacy and effectiveness. The findings of internal and external audits, together with improvement recommendations and management responses, are shared with the Committee.</p>
<b>Operating units produce plans to improve controls relating to key risks and any significant weaknesses identified by internal and external audits.</b>	The Audit Committee monitors the progress against these plans to ensure that any corrective actions to the internal control procedures are made in a timely manner.
<b>The internal control regime is supported by the operation of independent whistleblower reporting functions.</b>	A whistleblowing system is operated by specialist external third party service providers and allows employees to report concerns anonymously and in confidence. All reports are received by the Group Company Secretary. A full investigation is carried out following the receipt of each report, with the results of the investigation being reported directly to the Board.

## Principal risks and uncertainties

### Principal risks

The Directors confirm they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The table on pages 42 to 44 sets out the principal risks and uncertainties facing the Group at the date of this report and how they are being managed or mitigated. The principal risks do not comprise all the risks that the Group may face.

In accordance with the provisions of the Code, the Board has taken into consideration the principal risks in the context of determining whether to adopt the going concern basis of accounting and when assessing the prospects of the Company for the purpose of preparing the Viability statement. The going concern statement can be found on page 46 and the Viability statement can be found on page 45 of the Strategic report.

### Main developments in risk

Business integration has been reinstated as a principal risk in 2018, following the completion of the acquisition of four businesses during the year, namely Zoo Hardware and Profab in the UK, Ashland in the US and Reguitti in Italy. Detailed integration plans have been formulated and are being implemented with regular feedback being provided to the Board.

The Group's Divisions monitor and record emerging risks in their risk registers, which are reviewed by the Tyman Risk Committee. None of these Divisional emerging risks are considered material from a Group perspective.

### Brexit

At the date of this report there remains a lack of clarity about the likely terms of the post-Brexit arrangements between the UK and the EU, the likely transitional arrangements and the length of the transition period. Consequently, it is difficult to draw firm conclusions about the probable impact of Brexit on the Group.

A small proportion (2.3 per cent) of the Group's 2018 revenue is attributable to UK sales to customers in the EU and a small proportion (1.9 per cent) of the Group's direct materials are used in the UK and are sourced from the EU. Contingency plans have been formulated to mitigate the Group's Brexit risk which includes increasing safety stock levels and expanding sourcing options. These plans are discussed in greater detail in the ERA and SchlegelGiesse business reviews. Consequently Brexit is not expected to have a material direct impact on the Group.

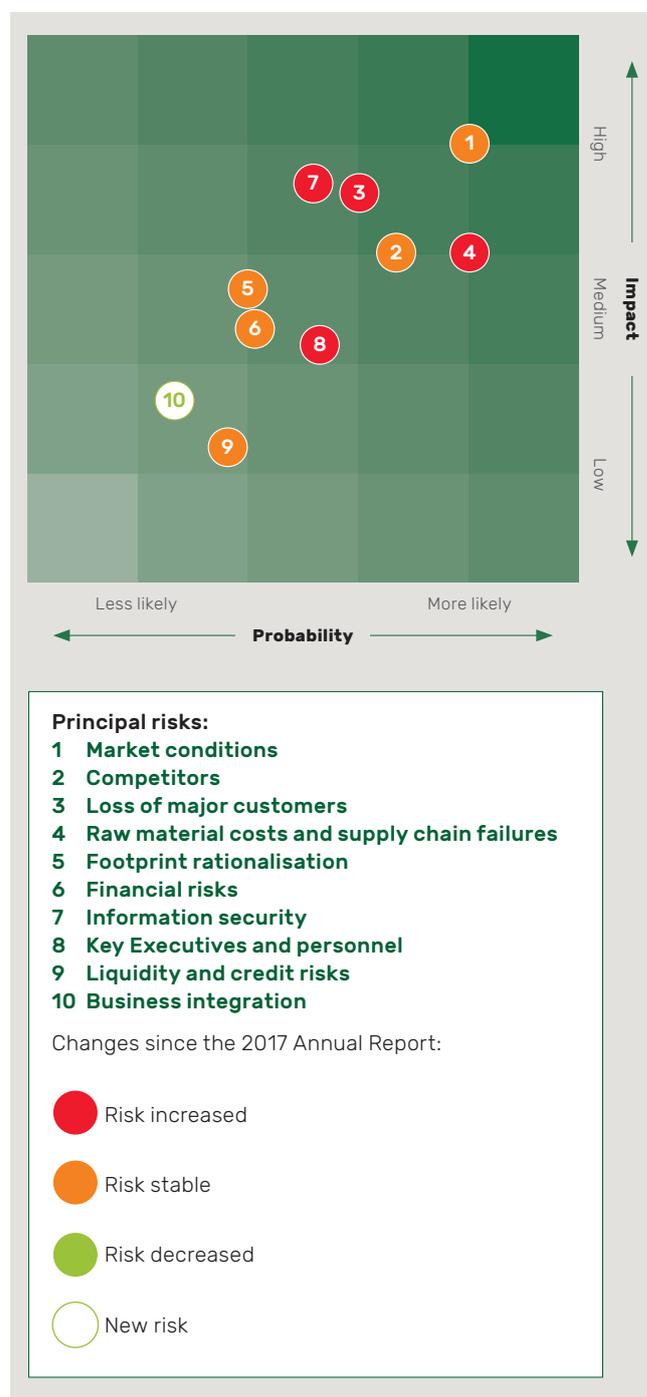
There is the potential for Brexit to have a severe impact in the short term on the economies of the UK and key UK trading countries that are members of the European Union. If such impacts were to occur, remedial actions such as those modelled in the Group's stress testing undertaken in the preparation of the Group's Viability statement would be available to be deployed.

### Risk priorities for the year ahead

The risk priorities for the year ahead are as follows:

- Each Division continues to refine commercial strategies and improve customer service to grow revenue to mitigate against the risk of declining market demand and increased competition.
- Maintain pricing discipline to mitigate the risk of raw material cost inflation.
- Complete the rollout of the trusted device authentication solution across the Group to mitigate the risks to the security of our digital information.

### Principal risks before mitigation



### Heat map

The heat map shows the relative positioning of the Group's principal risks by the severity of their impact and the probability of occurrence. The heat map shows the Board's assessment of the principal risks before any mitigating controls and actions. Tyman has adopted strategies to reduce these inherent risks to an acceptable level and more details of this are set out in the table on pages 42 to 44.

## Principal risks and uncertainties continued

Description	Mitigation	Changes since last Annual Report	Risk assessment	Trend after mitigation
<b>Market conditions</b> 				
<p>Demand in the building products sector is dependent on levels of activity in new construction and residential and commercial RMI markets. This demand is cyclical and can be unpredictable and the Group has low visibility of future orders from its customers.</p>	<p>In previous cyclical downturns Tyman has proved effective in responding to events through:</p> <ul style="list-style-type: none"> <li>&gt; maintaining appropriate headroom and tenor in the Group's available borrowing facilities;</li> <li>&gt; the geographic spread of the Group's business provides a degree of market diversification;</li> <li>&gt; the ability to flex the Group's cost base in line with demand;</li> <li>&gt; pricing and gross margin management in order to recover cost increases as they come into the business;</li> <li>&gt; planning, budgeting and forecasting processes; and</li> <li>&gt; offering industry-leading customer service.</li> </ul>	<p>Market conditions have facilitated revenue growth in most geographies, apart from Australia, the Middle East, Poland, Turkey and the UK. Both ERA and SchlegelGiesse were successful in gaining market share in 2018. This risk is regarded as stable.</p>	<p><b>Risk assessment</b> High</p>	<p><b>Trend after mitigation</b></p>
				
<p>As part of its process for assessing the ongoing viability of the Group, the Board regularly stress tests Tyman's financial and cash flow forecasts over both a short and medium term horizon.</p>				
<b>Competitors</b> 				
<p>The Group may face significant competition in its markets, including from global competitors with large capital resources. Competition in the industry is based on: range and quality of products offered; geographical reach; product development; reputation; and customer relationships. Demand may also be impacted by competitor disruptive behaviour.</p>	<p>Some of the Group's markets are relatively concentrated with two or three key players, while others are highly fragmented and offer significant opportunities for consolidation and penetration.</p> <p>Tyman continues to differentiate itself through its wide range of products, its focus on setting industry-leading standards for delivery on time and in full, its technical support and its geographical spread, new product development, strategic focus and reputation.</p> <p>The Group aims to minimise the impact of aggressive pricing by competitors through a low-cost manufacturing strategy supported by its programmes of new product development, continual process improvements and building long term relationships with its customers based on value, quality, service and added value technical support.</p>	<p>The Group continued to broaden its product offering during the year through acquisitions and new product development to enhance its competitive position. This risk is regarded as stable.</p>	<p><b>Risk assessment</b> Medium</p>	<p><b>Trend after mitigation</b></p>
				
<b>Loss of major customers</b> 				
<p>The success of the Group is dependent on the continuation of satisfactory commercial relationships with its major customers.</p> <p>In 2018 the top five customers accounted for 23.1 per cent of Group Revenue.</p>	<p>Each Division develops strategic customer plans which include high level engagement through business review meetings to identify service issues and product development opportunities on a timely basis.</p> <p>Management continues to invest in training for its sales teams. The Divisions aim to provide a speedy response to sub-standard OTIF performance or product quality. Where a Division identifies a broader category of customer that may be at risk, specific mitigation plans are put in place.</p>	<p>Volatile commodity prices, exchange rates and increasing tariffs during the year have resulted in passing on price increases to the Group's customers. In turn this has increased the pressure to maintain the Group's high standards of customer service. Accordingly, this risk has been elevated from a declining risk last year to a stable risk.</p>	<p><b>Risk assessment</b> Medium</p>	<p><b>Trend after mitigation</b></p>
				

Description

Mitigation

Changes since last Annual Report

## Raw material costs and supply chain failures

Raw materials used in the Group's businesses include commodities that experience price volatility (such as oil derivatives, steel, aluminium and zinc). The Group's ability to meet customer demands depends on obtaining timely supplies of high quality components and raw materials on competitive terms. Product or raw material may become unavailable from a supplier due to events beyond the Group's control.

The Group continues to invest in and improve its sourcing and procurement capability with dedicated supply chain resources. The Group manages supply chain risk through strong long term relationships with suppliers, risk assessment and audit of key suppliers, review of make or buy policies, economies of purchasing, dual sourcing, adequate safety stock and inventory management. The Group maintains product quality by ongoing testing up to and beyond the industry standards.

Commodity price inflation continued in 2018. In response the Group increased selling prices and applied surcharges to recover unavoidable input cost increases. The Zoo hardware acquisition will enhance ERA's sourcing capabilities. Both tariffs and freight costs have increased during the year. This risk is regarded as stable.

**Risk assessment**  
Medium

**Trend after mitigation**



## Footprint rationalisation

Rationalisation of the Group footprint is expected to produce more efficient manufacturing processes, shorter development times for bringing new products to market, a reduction in internal freight costs, a more efficient deployment of personnel and a reduction in Divisional overheads. There is a risk that changes will be disruptive and that these projects may cost more than originally planned and may not deliver the expected benefits.

The Group mitigates this risk by extensive upfront analysis, planning and risk assessment, with multi-disciplined project teams, supported by dedicated professional project management resources.

The redeployment of production from Amesbury, MA and Rochester, NY to the new Statesville, NC facility was completed during 2018. ERA successfully completed the move of its balance production to i54 in Wolverhampton. This risk is regarded as decreasing.

**Risk assessment**  
Medium

**Trend after mitigation**



## Financial risks

The Group operates internationally and is therefore exposed to transactional and translational foreign exchange movements in currencies other than Sterling. In particular the Group's translated Underlying Operating Profit is impacted by the Sterling exchange rate of the US Dollar and the Euro. In 2018, 75 per cent of the Group's Underlying Operating Profit was derived from North American operations which are principally exposed to the US Dollar. The Group is also exposed to interest rate risks on its bank borrowings.

The Group denominates a proportion of its debt in foreign currency to align its exposure to the translational balance sheet risks associated with overseas subsidiaries. Ancillary bank facilities are utilised to manage the foreign exchange transactional risks and interest rate exposure through the use of derivative financial instruments. Where possible the Group will recover the impact of adverse exchange movements on the cost of imported products and materials from customers.

Sterling exchange rates remain volatile. This risk is regarded as stable.

**Risk assessment**  
Medium

**Trend after mitigation**



**A** Market share gain    **B** Pricing discipline    **C** Process scrutiny    **D** Focus on capital allocation    **E** Focus on cash generation

 Risk is taken into account in our viability assessment

 Increased     Unchanged     Decreased

## Principal risks and uncertainties continued

Description	Mitigation	Changes since last Annual Report	Risk assessment Medium
<b>Information security</b> 			
<p>Information and data systems are fundamental to the successful operation of Tyman's businesses. The Group's digital assets are under increasing risk from hacking, viruses and "phishing" threats. Sensitive employee, customer, banking and other data may be stolen and distributed or used illegally. GDPR could increase the cost of failures to protect the Group's digital assets.</p>	<p>The Group continues to develop and test regularly disaster recovery plans for all sites. The Group undertakes regular penetration testing of data systems and maintains up to date versions of software and firewalls. The Group periodically reviews IT system controls, with the help of tailored internal audit programmes developed by BDO.</p>	<p>Online awareness training continues throughout the Group and a programme of trusted device authentication is being rolled out.</p> <p>Review of GDPR compliance remains a continuing focus for management. This risk is regarded as stable.</p>	<p><b>Trend after mitigation</b></p> 
			
<b>Key Executives and personnel</b> 			
<p>The Group's future success is substantially dependent on the continued services and performance of its Executive Directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel throughout the Divisions.</p>	<p>The Remuneration Committee and the Nominations Committee mitigate the risk of losing key personnel through robust succession planning, strong recruitment processes, long term management incentives and retention initiatives. Each Division maintains talent development and succession plans, supported by adequately funded training.</p>	<p>Low unemployment rates, especially in the US, provide justification of our training and retention programmes and our management development plans for senior and middle management. The unmitigated risk has increased during the transition period of the Group CEO, but the mitigated risk is regarded as stable.</p>	<p><b>Risk assessment</b> Low</p> <p><b>Trend after mitigation</b></p> 
			
<b>Liquidity and credit risks</b> 			
<p>The Group must maintain sufficient capital and financial resources to finance its current financial obligations and fund the future needs of its growth strategy.</p>	<p>The Group maintains adequate cash balances and credit facilities with sufficient headroom and tenor to mitigate credit availability risk. The Group monitors forecast and actual cash flows to match the maturity profiles of financial assets and liabilities. The Group aims to operate within its target leverage range of 1.50x to 2.00x Adjusted EBITDA at the year end throughout the cycle.</p>	<p>Despite the significant debt funding of acquisitions during the year, the Group has finished the year with leverage of 1.96x within the target range. Since the year end the Group has extended its committed banking facilities by a further year to February 2024. This risk is regarded as decreasing.</p>	<p><b>Risk assessment</b> Low</p> <p><b>Trend after mitigation</b></p> 
			
<b>Business integration (new risk)</b> 			
<p>Acquisitions are an important element of the Group's strategy and the Group expects that it will continue to make acquisitions in the future. Acquisitions will impact the future performance of the Group and may impact the risk profile of the Group. The subsequent integration of acquisitions involves further risks such as the diversion of management, disruption of operations and retention of key personnel in the acquired business.</p>	<p>Acquisitions bring management challenges and elevated risk along with opportunities. The Group manages these challenges and risks through its clear acquisition criteria, its due diligence process and a commitment to the full integration of every business that is acquired over an appropriate period. Each acquisition is discussed and reviewed by the Board at regular intervals during the diligence process and following completion.</p> <p>For significant acquisitions, the integration process is overseen by the Executive Directors and supported by dedicated project teams that include specialised management. The Group's internal audit programme and post-acquisition analysis of systems and controls in acquired businesses help to establish best practice in governance and control procedures.</p>	<p>This risk has been reinstated as a principal risk for the Group, following the completion of the four acquisitions during the year. Detailed integration plans for each of these acquisitions have been implemented. This risk is regarded as stable.</p>	<p><b>Risk assessment</b> Low</p> <p><b>Trend after mitigation</b></p> 
			

# Viability statement

## Assessment of prospects

In assessing the long term prospects of the Group, the Board considers the Group's current position, including the following factors:

- Operations are highly cash generative driving a high operating cash conversion ratio.
- The business model is diversified by geography.
- Acquisitions have expanded Tyman's brand offering and deepened customer relationships and are exceeding target returns on investment.
- A differentiated marketing strategy for each tier of customer enables more effective customer service.

In addition, the Board considers the Group's strategy and business model, including the following factors:

- The extensive range of products across hardware, seals and extrusions, which are engineering-led value-added products designed by Tyman and offered with high quality technical support, which helps to prolong customer relationships.
- Profitable market share growth remains a key strategic objective for each Division.
- Maintaining focus on pricing discipline to protect margins from the effects of adverse exchange rate movements and material input price inflation.
- Rolling programmes of process improvement in engineering and automation to reduce manufacturing costs.
- Rigorous investment appraisal process. not restricted to short term returns, drives an increasing return on capital employed.
- Providing employees with a modern safe operating environment and opportunities for career development.
- A business model that draws on Tyman's key strengths: flexible manufacturing, engineered solutions, quality products with industry-leading service, financial discipline, long term relationships with suppliers and customers and the expertise and experience of its employees.

The Group's strategy and business model are central to understanding the future prospects and viability of Tyman. Both are well established and subject to regular monitoring and development by the Board. See further details of the Group's strategy on pages 14 and 15 and of the Group's business model on pages 12 and 13.

The principal risks related to the business are also taken into account by the Board when assessing the long term prospects of the Group, particularly market conditions, competitors, loss of major customers, acquisition and integration risk and information security risks. See further details of the Group's principal risks on pages 41 to 44.

Decisions relating to major investment projects, including all M&A transactions, are approved by the Board. The Board is prepared to adopt an appropriate amount of risk and would characterise the Group's risk appetite as moderate. The Board continues to take a conservative approach to the assessment of less certain future benefits such as those derived from integration and rationalisation projects.

## Structured strategic and financial planning process

Tyman's longer term prospects are assessed primarily through the Group's strategic planning process. This process includes a review of Divisional three-year rolling strategic plans by the Executive Directors in conjunction with the Tyman Management Committee and functional leaders within each Division. The Board participates in the process through regular meetings with the Divisional senior management, visits to Divisional facilities and strategic updates, including strategy away days.

The output of this assessment is a consolidated set of financial projections for the Group that takes account of Tyman's principal risks (see pages 41 to 44) and explicitly covers the period of the next three years. A central review of forecast debt covenant compliance and debt headroom is also completed.

The annual Group budget is compiled in the autumn of each year and generates a detailed forecast for the year ahead. As part of this process the strategic plan financial projections are refreshed. The strategic plan reviewed as part of the assessment of prospects in this report therefore covers the three-year period ending 31 December 2021.

## Key assumptions

The key assumptions underpinning the 2018 to 2021 strategic plan include:

- average market growth forecasts in line with local consensus;
- no loss of significant customers;
- conservative forecasts of market share growth, selling price increases and the impact of new product development;
- conservative forecasts of the benefits from existing major footprint projects; and
- no impact from future acquisitions or disposals.

## Going concern and viability continued

### Assessment of viability

In accordance with provision 31 of the Code, the Directors have assessed the future viability of the Group. This assessment takes account of the Group's current trading position and the potential impact of the principal risks and the mitigating actions documented on pages 41 to 44 of the Annual Report. Consistent with previous years, the Directors have determined that three years is an appropriate timeframe over which to provide a viability statement, as this is the timeframe currently adopted by the Board as its strategic planning period.

A three-year period aligns with the Group's typical investment time horizon and with the performance measurement period for the Tyman Long Term Incentive Plan under the Remuneration Policy. In addition, the Directors consider that demand in the Group's business is ultimately driven by consumer confidence

and discretionary spending patterns which are difficult to project accurately beyond a three-year time horizon.

The strategic plan therefore reflects the Directors' best estimate of the future prospects of the business over the three-year period.

In order to assess the Group's viability over this period, the strategic plan has been flexed by overlaying the cumulative financial impact of a number of downside scenarios to represent "severe but plausible" circumstances that the Group might experience. These scenarios are based on the potential financial outcomes of certain of the Group's principal risks crystallising such as a severe deterioration in market conditions (which might include the impact of Brexit on the global economy), loss of business to competitors and loss of major customers.

The downside scenarios applied to the strategic plan are summarised below.

### Severe but plausible downside scenario

The "severe but plausible" scenario models the impact of a significant short term contraction in Revenue on the Group, combined with a material one-off cash outflow.

Strategic plan flexed for combinations of the following scenarios	Link to principal risks and uncertainties	Level of severity tested	Conclusion
<b>Severe downturn in market conditions</b> <b>Aggressive competitor actions resulting in a severe loss of market share</b> <b>The loss of major customers</b>	Market conditions Competitors Loss of major customers	<ul style="list-style-type: none"> <li>➤ 20 per cent fall in Revenue in year one followed by flat revenues in the following two years.</li> <li>➤ £15.0 million one-off exceptional cash cost in year one.</li> </ul>	This cumulative scenario is significantly worse than the reductions experienced by the Group during the last downturn in 2007 to 2009. Tyman, after undertaking mitigating actions, should be able to withstand the impact of these severe but plausible scenarios.

### Reverse stress test scenario

The "reverse stress test" scenario models the impact of a larger short term contraction in Revenue which is sustained for a period of time, together with a material one-off cash outflow.

Strategic plan flexed for combinations of the following scenarios	Link to principal risks and uncertainties	Level of severity tested	Conclusion
<b>Extreme downturn in market conditions</b> <b>Aggressive competitor actions resulting in extreme loss of market share</b> <b>The loss of major customers</b>	Market conditions Competitors Loss of major customers	<ul style="list-style-type: none"> <li>➤ 27 per cent fall in Revenue in year one followed by 7 per cent fall in revenues in each of the following two years.</li> <li>➤ £20.0 million one-off exceptional cash cost in year one.</li> </ul>	This sustained level of performance deterioration is considered extreme and highly implausible and would make the future viability of the Group less certain.

The flexed models take account of the availability and likely effectiveness of mitigating actions available to the Group, including the flexing of working capital, capital expenditure and discretionary spend, as well as Tyman's ability to change its capital structure if necessary through refinancing existing debt facilities and/or raising equity finance.

confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

### Viability statement

Based on their assessment of the prospects for the Group and principal risks and the viability assessment above, the Directors

### Going concern

As a consequence of the work undertaken to support the viability statement above, the Directors have continued to adopt the going concern basis in preparing the financial statements (see note 2.2 Going concern in the notes to the financial statements).

# Progressing sustainability

The Group continued its investment in a wide variety of training programmes, building on the progress made in prior years.



Tyman is made up of three distinct Divisions, AmesburyTruth, ERA and SchlegelGiesse, operating in different regions and across varying markets. They are brought together through the understanding of expected behaviours, practices, and common policies which make up the basis of Tyman's culture. This is primarily evidenced in the Group's focus on health and safety: care for oneself, care for one's colleagues and care for one's surroundings.

The growth of the Group has resulted in over 4,200 people being employed around the world, many coming from very different organisational backgrounds and cultures. It is everyone's responsibility to welcome these new recruits to Tyman ensuring they receive the most appropriate induction, training and support such that they understand and embrace the way of working and behaviours expected across all locations.

The Code of Conduct was developed to provide common principles and best practice standards to an increasingly large and geographically diverse organisation. The Code of Conduct covers the overarching principles by which every employee working in the Group is expected to behave. It also states that Tyman expects its customers, suppliers and other stakeholders to operate to an equivalent standard. The Code of Conduct is embedded in each Division's employee handbook which ensures every new recruit is fully aware of the standards expected of them.

It is this duty of care in the workplace that supports the sustainability of the Group's business, by attracting people of the right quality, skills and behaviours that match with the standards set by the Tyman Code of Conduct. It is in developing each individual by recognising the contribution they make through ongoing development and appropriate reward that helps Tyman continue its progress in delivering operational excellence.

Each of the Group's Divisions operates in accordance with its own policies and procedures, which are consistent with the principles and values set out in this Code.

## Employees

The Board recognises delivery of the Group strategy is dependent on providing operational efficiencies, through process scrutiny, delivered by talented and skilled employees. Please see page 14 for more information on this aspect of Group strategy.

The loss of key personnel is a recognised risk for the Group please see page 44, and to mitigate this, each Division has policies on recruitment processes, talent development and succession plans, supported by adequately funded training as well as long term management incentives and retention initiatives.

Each Division seeks to develop every member of its workforce by providing them with the right level of ongoing training, whether this is product knowledge, manufacturing process development or policy and management training.

During the year the Group continued its investment in a wide variety of training programmes, building on the progress made in prior years. This investment goes to support the development of individuals and the embedding of a health and safety culture.

## AmesburyTruth

In 2018 AmesburyTruth continued progress with the OGSM 4.3 training, with the launch of the Skillssoft online training platform. Each month, employees are responsible for completing one online training course on a variety of key areas, including compliance, technical and leadership skills. The monthly completion goal of 97 per cent was successfully achieved, which demonstrates the accessibility of this easy to use training tool. This training programme will continue into 2019.

One way of encouraging young people into the engineering manufacturing sector is through apprenticeship schemes. The AmesburyTruth Owatonna plant this year conducted a summer student programme, inviting 28 students (13 of whom were returning from the 2017 apprentice scheme) to work within a number of different production departments. The programme commenced with one week of classroom training on shop orders, control plans and quality metrics. At the end of this focused 10-week programme a variety of bonuses were paid for completion of this course to the student with a matched bonus also paid to the student's school.

## Sustainability continued

### People continued

#### Employees continued

##### SchlegelGiesse

The SchlegelGiesse division operates in 15 countries, across 21 sites, and the training requirements of employees working across such a variety of locations and different operations are equally diverse. Where appropriate the focus remained on NVQ (or local equivalent) training in a number of product and production related areas, including forklift operations, first aid and TDI spill kit management. Locally based training continued across all locations in areas such as products, processes and systems. SchlegelGiesse continued its association with the University of Bologna Engineering Department and hosted students to demonstrate possible career paths with the business.

SchlegelGiesse recognises that English is an important business tool in such a geographically diverse organisation and provides English classes to assist with better understanding across the Division. In 2018, 41 employees passed externally accredited English exams.

##### ERA

ERA supports ongoing training across all areas of its business and regularly reviews the talent within the Division to help management assess where focused training is required in order to close the talent gap and develop internal resource, before seeking to recruit externally. Where considered appropriate, apprenticeships are supported at a number of levels, to provide focused development, including at degree level, particularly in management and customer services.

During the year the Division was assessed by Investors in People, following which ERA was awarded an IIP Gold accreditation until March 2021; please see case study opposite for further details. This is a great result and demonstrates what progress can be achieved with focus on key areas and the commitment made by everyone in ERA to the development of the Division.

##### Employee engagement

All locations carry out communications programmes which cover training and business updates, through a number of different channels, such as team briefings, covering topics such as business performance, people updates and other Group and locally relevant information. The aim of these communications programmes is to provide information, take employee opinions and to encourage engagement generally. A small example of the diverse range of engagement carried out across the Divisions includes staff meetings with elected employee representatives, Brunch and Learn sessions and quarterly or seasonal employee newsletters, as well as individual product training, toolbox talks and notice boards, populated when necessary to provide news and information.

In response to changes in the Code and as part of a wider employee communications programme Pamela Bingham, Non-executive Director, has been appointed the Director responsible for employee engagement, in order to bring the employee voice into the Boardroom. This programme will entail Pamela participating in informal meetings with all levels of staff selected from all aspects of the businesses. These meetings have been timed to coincide with scheduled Board site visits which take place during the year. Pamela will also receive the results of employee surveys and will engage with Divisional management to understand local employment conditions and challenges. These meetings will also provide the opportunity of giving insight into the work of the Board to a wider group of employees.



### GOLD FOR ERA

ERA has been accredited as an Investors in People company since 2014 and sought a reassessment following the move to i54.

The IIP report stated that since the last IIP assessment this Division has continued to evolve and consolidate under one shared brand. The assessment occurred following a major relocation of the Midlands operations and head office function to a new, purpose-built facility on the i54 Business Park in Wolverhampton providing an improved working environment, opportunities for greater efficiency and room for further growth.

The assessment concluded that ERA surpassed the minimum requirements of the Standard and has demonstrated that the Division is operating at an advanced level of organisational performance in seven out of the nine key indicators and IIP was therefore delighted to confirm that ERA was awarded Investors in People Gold accreditation until March 2021.

The report acknowledged the assessment had revealed an organisation that has continued to evolve and mature the organisational strategies required to fulfil the long term vision of a cohesive and integrated group of companies aiming for sustained high performance. The pace and rigour of this development since the first assessment is remarkable and stands as testament to the commitment of senior leaders to engage with everyone.

The output from this work will ensure the Board has a better understanding of employment conditions and employee sentiment throughout the Group and which will inform the Board when making decisions affecting employee interests.

##### Diversity

Tyman's employment policies and practices require that an individual's skills, experience and talent are the sole determinants in recruitment and career development rather than age, beliefs, disability, ethnic origin, gender, marital status, religion and sexual orientation. The Group is committed to supporting employment policies and practices that make provision for equal opportunities and non-discrimination, and that comply with relevant local legislation and accepted employment practice codes.

All areas of diversity are discussed regularly at Board level and discussed with the Divisional management during succession planning sessions and at site presentations.

As at 31 December 2018 the Board had female representation of 33.0 per cent. Female representation at senior management level was 24.0 per cent (2017: 21.0 per cent). Across the global workforce there was 41.0 per cent female representation, unchanged from the prior year (2017: 41.0 per cent). Female representation on the Board will increase to 50 per cent when Jo Hallas, CEO designate, steps up to the Board on Louis Eperjesi's retirement on 1 April 2019.

The overall stability in the employee base is demonstrated by there being only a small change in the percentage of females in the senior management teams and across the Group as a whole. Making inroads into the gender diversity mix of the general workforce reflects the challenges faced by the Group operating in an engineering manufacturing environment. The recruitment of a female CEO, with an engineering background, will help ensure the gender diversity of the Group remains a topic of focus for the year ahead.

#### Gender pay gap reporting

Under UK legislation, all organisations with 250 employees or more are required to publish data which demonstrates the pay differential between male and female employees.

In the UK, Tyman has two operational divisions, ERA and SchlegelGiesse, and a small Group head office. In 2018 none of these entities were required to present GPG data as these payrolls did not exceed 250 employees. However, Tyman published consolidated GPG data which may be found at the Group's website. The consolidation work in ERA that continued during 2018 has resulted in a payroll that now exceeds this threshold and as a result ERA has published the GPG data for the 2018 snapshot date. The full report may be found on the ERA website at [erahomesecurity.com](http://erahomesecurity.com).

This role will be responsible for building on the progress made to date and for developing a Group-wide approach to safety management. The appointment has provided management the opportunity of taking a more collaborative and forward-looking approach to the environment and sustainability activities that are already in place with a targeted approach to future programmes.

Both the SchlegelGiesse and ERA Divisions made positive improvements in their safety performances with a reduction in LTIs of 31 per cent and 43 per cent respectively. Despite the efforts made by management, AmesburyTruth experienced a modest rise of 7 per cent, with indications showing further work is required to develop and embed an improved health and safety culture across all sites.

During 2018 AmesburyTruth carried out an extensive programme of health and safety activities, alongside the regular training activities. A safety engagement survey covering all of North America was conducted, with 2,744 responses equalling an 88 per cent participation rate. The results of the survey showed that, whilst the majority of employees were engaged with the importance of safety in the workplace, there remained some resistance to change. Part of this survey was to establish from employees what they considered to be the most effective activities in targeting improvements in safety, the results of which have assisted management in a more focused approach to this area.

One successful initiative implemented at all sites during the year, the STAR programme, "Stop, Talk, Acknowledge, no Risk" resulted in an additional 10,000 hours of safety training in 2018. US Compliance, a third party safety resource, conducted behavioural-based safety audits in the centres of excellence, following which each site received a report and development plan, with action plans being regularly reviewed with the senior leadership team.

The completion rate of 95 per cent of the planned safety activities and the established four-person panel reviews, which completed and provided feedback on 65 reviews, continue to keep safety a key area of activity in every location.

## HEALTH AND SAFETY



The Group is pleased to report an overall improvement in the health and safety statistics for 2018, with a 22 per cent reduction in all accidents, including a reduction in severity rate of the accidents that have occurred by 35 per cent.

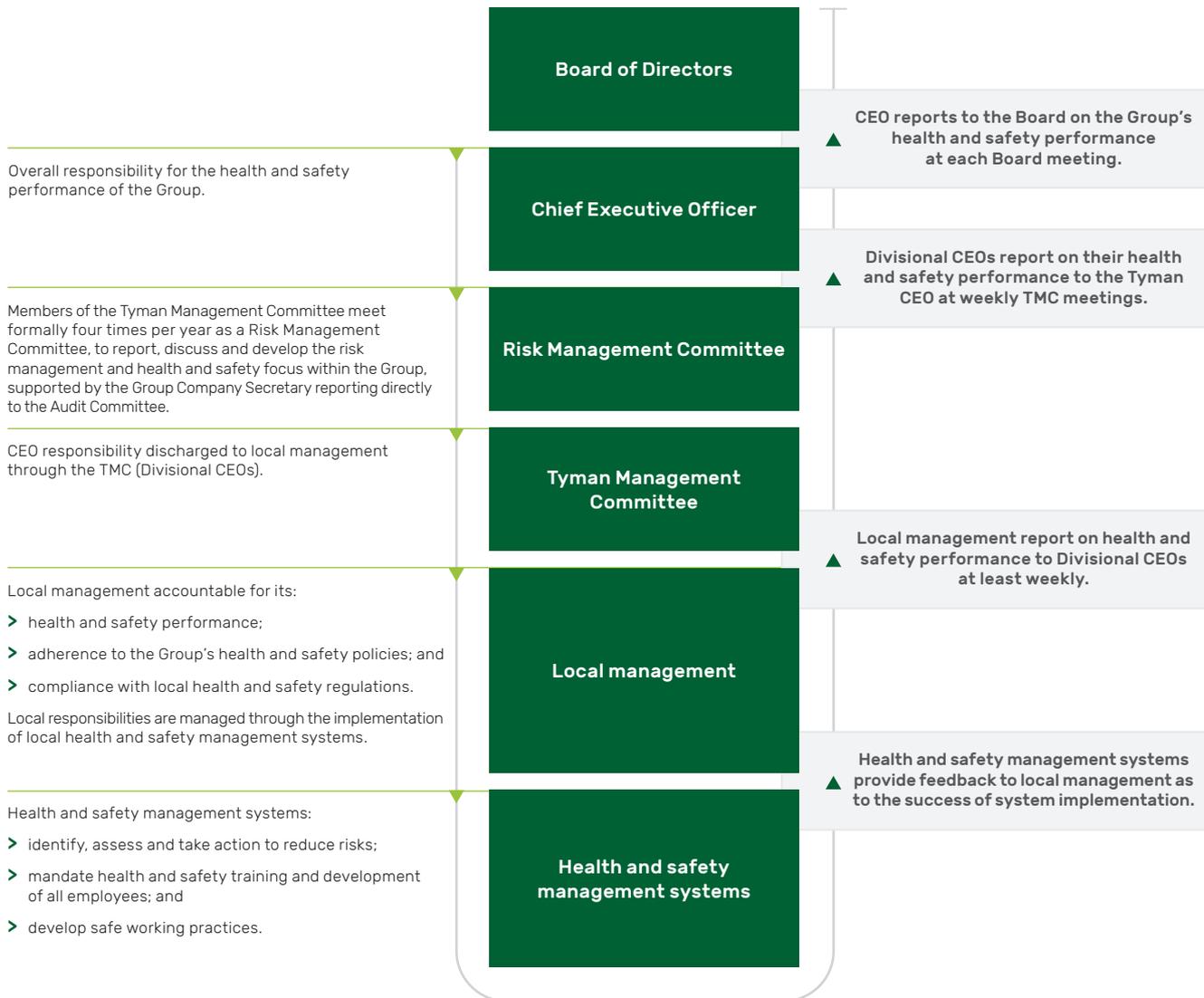
This was a key area of focus for the Board and all levels of management during the year, which has resulted in fewer people harming themselves whilst on Group premises. Progress has been made through a combination of measures, supported by a dedicated health and safety manager in every site, ensuring sound systems and practices are well established and understood by everyone in all locations.

The Board recognised that, despite this improvement, Tyman's performance in this area remained below that of its peers and has appointed its first Director of Health, Safety and Sustainability, joining the Group in 2019.



Sustainability continued

Health and safety management system



SchlegelGiesse is in its second year of a three-year programme, "Creating a Safer Working Environment". This programme has been sponsored by senior management from the outset to ensure full participation.

This top down communications programme has successfully established a health and safety culture across this diverse workforce. The appointment of a Divisional Health and Safety Manager in 2018, supported by dedicated health and safety managers at each site, has resulted in a 31 per cent annual reduction in LTIs.

Some of the activities carried out during the year include the completion of site audits for all facilities, following which practical action plans were developed. Improved engagement included safety committee meetings, safety workshops, toolbox talks and team briefings.

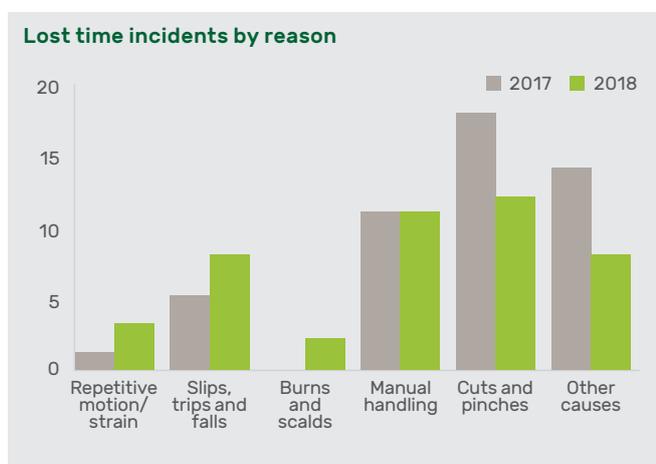
During the year SchlegelGiesse conducted a staff survey across all locations on health and safety. The results showed a very positive result, with a high level of response and feedback.

ERA has also demonstrated that continued focus delivers results, with a 43 per cent reduction in LTIs for the year. During the year alongside regular informal training such as individual product training and tool box talks there were focused training programmes which covered topics such as Manual Handling, Manager Safety Expectations, and Understanding Hazard and Risk. Installer training included Asbestos and Lead at Work and Working at Height. The Health and Safety manual was refreshed and provided to every employee.

Both the ERA and SchlegelGiesse Divisions have implemented the use of a SHE software platform, for improved collation, understanding and reporting of safety performance across these Divisions.

One of the Group's key performance indicators is the health and safety performance statistics, the results of which may be seen on page 21. This measurement is used to provide focus on one of the Group's key performance measures, process scrutiny. The target is to reduce the overall lost time injuries year on year. The positive result for 2018 demonstrates that continued focus on key areas provides the desired outcomes. The increase in the number of near misses reported in the year is considered to be a positive outcome, reflecting greater engagement on the part of employees to identify potential hazards and unsafe acts before they cause injury or harm.

The Group is committed to conducting its business with integrity. High standards of professional and ethical conduct are expected throughout all operations with employees acting in compliance with the laws and regulations in jurisdictions in which the Group operates. Employees and persons acting on behalf of the Group are expected to implement the Group's policies and procedures such that the legitimate interests of the Group are advanced, having regard to the Group's values and standards. All employees are expected to engage in ethical conduct.



## ETHICS AND COMPLIANCE



As part of the work of the Risk Management Committee, Group policies are regularly reviewed to ensure these remain appropriate and effective. These policies include anti-bribery and anti-corruption, Supplier Code of Conduct and the prevention of the facilitation of tax evasion.

Group policies are clearly communicated to all staff and training programmes in these areas, in some cases provided by external providers, continued during the year with key members of staff from each Division completing relevant modules. During the year each Division has welcomed new businesses to their organisations through acquisition. These acquisitions bring new people into the Group, and training has been carried out in key risk areas to ensure a full and immediate understanding of Group policies.

Internal reviews of systems and internal audits provide assurance there is no significant risk in these areas. The Risk Management Committee manages the programme of work which supports the implementation of and compliance with these policies, reporting regularly to the Audit Committee on these issues.

### Product integrity

The Group seeks to be honest and fair in its relationships with customers and suppliers and to source and supply goods and services in an efficient manner, in accordance with specifications, without compromising quality and performance. Each Division is responsible for negotiating the terms and conditions of trade with suppliers. In doing so each Division is expected to maintain high standards of integrity in all business dealings with suppliers and is encouraged to use the services of those suppliers whose values and standards are equivalent to Tyman's quality management standards. Operating units are encouraged to gain and maintain accreditation to specific standards required by the markets they serve, with quality and production accreditations gained throughout the operations.

ISO 9001 certification ensures operations adopt and maintain efficient quality management systems that save time and cost, whilst improving efficiency and delivering high quality products to their customers.

## Sustainability continued

### Ethics and compliance continued

#### Stakeholders

Engagement with all stakeholders is important and ensures there is a sound basis upon which the business is conducted. Each Division has a relationship management programme with its customers and suppliers which provides the appropriate forum for open and transparent discussions.

#### Modern slavery

The Group is committed to respecting human rights across all its operations and aims to work at the highest international standards as well as complying with local legislation. The Group fully supports the Modern Slavery Act 2015 and seeks to ensure the Group's activities and activities within its supply chain do not infringe or encourage abuses of any human rights.

Each of the Divisions manufactures products, primarily in North America and Western Europe, distributing and selling products to markets globally. A proportion of the Group's products are sourced from third party suppliers, primarily in China. The acquisition of Zoo has also brought suppliers from India and Taiwan into the Group's supplier base. A formal audit programme of the Zoo supplier base will be completed in 2019, in conjunction with the ongoing ERA supplier improvement programme.

During the year each of the Divisions has carried out training for all relevant staff, and a programme of supplier audits, including site visits, has been completed.

A revised Modern Slavery Statement for the financial year ended 31 December 2018 may be found at the Group's website.

Each Division is responsible for the ethical sourcing of all products used in the production of finished goods. As part of the work of the sourcing teams, there is a strong emphasis on ensuring the integrity of the supply chain, including verification of their suppliers. Supply chain teams seek to re-engineer products, reworking them to reduce the materials used, or to take advantage of improved production methods, using more environmentally sound materials.

#### Whistleblowing

The Group operates a confidential whistleblowing telephone helpline, which is available for all employees and any external person associated with providing goods or services to any of the Divisions. During the year 11 calls were received by the Group Company Secretary. Each call was fully investigated, by an appropriate person, independent of the claim being made. These claims were reported to the Board, which was kept apprised of all actions being taken and the final outcomes. Management is always grateful to receive these reports, which provide an additional insight into the operations at these locations and investigates them fully. Some of the reports were of a more serious nature, reflecting social trends in some regions. Each of these claims was fully resolved, with the necessary actions being taken.



The Tyman Group is spread across 18 countries, operating in a diverse range of locations, amidst varying cultures. It is therefore considered appropriate that each operating unit should participate in local initiatives and charitable causes which are either associated with the unit or to which an employee has a personal connection.

The Divisions do not have policies on the social and community activities in which their employees participate, on behalf of the Division, but provide support and encouragement for their participation. Employee participation in local charitable work fulfils some employees' need to make a contribution to their society and helps them make a connection with their local community.

#### AmesburyTruth

As in previous years AmesburyTruth has taken pride in being actively involved in local and national charitable initiatives through monetary donations as well as providing hours of community service. Big Brothers & Big Sisters, Make A Wish, United Way and Junior Achievement are all national programmes with which the Company has partnered financially and through volunteer hours. Several of the sites support employee fundraising campaigns with United Way which help raise additional funds outside of the Company.

AmesburyTruth participates financially and through volunteer involvement at the local Chambers of Commerce in Cannon Falls, Owatonna, Sioux Falls and Statesville. During the holiday season and winter months, AmesburyTruth runs collection campaigns at the sites collecting winter wear, clothing and supplies for the needy. Many employees are active with the local school districts and support sports teams. Each site has a Wellness, Activity, Volunteerism, Events (WAVE) Committee which plans, co-ordinates and interacts with the community on programmes and opportunities. This year AmesburyTruth has also launched a Division-wide WAVE Committee which focuses on events to link the AmesburyTruth brand with the communities in which these sites operate.

Monetary value of donations made during the 2018 year totalled US\$39,415.

## ERA

Each year ERA employees vote for their choice of charity to be supported by the business; for 2018 the chosen charity was the Midlands Air Ambulance. This charity is responsible for funding and operating three air ambulances serving the communities of six Midlands counties. This constitutes the largest air ambulance operating region in the UK although it receives no Government or National Lottery funding. Through a number of fundraising activities the employees raised over £10,000.



Students from the EY Foundation in the ERA Test Lab.

The EY Foundation is a charity that works with young people in the UK to realise their career ambitions. In October 2018 ERA hosted the EY Foundation "Our Futures" launch event at i54. This was a one week course for 12 young people, in the West Midlands area, to participate in a programme of events designed to engage and encourage them to make a transition into higher education so they can begin to achieve their career potential. As well as hosting this event ERA and Tyman plc provided funding and sponsorship for two of these places.

## SchlegelGiesse

Reflecting the international nature of the Division, the community activities in which each unit is involved are equally diverse, reflecting the interests of local employees. These activities range from staff in Sydney completing a 35km walk along the Sydney coastline in aid of Australian Mitochondrial Disease Foundation to the Sales Manager for Western Australia completing an annual charity motorbike ride, with all proceeds generated going to the local RSPC. In Aycliffe, the Customer Services Manager completed her first half marathon in aid of a small charity, You in Mind. This is a Leicester-based charity which supports people with mental health issues and focuses on social activities and excursions for its clients.

The Budrio head office supports local charities and this year has supported sports among the younger generations by sponsoring the Piccoli Amici 2009/2010 team in the youth sector of the Mezzolara Calcio football club. This sponsorship consolidated the Company's links with Budrio, home to Mezzolara, where some of the children of SchlegelGiesse employees' play.

## ENVIRONMENT



Each Division has policies in place for managing the environment, including compliance with local regulations. The policies cover areas such as the use of materials, including the principles of use, reuse and recycle. These policies support the ongoing energy efficiency programmes carried out during the year, as part of the continued drive for increasing efficient methods of production including the minimisation of waste materials.

The actions taken in compliance with these policies support the efficient use of natural resources for both operational efficiencies and the sound use of natural resources.

All Divisions have programmes for the ongoing maintenance of plants and investment in new processes, including the improvement of recycling facilities in all locations.

The Divisions actively promote the reduction of materials used in all aspects of production and understand that the continued sustainability of the business requires streamlined production methods, using less product and natural resource. The Board is regularly updated on new product development and production methods and these are key aspects of all Board site visits.

Each Division seeks to reduce emissions wherever possible and to review and improve the recycling facilities in all locations. As part of the footprint rationalisation the move to purpose-built facilities has provided a number of opportunities to operate more in energy efficient premises and to upgrade and improve production processes.

All facilities undertake energy efficiency programmes during the year, as part of a continual drive for increasing efficient methods of production including the minimisation of waste materials.

As part of the footprint rationalisation, the move to energy efficient buildings is part of the Group's drive for operational excellence in all areas of its operations, for the benefit of everyone working in these premises and for production and energy efficiencies.

## Sustainability continued

### Environment continued

All of the Divisions have continued work on their environmental improvement programmes focusing on the reduction and improved efficient use of energy and water; a small example of these activities include:

#### AmesburyTruth

- Water reduction initiative in Owatonna, with the installation of a new auto mould machine.
- Installation of a temperature sensor to lock out the mechanical cooling system in Owatonna.
- Participation in a peak energy saving programme to reduce electrical loads during peak summer demands in Owatonna.
- Commenced an LED lighting project in a number of plants not already using energy efficient lighting.
- Switched to high efficiency drives and motors in a number of extruder lines.
- Updated controls on 17 dryers. The new controls cycle three times to load material, if no material is available they shut down.
- Switched to high efficiency filters with a 50 per cent longer life span in Cannon Falls.
- Replaced propane forklifts with electrical powered forklifts in two sites.
- Installed scrap material collection system to locally capture dust and scrap in order to recycle material in Statesville.

#### SchlegelGiesse

- Installation of LED lights in a number of UK sites, including motion sensors to optimise electricity usage.
- Diesel forklift truck in the Aycliffe warehouse replaced with a newer, more environmentally friendly model.
- Vision System for Coat and Slit line completed.
- Loom redesign planned for 2019: ongoing testing and scoping out specification is currently underway.
- Installation of new oven insulation and time-controlled heaters, allowing full shutdown during the weekends.
- Office refurbishment in Henlow, including new windows for improved insulation and energy usage.
- Installation of insulation and the replacement of windows incorporating Tyman components to increase thermal insulation in Budrio.



Aluminium recycling in Owatonna, USA.

### ERA

The new building in i54 has provided an opportunity to introduce a range of environmental and sustainable features as well as improving policies on recycling, well-being and consideration for social responsibilities in parking and travelling.

ERA's 2019 stated target is to reduce waste by 10 per cent for 2019. As part of this objective a number of environmental awareness training courses have been run at this location.

### Greenhouse gas emissions

The Group applies the GHG Protocol as the basis for reporting its emissions. Emissions reporting includes the facilities over which the Group has operational control. This is the internationally recognised standard for corporate carbon reporting. Scope 1 and Scope 2 emissions data has been collected from all material locations operated or controlled by the Group. Emission sources falling outside the Group's operational control and other Scope 3 emissions have not been collated or reported. Emissions data for businesses acquired during the year has only been included from the date of acquisition. The Group has used Revenue as the denominator for its intensity ratio as this is the most appropriate and relevant factor associated with the Group's activities and should provide an appropriate basis on which to compare trends over time. Greenhouse gas emissions generated by the Group's operations present considerable risks to both the Group and the environment, including:

- the agricultural impact of the Group's dependence on extraction and use of raw materials;
- the potential disruption of the Group's operations and those of its customers and suppliers; and
- changes in the nature or distribution of consumer demand.

These risks can be mitigated through the Group's conscious efforts to minimise its release of GHG through environmental initiatives. The majority of greenhouse gas emissions used arise from the manufacturing processes throughout the Group, together with the running of the Group and Divisional offices and an element of air travel. Where possible alternative technologies are used to minimise the use of travel between sites, with video conference calls used extensively by colleagues to communicate outside of scheduled meeting times.

GHG emissions, measured as the quantity of CO<sub>2</sub>e generated by the Group's activities, for the year ended 31 December 2018 are presented in the table below.

#### GHG emissions

Scope	GHG emissions tonnes CO <sub>2</sub> e		
	2018 <sup>4</sup>	2017	2016
Scope 1 <sup>1</sup>	<b>13,567</b>	11,711	11,157
Scope 2 <sup>2</sup>	<b>41,765</b>	34,931	33,598
Total direct and indirect emissions	<b>55,332</b>	46,642	44,755
Intensity ratio: tonnes <sup>3</sup>	<b>93.54</b>	89.23	97.79

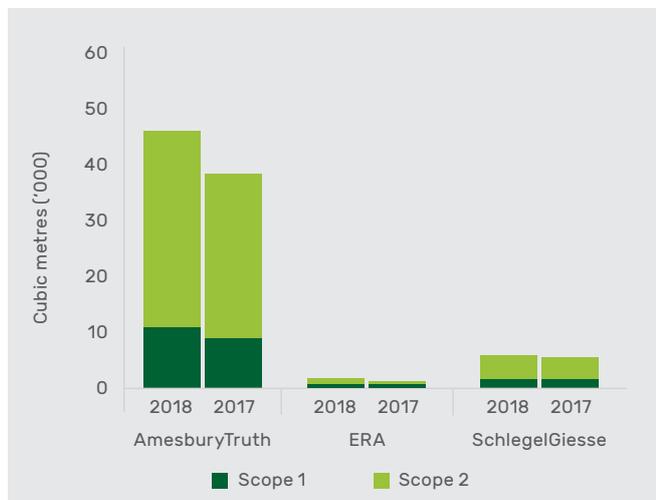
1 Emissions that arise directly from our operations and comprise the combustion of fuels and process emissions.

2 Indirect emissions that arise from our use of electricity.

3 CO<sub>2</sub>e per £'million of Revenue.

4 Data for acquisitions is included for the post-acquisition period.

## Total CO<sub>2</sub>e by Division



## Total CO<sub>2</sub>e by scope



## Total water usage by Division



During the year the Group made four acquisitions which have resulted in increased production and an associated increase in the production of GHG emissions. Although the performance at the end of 2018 appears to show an adverse performance compared to 2017, this is almost entirely due to the 2018 acquisitions, particularly the Ashland manufacturing business which has a much higher intensity ratio than our average. After adjusting for the effects of exchange rates on the Group Revenue, the intensity ratio for the base business has improved by almost 2 per cent compared to 2017, helped by the Group's footprint rationalisation and the continued investment in new, built for purpose manufacturing and warehouse facilities.

### Excluding 2018 Acquisitions

Scope	GHG emissions tonnes CO <sub>2</sub> e		
	2018	2017	2016
Scope 1 <sup>1</sup>	<b>12,009</b>	11,711	11,157
Scope 2 <sup>2</sup>	<b>35,667</b>	34,931	33,598
Total direct and indirect emissions	<b>47,676</b>	46,642	44,755
Intensity ratio: tonnes <sup>3</sup>	<b>90.22</b>	89.23	97.79

1 Emissions that arise directly from our operations and comprise the combustion of fuels and process emissions.

2 Indirect emissions that arise from our use of electricity.

3 Tonnes of CO<sub>2</sub>e per £million of revenue.

### Water usage

The Group started monitoring water usage in 2015, as an acknowledgement of the expansion of the Group and its use of natural resources and the wish to ensure the efficient use of this resource.

This increased local production in AmesburyTruth and the acquisition of Ashland manufacturing facilities has led to an increase in consumption. For SchlegelGiesse, consumption increased over the year due to a higher frequency of paint tanks cleaning in order to improve finished product quality as well as the impact of the Reguitti acquisition.

	Water consumption		
	2018 <sup>2,3</sup>	2017	2016
Cubic metres	<b>104,207</b>	71,402	54,998
Intensity ratio <sup>1</sup>	<b>176</b>	137	120

1 Cubic metres water per £million of revenue.

2 Data for acquisitions is included for the post-acquisition period.

3 Data for disposals is included to the date of disposal.

## Board of Directors



**Martin Towers**  
Non-executive Chairman

### Committee membership



Martin Towers was appointed to the Board as a Non-executive Director in December 2009. He was Chairman of the Audit Committee from 2009 until May 2017, when he was appointed Chairman of the Board and Chairman of the Nominations Committee.

### Skills and qualifications

Martin is a Fellow of the ICAEW and holds a degree in economics and accountancy from Leeds University. He has extensive financial and general management experience gained in manufacturing companies operating in markets with significant overseas interests.

### Relevant past experience

After qualifying as a chartered accountant with PwC Martin served as group finance director of McCarthy & Stone plc, The Spring Ram Corporation plc, Allied Textile Companies plc and Kelda Group plc. He was chief executive of Spice plc from June 2009 until its sale to Cinven in December 2010. He is a former non-executive director of Homestyle Group plc, KCOM Group plc and RPC Group plc.

### External appointments

Non-executive chairman of Restore plc and of Norcross plc.



**Louis Eperjesi**  
Chief Executive Officer

### Committee membership

Risk Management Committee. Louis Eperjesi attends the Audit, Nominations and Remuneration Committees at the invitation of the Committee Chairs.

As announced on 20 November 2018, Louis will retire from his role as Chief Executive Officer and will step down from the Board on 1 April 2019. As a consequence, he will not be standing for re-election at the 2019 AGM.

### Skills and qualifications

Louis has extensive knowledge and experience of the manufacture and supply of building products in international markets. He has a strong commercial, marketing and product background, through which he has successfully driven strategy development, change management programmes and M&A activity.

### Relevant past experience

Prior to joining Tyman plc, Louis was divisional managing director of Kingspan Panels Ltd and a main board executive director. He started his career with Caradon plc and Redland plc. Since 1999 Louis has held leadership roles in Lafarge SA, Baxi Group plc and Kingspan Group plc.

### External appointments

Non-executive director of Ibstock plc and Trustee of The Cheltenham Trust.



**Jo Hallas**  
Chief Executive Officer Designate

### Committee membership

Risk Management Committee. Jo Hallas will attend the Audit, Nominations and Remuneration Committees at the invitation of the Committee Chairs.

As announced on 20 November 2018, Jo joined Tyman on 1 March, and will be appointed as a Director and Chief Executive Officer with effect from 1 April 2019. Jo will stand for election at the 2019 AGM.

### Skills and qualifications

Jo has an engineering degree from the University of Cambridge and an MBA from INSEAD. Jo has extensive international management experience focused on business transformation through organic and acquisitive growth in the global industrial and consumer sectors, achieved through establishing and leading strategic clarity and execution.

### Relevant past experience

Jo started her career at Procter and Gamble, where she served in a number of management roles in Germany, the USA and Asia before moving to the Bosch Group working in both the UK and Germany. Jo moved to Invensys Heating Controls as general manager before joining Spectris plc in 2014 as business group director, with responsibility for in-line instrumentation and industrial controls, leaving to join Tyman plc in 2019.

### External appointments

Non-executive director at Norcross plc.



**James Brotherton**  
Chief Financial Officer

### Committee membership

Risk Management Committee. James Brotherton attends the Audit, Nominations and Remuneration Committees at the invitation of the Committee Chairs.

James Brotherton joined Tyman in 2004 and was appointed to the Board in 2010 as Chief Financial Officer. He is responsible for the Group financial statements and reporting, treasury and taxation. He is also responsible for M&A, corporate development and Group strategy.

### Skills and qualifications

Graduate of Loughborough University and an ICAEW chartered accountant. James has extensive experience in corporate finance and transactions, M&A and integrations, equity and debt capital markets, investor relations and business development.

### Relevant past experience

Qualified as a Chartered accountant with EY and subsequently worked for HSBC and Citigroup in investment banking specialising in M&A, restructurings and capital raisings.

### External appointments

Director of the Quoted Companies Alliance. He sits as the QCA's alternate member on the Takeover Panel.



**Mark Rollins**  
Non-executive Director and  
Senior Independent Director

#### Committee membership



Mark Rollins was appointed to the Board in April 2015 as a Non-executive Director and Chairman of the Remuneration Committee. He was appointed Senior Independent Director in November 2016.

#### Skills and qualifications

Mark is a Chartered Accountant and holds a degree in civil and structural engineering from the University of Bradford. He has considerable financial, commercial and general management experience of mainly listed engineering/manufacturing companies both as an executive and non-executive director.

#### Relevant past experience

Mark is a former chief executive officer and finance director of Senior plc, where he played an instrumental role in transforming the business. Prior to joining Senior plc in 1998, he held various financial roles at Morgan Advanced Materials plc. He is a former non-executive director of WSP Group and of Vitec Group plc.

#### External appointments

Currently executive chairman of Carclo plc and of Sigma Precision Components UK Limited, an aerospace business owned by private equity.



**Helen Clatworthy**  
Non-executive Director

#### Committee membership



Helen Clatworthy was appointed to the Board in January 2017 as a Non-executive Director. She was appointed Chair of the Audit Committee in May 2017.

#### Skills and qualifications

Helen is a Fellow of CIMA and has significant operational and corporate experience particularly in cost management, acquisition integration, information technology and change management.

#### Relevant past experience

Helen spent most of her career with Imperial Brands plc in a number of senior roles including finance director Western Europe, group supply chain director and business transformation director. She led integration activities for Imperial's enlarged US business and a group-wide strategic cost optimisation programme. Helen was a member of Imperial's executive committee from 2010 until 2016.

#### External appointments

Chair of the Imperial Tobacco Pension Fund and a trustee and treasurer of Disability Snowsports UK.



**Pamela Bingham**  
Non-executive Director

#### Committee membership



Pamela Bingham was appointed to the Board in January 2018 as a Non-executive Director. She has been appointed the Non-executive Director responsible for employee engagement across the Group.

#### Skills and qualifications

Pamela has a law degree from the University of Edinburgh and holds an MBA from Warwick Business School. She practised as a solicitor before moving into general management. Pamela has a proven track record as a commercial leader, focusing on strategic direction and leading cross-cultural teams to deliver growth and business expansion. She has worked in the engineering, mining, renewable energy and oil and gas sectors.

#### Relevant past experience

Previous positions include group business development director and then divisional managing director of Rotork plc, having previously worked with David Brown Group Ltd, CSE-Servelec Ltd, and English Welsh and Scottish Railway Ltd.

#### External appointments

Managing director of Weir Minerals Europe.



**Carolyn Gibson**  
Group Company Secretary

#### Committee membership

Secretary to the Board and Committees and the Tyman Risk Management Committee.

Carolyn Gibson was appointed as Group Company Secretary in September 2016.

#### Skills and qualifications

Carolyn is responsible for the co-ordination and development of Tyman's corporate governance, policy management and compliance processes. She has gained extensive board support, corporate transaction and governance experience within FTSE 100 and international blue-chip companies. She is a Fellow of the Institute of Chartered Secretaries and Administrators with an MBA from Kingston Business School.

#### Relevant past experience

Senior company secretarial positions with primarily large listed entities, including Thomas Cook Group plc, ICAP plc, esure Group plc and International Power plc.

#### Committee membership

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Chair of Committee

## Tyman Management Committee

The Tyman Management Committee consists of the Chief Executive Officer, Chief Financial Officer and Group Financial Controller of Tyman plc together with the senior Executives from the three operating Divisions. This Committee meets on a weekly basis to discuss operational and commercial matters affecting each of the businesses. Feedback from these meetings is shared with the Board as appropriate.

The Tyman Risk Management Committee comprises the members of the Tyman Management Committee and meets quarterly, either on a Divisional or Group basis to discuss all operational matters, with a risk emphasis. These meetings are also attended by other members of senior management to provide operational updates and by external advisers to provide the focus for discussion topics.



**Louis Eperjesi**  
Chief Executive Officer

Louis Eperjesi joined Tyman in 2010 as Chief Executive Officer. He was previously a director of Kingspan plc, the international building products business, where he was divisional managing director of Kingspan Insulated Panels, the group's largest division, Baxi Group plc, Lafarge, Redland plc and Caradon plc.



**James Brotherton**  
Chief Financial Officer

James Brotherton joined Tyman as Head of Corporate Development in 2004. He was previously a director in the investment banking division of Citigroup, having also worked for HSBC and Ernst & Young. He is a Chartered Accountant.



**Kevin O'Connell**  
Group Financial Controller and Treasurer

Kevin O'Connell joined Tyman as Group Financial Controller in February 2008. Prior to this, he worked at Datamonitor plc from July 2005 as group financial controller and company secretary. He has many years' experience working in a plc head office environment. He is a Chartered Accountant, having trained with PwC.



**Jeff Graby**  
President and Chief Executive Officer

Jeff Graby was appointed President and Chief Executive Officer of AmesburyTruth in January 2014, following the acquisition and integration of Truth with Amesbury. He joined Truth in April 2012. Before joining Truth, he was president of FES Systems and president/COO of RAM Industries LLC.



**Darren Waters**  
Chief Executive Officer

Darren Waters joined ERA in March 2012. He has a strong background in the building products sector. Having graduated in chemistry from Nottingham University, he spent the early part of his career with Mobil Oil Corporation before moving on to senior management positions with RMC Group and Tarmac. As Chief Executive Officer of ERA, he is responsible for developing the Group's brands within the UK and Irish markets.



**Peter Santo**  
Chief Executive Officer

Peter Santo joined the Group in January 2012 as Chief Executive Officer of SchlegelGiesse. Previous roles include senior management positions with Pilkington plc, BP Chemicals, Sentrachem Ltd (South Africa) and Kingspan Group. Peter has a degree in chemical engineering.



**Jeff Johnson**  
Vice President and Chief Financial Officer

Jeff Johnson was appointed Chief Financial Officer of AmesburyTruth in January 2015. He was previously treasurer and vice president of investor relations for NYSE-traded Deluxe Corp. He began his career at KPMG. He is a Certified Public Accountant and earned his MBA from London Business School.



**Mark Turner**  
Chief Financial Officer

Mark Turner joined ERA in 2014. A graduate of the University of Leicester and a qualified Chartered Accountant, he has experience in finance director and general management roles in subsidiaries of Caparo and Associated British Foods. He was previously finance director at SPS Technologies Ltd in Leicester.



**Mark Horobin**  
Chief Financial Officer

Mark Horobin joined SchlegelGiesse in April 2017. He was previously vice president finance for Total Safety, a leading global provider of safety services and equipment based in Dubai. Prior to that he held several finance director positions for SPX. He is a Chartered Accountant, having trained with KPMG.

# Board and governance arrangements in 2018



**Martin Towers**  
Non-executive Chairman

“  
Progress comes through constant attention on key areas.”

## Board gender breakdown

As at 1 April 2019



## DEAR SHAREHOLDER

On behalf of the Board I am pleased to report on the work of the Board and governance arrangements during the year.

Progress comes through constant attention on key areas with review and feedback to provide the necessary assessment of the progress being made and where further work is required. The governance arrangements of an organisation are no exception and should be an iterative process, always seeking to achieve best practice.

The results of the Board evaluation show the Board is pleased with the progress being made in all areas of governance, risk management and internal controls generally. The Group-based discussions including with the Divisional management have

provided the Board with the opportunity to discuss strategy and succession planning in detail and to understand the challenges faced by each of the businesses. These discussion sessions are also useful in providing the Board direct contact with the management running these businesses which gives the Board a broader understanding of these Divisions.

A part of the Board's role in embedding sound practices and processes into the Group has been the continued focus on health and safety. It is pleasing to see the hard work put in by everyone has resulted in a marked improvement this year with a reduction of accidents by 22 per cent. Despite this progress, the Board is aware that Tyman's performance in this area remains below that of its peers. The Board therefore supports the decision to appoint a Group Health, Safety and Sustainability Director, to provide a Group-wide emphasis in this vital area of sound business management and employee engagement.

The succession planning work of the Nominations Committee continued as it conducted a search for a new CEO, to step up to the Board upon Louis Eperjesi's retirement. The candidate brief was clear in that the individual must have extensive international operational experience. It was also essential the chosen individual must have the right personal attributes, in order to further develop Tyman's culture of "doing the right thing" in striving for best practice and operational excellence. I am therefore delighted to welcome Jo Hallas to the Board and look forward to supporting her in the coming months.

The Board remains committed to developing operational excellence throughout the Group, which includes the governance arrangements for the Board and the Group as a whole. This focus supports the Board's objective of the Group being a sound investment for Shareholders, a good employer and a good corporate citizen. This work will continue to be a focus for the Board for the year ahead.

More details on the membership of the Board and the Board Committees and the work carried out during the year may be found in the following pages. This Governance and Directors' report, together with the following Audit Committee report, Nominations Committee report and Remuneration report, sets out how the governance arrangements for the Group have been implemented during the year and I am pleased to confirm that Tyman has complied with the Code in all respects.

This year's AGM will be held at the London offices of Pinsent Masons, and I invite all shareholders to join the Board and me where we will be delighted to answers any questions you have.

Thank you for your continued support.

**Martin Towers**  
Non-executive Chairman

5 March 2019

## Statement of governance

### The Board

#### UK Corporate Governance Code

As a company listed on the London Stock Exchange, Tyman is required to explain how it has applied the main principles of the Code and the Code's provisions throughout the financial year.

For the year ended 31 December 2018, and up to the date of this report, the Company has applied the main principles of the Code and complied with its detailed provisions throughout the period under review. This Governance and Directors' report, the Strategic report, the Sustainability report and the Remuneration report describes how the Company has applied the principles contained in the Code, and the statements required by sections 7.1 and 7.2 of the Disclosure Guidance and Transparency Rules.

Tyman welcomed the publication by the FRC of its new UK Corporate Governance Code in July 2018 and its focus on the themes of corporate and Board culture, stakeholder engagement and sustainability all of which are important factors for Tyman.

A copy of the Code may be found on the FRC's website at [www.frc.org.uk](http://www.frc.org.uk).

#### Role of the Board

The Board is responsible for the overall leadership, strategy, development and control of the Group in order to achieve its strategic objectives of continued earnings growth and to enhance shareholder value. The Board also ensures that there is an effective system of controls to safeguard the Company's assets and to enable risks to be properly assessed and managed.

The Board is the body responsible for making decisions on all significant matters, as detailed in the schedule of matters reserved for the Board, and is accountable to shareholders for creating the sustainable long term success of the business.

The areas for specific consideration by the Board include: setting the Group's values and standards; approval of the Group's strategic aims and objectives; ensuring maintenance of a sound system of internal control and risk management, including approval of the Group's risk appetite statements; responsibility for the review of the Group's corporate governance arrangements; and ensuring the Group has the necessary financial and human resources, processes and controls to deliver the long term strategy of the Group.

Matters not specifically reserved for the Board, including the day-to-day management of the Group, are delegated to the Executive Directors.

### Governance framework

A schedule of Board meeting dates is set a year in advance, to ensure the Board meets at regular intervals throughout the year, at times that align with the operations of the different business Divisions and the financial and reporting requirements of the Group as a whole.

To ensure relevant topics are given appropriate consideration the Board has delegated certain roles to three principal Committees: Audit, Remuneration and Nominations. Membership of these Committees is made up of the Non-executive Directors. The Chairman is also a member of the Nominations and Remuneration Committees.

The work of these Committees in 2018 is explained in more detail on pages 66 to 93. Each of the Committees' terms of reference may be found at the Group's website.

All Directors have access to the services of the Group Company Secretary who is responsible for ensuring the Group's governance framework is observed and the Board and Committees receive the necessary support in fulfilling their responsibilities.

If thought appropriate, Directors may obtain independent professional advice in respect of their responsibilities, at the Company's expense. No such advice was sought in the year.

### Board composition

The names and biographical details of all the current Directors, as at the date of this report, are set out on pages 56 and 57 and at the Group's website.

The following Directors served during the year ended 31 December 2018:

Board member	Appointed to the Board
Pamela Bingham	January 2018
James Brotherton	May 2010
Helen Clatworthy	January 2017
Louis Eperjesi	February 2010
Mark Rollins	April 2015
Martin Towers	December 2009
Angelika Westerwelle	November 2012

### Independence of Non-executive Directors

Through the work of the Nominations Committee, the Board has ensured that its members have an appropriate mix of skills, diversity of background, experience and relevant industry experience such that they can challenge and support the work of Executive Directors. Each Non-executive Director has sufficient knowledge of the Company which has enabled them to discharge their duties and responsibilities during the year.

As part of the performance evaluation, the Board reviewed the independence of the Directors. Having reviewed the other positions held by the Non-executive Directors and the possibility of any potential conflicts of interest, the Board continues to consider that each of the Non-executive Directors is independent, as defined against the independence criteria as set out in the Code, believing each to be independent of character and judgement.

The Board had specific deliberations regarding the tenure of the Chairman, Martin Towers, who has now served on the Board for nine years, and as Chairman for the past two years. The Board considered the work currently underway, particularly in respect of the induction of Jo Hallas, CEO Designate, and the succession planning programme generally, and continued to fully support Martin in this work.

### Director induction

Upon appointment, all new Directors receive a comprehensive and tailored induction programme, providing them with the opportunity to learn about the operations, making specific site visits and meeting Divisional and local management.

## Key responsibilities

Chairman	<ul style="list-style-type: none"> <li>➤ Responsible for the leadership and effective running of the Board and its decision-making processes.</li> <li>➤ Sponsors and promotes the highest standards of corporate governance.</li> <li>➤ Sets the Board agenda in consultation with the Chief Executive Officer and the Company Secretary, ensuring that they are aligned to the Group's strategic objectives.</li> <li>➤ Sets the style and tone of Board discussions, facilitating contribution from all Directors.</li> <li>➤ Leads the Board in determining the strategy and the overall objectives of the Group, while ensuring that the Board determines the nature and extent of the principal risks associated with implementing this strategy.</li> <li>➤ Leads the performance evaluation of the Board and ensures its effectiveness in all aspects of its role.</li> <li>➤ Ensures effective communication with the Company's shareholders and other stakeholders.</li> </ul>
Chief Executive Officer	<ul style="list-style-type: none"> <li>➤ Responsible for the day-to-day management of the Group.</li> <li>➤ Leads the executive team and develops and implements the Group's strategic objectives, with assistance from the Tyman Management Committee.</li> <li>➤ Promotes the Group's culture and values.</li> <li>➤ Brings matters of particular significance or risk to the Chairman for discussion and consideration by the Board where appropriate.</li> </ul>
Chief Financial Officer	<ul style="list-style-type: none"> <li>➤ Responsible for the financial reporting and management of the Group, in addition to the finance, audit, tax and treasury functions.</li> <li>➤ Leads the development and implementation of the Group's strategic objectives, corporate development and M&amp;A, supported by the CEO.</li> <li>➤ Responsible for the day-to-day management of all investor relations matters and for contact with shareholders, as well as with financial analysts.</li> <li>➤ Responsible for providing the Board with details of feedback received from institutional shareholders and any key issues raised.</li> </ul>
Senior Independent Director	<ul style="list-style-type: none"> <li>➤ Is available for shareholders to voice any concerns which may not be appropriate for discussion through the normal channels of Chairman, CEO or CFO.</li> <li>➤ Provides a sounding board for the Chairman and supports him in his leadership of the Board.</li> <li>➤ Leads the Chairman's performance appraisal by the other Non-executive Directors and serves as an intermediary for the other Directors with the Chairman as necessary.</li> </ul>
Non-executive Directors	<ul style="list-style-type: none"> <li>➤ Bring complementary skills and experience to the Board.</li> <li>➤ Constructively challenge the Executive Directors on matters affecting the Group.</li> </ul>

## Board and Committee attendance

The following table shows the attendance record of the Directors at the scheduled Board and relevant Committee meetings held during the year.

Board member	Board	Audit	Remuneration	Nominations
Pamela Bingham <sup>1</sup>	8/8	3/3	4/4	6/6
James Brotherton	8/8	–	–	–
Helen Clatworthy	8/8	3/3	4/4	7/7
Louis Eperjesi	8/8	–	–	–
Mark Rollins	8/8	3/3	4/4	7/7
Martin Towers (Chairman)	8/8	–	4/4	7/7
Angelika Westerwelle <sup>2</sup>	2/3	1/1	2/2	2/2

<sup>1</sup> Pamela Bingham was appointed on 18 January 2018 and has attended all meetings since her appointment.

<sup>2</sup> Angelika Westerwelle stepped down from the Board at the conclusion of the Annual General Meeting on 10 May 2018. Angelika was unable to attend the May Board meeting on medical advice.

## Statement of governance continued

### Attendance at Board meetings

Eight scheduled Board meetings were held during the year, with three being held in Divisional locations, on which further information may be found below. The Board also met on an ad hoc basis on three further occasions to consider internal restructuring and refinancing matters and the appointment of Jo Hallas, as CEO Designate. The Board also delegated a number of administrative and completion matters to a duly appointed Committee of the Board.

### Work of the Board during 2018

The Board's key activities and achievements during 2018 and in respect of the 2018 year end are summarised below.

#### Health and safety

- Received presentations from each of the Divisional CEOs on the progress of health and safety initiatives within their Divisions.
- Received details of every health and safety lost time incident. These were fully discussed, including the remedial actions taken, lessons learnt and future preventative measures.

#### Key achievement

The continued focus on this key area has provided positive results, with a 22 per cent decrease in all accidents.

#### Controls and governance

- Received reports from the Audit, Remuneration and Nominations Committees, providing updates on the work of these Committees.
- Received reports from the Company Secretary on general governance updates, Group policies and all reported whistleblowing events.
- Through the work of the Audit Committee, reviewed the Divisional risk registers, the principal risks facing the Group and the Group Risk Register. Participated in in-depth externally facilitated discussions on risks and risk management and cyber risk.
- Received an update on legal and governance matters from Pinsent Masons.

#### Key achievement

The development of a cyber security framework, using a Group-wide collaborative approach.

#### Strategy

- Received a detailed briefing from the CFO on Group strategy and how it might evolve in the future.
- Received briefing from the CEO and CFO on proposed acquisitions, divestments and progress being made in respect of these projects.
- Received updates from the CEO on progress being made in respect of previous acquisitions and the results of ongoing integration work.
- Received presentations from Divisional management on the development of its strategies and discussed the impact of these plans including the assessment of synergy with Group strategy.
- Received presentations from each of the Divisions on new product development.

#### Key achievement

The Board participated in a full strategy and succession planning session, which provided valuable discussions for the Board with Divisional management and further informed the Board on developments within the Divisions and the Group as a whole.

#### People

- Received presentations from the Divisional CEOs on their senior management succession plans, including discussions on development plans and talent management.
- Considered the work of the Nominations Committee in developing the succession plans for the Board.

#### Key achievement

Furthered the Board's knowledge and understanding of the Group's talent pool. Progressed the Board's own succession plans with the announcement of the appointment of Jo Hallas, CEO designate, to succeed Louis Eperjesi upon his retirement from the Board.

#### Financial

- Approved the £240 million refinancing of the Group banking arrangements.
- Reviewed the Company's distributable reserves, approval of associated internal reorganisation and approval to seek shareholder consent for capital and share premium reduction including the bonus share issue.
- Received and reviewed financial reports from the CFO, regularly assessing the Group's performance against budget and analysts' expectations.
- Reviewed and approved the 2019 Budget.
- Reviewed and approved the Group's dividend policy.
- Reviewed and approved the 2018 half-year results and 2017 Annual Report and Accounts.
- Received and approved the 2018 preliminary results announcement and the 2018 Annual Report and Accounts.

#### Key achievement

Ensured the delivery of a sound financial performance across the Group.

#### Shareholder engagement

- Received reports from the CFO on meetings held by the Directors with shareholders, analysts and potential investors, as well as general market updates.
- Reviewed detailed reports on feedback received from investor roadshows and capital markets presentations.
- The Board as a whole met with shareholders at the Company's Annual General Meeting.

## Board visits to the operations

As part of the Board's work, the Directors visit operating units each year to meet with Divisional management and to see these businesses first hand.

### ERA, i54, Wolverhampton, UK – May 2018

Following the consolidation of three of its operations into the 135,600 sq. ft. purpose-built state-of-the-art new headquarters on the prestigious i54 business park, the Board took the opportunity of visiting this site ahead of the AGM, which was held at these new premises the following day. The Directors were pleased to see how the merging of purpose-built offices, manufacturing and warehouse facilities into one site was showing immediate operational efficiencies.

The Board received presentations from the senior management team, including a focused discussion with health and safety management from all Divisions. The Board toured the premises, engaged with operational staff and heard how this new location had benefited both operations and personnel.

The following day the Board attended the Company's AGM, which was held in the showroom where shareholders and other invited guests were able to see the full range of ERA products.

### SchlegelGiesse, Budrio, Italy – June 2018

During late 2017 SchlegelGiesse consolidated its Italian operations into one expanded manufacturing site in Budrio. During the Board's visit the Directors heard first hand from senior managers on specific operational areas and received an update on the developments and progress being made in the ongoing health and safety programme. The Directors were pleased to see the level of improvements that had been made to this facility, the progress that had been made in process efficiencies and the improvements in logistics arrangements.

### AmesburyTruth, Sioux Falls, USA – September 2018

As part of the footprint project, a new centre of excellence was built in Sioux Falls, replacing two existing facilities in the area. The consolidation of dated premises into this new 150,000 sq. ft purpose-built facility provided the Board with the opportunity of seeing the completion of the small parts assembly transfer, the improvement in balance production, which exceeded pre-move levels, and the full optimisation of warehouse logistics.

The Board met with local management and received presentations on a number of key areas, including health and safety, which incorporated a briefing on the initiatives in place to facilitate an improvement in this vital area of employee engagement.

## Performance evaluation

Following on from the previous year's externally facilitated Board evaluation, the Board participated in a survey using the Independent Audit platform, the provider of which the Board has no other connection. The survey sought to establish the progress the Board had made over the year on the key priority areas set out at the start of 2018.

The results of the survey showed that progress had been made in the majority of areas outlined, although it was considered further improvements could be made, especially in the availability of discussion time provided to the Board.

The format of the Board papers has been restructured to provide more detailed information on current trading and external market activity and to provide space for focused discussion on these topics. Further improvements are planned for the year ahead, to ensure the Board has the time necessary to discuss all areas of the Board's work.

It was considered the work of the Committees had progressed well and areas highlighted in the evaluation had been progressed. In particular, the remit of the Nomination Committee had widened, taking into consideration the wider area of talent pipeline across all Divisions.

As part of the Board evaluation process, the Chairman reviewed the performance of each Director; these reviews were followed up with one-to-one meetings. Following these reviews the Chairman has confirmed that each of the Directors has demonstrated their continued commitment to their roles by the time spent on Company business and through their full participation in Board and Committee meetings.

Led by the Senior Independent Director, Mark Rollins, the other Directors carried out a review of the Chairman's performance. Feedback from these personal reviews was discussed on a one-to-one basis with the Chairman. Taking these reviews into consideration the evaluation confirmed the Chairman continues to fully discharge his duties and demonstrates full commitment to the role as evidenced by the progress made in all areas of the Board's work and time spent on Company business.

## Investor relations programme

The Board is fully committed to dialogue with shareholders, including employee and private shareholders, through its investor relations programme.

Tyman operates a planned schedule of communications and investor relations activities throughout the year. The Chief Financial Officer has day-to-day responsibility for all investor relations matters and for contact with shareholders, as well as with financial analysts.

He provides the Board with details of feedback received from institutional shareholders and any key issues raised. Regular dialogue with institutional shareholders and financial analysts is maintained through:

- meetings and calls involving the Chief Executive Officer and the Chief Financial Officer, together with presentations at investor conferences;
- scheduled releases to the market of updates on the financial performance of the Group – including the two results announcements, the AGM trading statement and the November trading statement;
- the Chairman regularly engaging with larger institutional shareholders to discuss matters including the Board, strategy, corporate governance and succession planning; and
- the Remuneration Committee Chairman and Company Secretary engaging with shareholders and institutional bodies regarding remuneration policy.

## Statement of governance continued

### Investor relations programme continued

A total of 114 separate meetings were held by the Chief Executive Officer and the Chief Financial Officer during 2018 with a variety of shareholders and prospective shareholders (including institutions, wealth management and private client brokers), analysts and equity salesforces.

All communications from individual shareholders to Tyman, whether private or institutional, receive a response.

A similar shareholder engagement programme will be run during the 2019 financial year.

A table setting out the Company's major shareholders may be found on page 78 of the other statutory information.

### Summary of investor relations meetings

<b>March 2018</b>	Equity fundraising roadshow in London Results roadshow
<b>May 2018</b>	Tyman plc Annual General Meeting Private client Roadshow, London
<b>June 2018</b>	Peel Hunt Industrials Conference
<b>July 2018</b>	Interim results roadshow
<b>October 2018</b>	Berenberg UK Opportunities Conference
<b>November 2018</b>	Private client roadshow, Dublin Goodbody Dublin Conference
<b>December 2018</b>	Private Client roadshows in Liverpool and Manchester

### 2018 AGM

The Company's AGM is a key date for the Board, as it provides the Directors with the opportunity to meet with shareholders, private and institutional investors and the Board welcomes their participation.

The 2018 AGM was held in i54, Wolverhampton, where shareholders and other invited guests took the opportunity of touring this new facility and receiving demonstrations from senior management on new product developments.

### Access to the Chairman and Non-executive Directors

The Chairman and Non-executive Directors make themselves available to attend meetings with major shareholders at their request. The Chairman attended a number of such meetings during the year to cover areas as the Board, strategy, corporate governance and succession planning. He also took a number of planned telephone calls where meetings were not practicable.

The Senior Independent Director is also available to attend meetings, if requested, by shareholders concerning matters they consider they are unable to discuss with the Chairman. No such meetings had been requested during the year.

### Investor relations website

Copies of all announcements and presentations made at investor events are published at the Group's website in order to ensure that all shareholders, whether private or institutional, have equal access to information. The website may be accessed by current and prospective shareholders, investors and other interested parties and permits users to download copies of published financial reports, presentations, press releases and stock exchange announcements.

### Internal control and risk management

The Directors acknowledge that they are responsible for the Group's internal control and risk management systems and for reviewing their effectiveness. Details of this review process are set out in the Audit Committee report on page 68 and 69.

### Directors' insurance cover

The Company maintains, at its expense, a Directors' and Officers' liability insurance policy to afford an indemnity in certain circumstances for the benefit of Group personnel including, as recommended by the Code, the Directors. This insurance policy does not provide cover where the Director or Officer has acted fraudulently or dishonestly.

### Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with IFRS as adopted by the European Union and the Company financial statements in accordance with UK GAAP. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the EU have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed in the Annual Report and Accounts, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that the Group faces.

By order of the Board

**Martin Towers**  
**Non-executive Chairman**  
5 March 2019

Audit Committee report

# Developing the risk management framework



**Chair, Audit Committee**  
Helen Clatworthy

**Other members**  
Pamela Bingham  
Mark Rollins

**Meetings held**  
3

## DEAR SHAREHOLDER

I am pleased to present an update on the work of the Audit Committee during the year as it continues to support the Board in ensuring the development of the risk management framework as well as ensuring the integrity and quality of the Group's external financial reporting and internal controls.

As in prior years, the Committee set out its priorities for the year ahead. Further information on these priorities and the activities of the Committee during 2018 are detailed in the following report.

In light of the ever-increasing risks created by the changing business environment, the Committee set aside additional time to engage in discussions, facilitated by PwC, on the challenges of how to develop risk management processes to ensure a risk-conscious culture throughout the Group.

The Committee also received a presentation from BDO on the increasingly complex cyber security landscape and the challenges of ensuring cyber risk has been adequately addressed within the business. Further progress has been made on both of these topics and will continue in 2019.

The Committee spent time understanding the implications of forthcoming changes to accounting standards and the changes to associated Group policies which support these standards. The Committee has considered the relevant disclosures in the financial statements and confirms these are appropriate.

Further work was carried out to refresh the Company's impairment model which supports the viability statement and assurance of the business' going concern, all of which were taken into account when considering the financial statements.

During the year, the Committee reviewed the results of the independently facilitated review of the effectiveness of the external audit process. The Committee continues to consider the process effective and remains very supportive of PwC and the work it does for the Group.

As part of the annual review of the effectiveness of the system of internal controls the Committee considered the results of the independently facilitated review of the internal audit function. The results showed that the planning of audits and the work carried out, as well as management interaction with internal audit, were all highly rated. The Committee concluded that this function was working effectively and was appropriately resourced.

Finally, the Committee was pleased to see the continuing development of the Group's risk management framework through the work of the Risk Management Committee. In 2019 I plan to attend at least one of the Risk Management Committee meetings as an observer and will report back on my observations in the 2019 report and accounts.

### Role of the Committee

The Board has delegated responsibility to the Committee for the oversight of the Company's financial reporting, to monitor the integrity of the financial statements and other financial communications of the Company. It is responsible for ensuring that effective governance and appropriate frameworks are in place for the oversight of the Company, major subsidiary undertakings and the Group as a whole, and for considering whether accounting policies are appropriate.

The Committee operates under terms of reference approved by the Board. These terms of reference have been reviewed by the Committee and updated to take into account the changes to the Code published in 2018 and which may be found on the Group website.

During the year the Committee met three times, with meetings timed to coincide with key dates in the financial reporting and audit cycles of the Company. Meetings typically take place on the same day as a Board meeting to promote the efficient working of the Committee. An annual schedule of Committee activity is set out a year in advance, to provide the appropriate focus on key priorities.

In addition to the Committee members, the Chairman, the Chief Executive Officer and the Chief Financial Officer regularly attend Committee meetings at the invitation of the Committee Chair. Other attendees include the Group Financial Controller and members of the finance team, senior representatives from the external auditors, PwC, as well as the Head of Internal Audit, employed by BDO, with which the company internal audit function is co-sourced.

In advance of meetings, the Committee is provided with reports from the Chief Financial Officer, the Group finance function, PwC and BDO, as well as minutes of the Risk Management Committee. These minutes provide the Committee with detailed information on the progress the Divisions are making in respect of risk management activities.

The Committee meets separately with the external auditors and the internal auditors during the course of the year, without Executive management being present. The Chair of the Committee has also met with PwC outside of Committee meetings to keep apprised of the year-end audit process and audit matters in general.

The Committee is authorised to seek independent advice should it wish to do so; however, this was not required during the year.

### Committee membership

The members of the Committee during the year ended 31 December 2018 were as follows:

Audit Committee member	Appointed to the Committee
Helen Clatworthy (Chair)	January 2017
Pamela Bingham <sup>1</sup>	January 2018
Mark Rollins	April 2015
Angelika Westerwelle <sup>2</sup>	November 2012

<sup>1</sup> Pamela Bingham was appointed to the Committee on 18 January 2018.

<sup>2</sup> Angelika Westerwelle stepped down from the Board and Committee at the conclusion of the AGM on 10 May 2018.

All members are independent Non-executive Directors.

Under provisions of the Code the Committee should have at least one member with recent and relevant financial experience and competence in accounting and/or auditing, and the Committee as a whole should have competence relevant to the sector in which the Company operates. The Board considers that Helen Clatworthy and Mark Rollins have recent and relevant financial experience.

Each member of the Committee has the requisite competence including significant international, commercial and operational skills and experience which are relevant to an international manufacturer and distributor of engineered components to the building industry.

### Activities of the Committee in the last 12 months

#### Financial reporting

- > Review of the financial results for the half year ended 30 June 2018 and recommendation of results announcement and half-year dividend.
- > Review of the financial results for the full year ended 31 December 2018 and results announcement.
- > Review of the 2018 Annual Report and Accounts and the Audit Committee report in the Annual Report.
- > The Chief Financial Officer reported to the Committee on the key judgement areas, which are detailed on pages 71 and 72.

## Audit Committee report continued

### Activities of the Committee in the last 12 months continued

#### External audit

- Review of the effectiveness and independence of the Group's external auditors, audit fees, scope, terms of engagement and audit plan, including the auditors' audit risk assessment and the threshold levels of materiality for the Group financial statements.

#### Internal audit

- Review of Divisional internal control representations, internal controls and the results of the externally facilitated review of the effectiveness of the internal audit function. Approval of the internal audit plan for the year. Review of the internal audit reports, recommendations and mitigating plans.
- Review of the externally facilitated assessment of the internal audit function.

#### Governance

- Review of the Committee terms of reference, the policy on non-audit fee work, the internal audit charter, the statement confirming the report to be fair, balanced and understandable and the statement of full compliance with the UK Corporate Governance Code.

#### Viability and going concern

- Review and confirmation of the going concern statements at the half-year and full-year results and the viability statement at the year end.

#### Risk

- Review of the risk management structure, risk appetite and principal risks and uncertainties facing the Group including how those risks evolved during the year.
- Participation in in-depth risk management discussions and received presentations on risk management and cyber security risk.

#### Risk Management Committee

- Review of the minutes of the Risk Management Committee meetings held during the year and follow up with the Executive Directors on areas of interest.

### Audit Committee priorities in 2018

The priorities for the Audit Committee in 2018 are summarised below together with the work carried out during the year in respect of these priorities:

2018	Work carried out	Outcome
<b>Continue to review and refine the assessment of the potential impact on the Group of the new accounting standard IFRS 16 Leases</b>	The Group has substantially completed the IFRS 16 transition project as outlined in note 32.3. The Committee reviewed the process undertaken by management, the planned transition method, key judgements and estimates made, the new accounting policy to be adopted from 1 January 2019, and the provisional adjustments calculated by management.	The Committee is satisfied that a robust process has been undertaken and that key judgements and estimates made on transition are appropriate. The use of the modified retrospective approach and the accounting policy to be adopted from 1 January 2019 were approved by the Committee.
<b>Continue to promote a process of continuous improvement in the Group's systems of internal control and risk management</b>	The Committee reviewed the risk management structure, risk appetite and principal risks and uncertainties facing the Group including how those risks had evolved during the year.  The Committee received full reports from each internal audit conducted and reviewed the Divisional response to recommendations.	The Committee confirms it has carried out its annual review of the effectiveness of the system of internal control as operated throughout the year ended 31 December 2018 and up to the date of approval of the Annual Report and Accounts.  The Committee also confirms that no significant failings or weaknesses have been identified from that review.
<b>Provide sufficient time for extended risk-based discussions in the Committee's timetable</b>	The Committee set aside additional time for risk-based discussions during the year. This included review of the Group and Divisional risk registers, review of the output of the Risk Management Committee, detailed discussions about risk and risk tolerance, including considering the impact of Brexit and cyber risk, and a discussion on risk with the Divisional CEOs.	The additional time for extended risk-based discussions facilitated a more practical assessment of risk tolerance and gave the Committee a more in-depth understanding of current and emerging risks.

2018	Work carried out	Outcome
<b>Provide greater level of contact with the internal audit function, including more regular attendance of BDO at Committee meetings</b>	BDO were in attendance at all Committee meetings held during the year to present the results of internal audit work carried out.	The Committee welcomed the additional level of contact with the internal audit function, which enabled a deeper understanding of the work carried out and more qualitative observations and recommendations.
<b>Establish focused training time into the Committee schedule</b>	Through presentations provided by PwC and BDO the Committee received updates on risk management and cyber risk as part of training focused on topical areas.	These training sessions were well received and provided valued background for ongoing discussions on these and associated topics. Further training sessions will be provided on relevant subjects to ensure the Committee continues to keep up to date with current best practice.
<b>Conduct a full internal audit effectiveness review</b>	A full internal audit effectiveness review was carried out during the year, externally facilitated by Independent Audit.	The Committee reviewed the results of the effectiveness review and discussed the areas identified for improvement with BDO. Based on the results of the review, the Committee is satisfied with the effectiveness of internal audit.

### Committee effectiveness

The results of the Committee evaluation showed the recommendations from the prior year's review had been implemented and confirmed relationships with both internal and external auditors were well managed, with BDO becoming more engaged with the Committee and PwC. It was considered the co-sourced internal audit function should be kept under review to ensure it remained the best way of delivering internal audit within the business.

### External audit

The Committee is responsible for managing the relationship with and the performance of the external auditors, which includes making recommendations in respect of the appointment, reappointment and, if necessary, removal of the external auditors.

Following a competitive tender process, PwC were appointed the Group's auditors in December 2011 and have therefore served as the Group's auditors since the conclusion of the 2012 AGM.

Although Tyman is not a FTSE 350 company and is therefore not required to comply with the provisions of the CMA Order, the Audit Committee considered that it was appropriate for the Company to follow these recommendations. As previously reported, the Committee confirms that it would expect to implement a formal competitive audit tender process during the financial year ending December 2021, or sooner if felt necessary.

The Audit Committee confirms Tyman has complied with the provisions of the CMA Order for the financial year under review.

The Committee confirms there are no contractual restrictions on the Group with regard to PwC's appointment.

Accordingly, the Committee has recommended to the Board that PwC should be reappointed as the Group's auditor at the 2019 Annual General Meeting.

### External audit effectiveness

A key responsibility of the Committee is ensuring the continued effectiveness of the external audit.

As part of this assurance review all Group finance teams were asked to participate in an externally facilitated questionnaire in respect of the 2018 audit to gain a deeper insight into the work of the external audit. The high level of engagement from the participants showed a keenness to ensure this function adds value to the business. The results, which were presented to the Committee, demonstrated the sound working relationships between finance teams and external audit and showed further benefits could be derived from some enhanced planning activities. This recommendation has resulted in all finance teams engaging in a more detailed audit plan, ahead of the commencement of the 2018 year-end audit.

Having considered the results of the review, the robustness and quality of the work performed and the contents of the reports on audit findings the Committee was satisfied with the effectiveness of the external audit process and remains satisfied that PwC continues to provide an effective audit.

## Audit Committee report continued

### Auditors independence and objectivity

The Committee recognises the importance of auditors independence and receives reports from PwC during the year in respect of their compliance with the fundamental principles of objectivity, integrity and professional behaviour, including independence. PwC has provided their annual assurance independence letter to the Audit Committee in March 2019. The Committee reviews the policy on auditors independence and non-audit services annually and takes into consideration the nature, scope and appropriateness of non-audit services annually supplied by the external auditors, whilst taking into account that the provision of certain non-audit services can be most efficiently provided by the Group's external auditors.

The Committee continues to be satisfied with the external auditors's independence and objectivity.

### Audit and non-audit fees

The Committee regularly reviews the audit fees to ensure these are appropriate to enable an effective and high quality audit to be conducted. The fee for the 2018 Group audit is £865,000 (2017: £772,000). The increase in the fee is primarily driven by the enlarged size of the Group and non-recurring fees associated with the audit of accounting for acquisitions and new accounting standards. Further information in respect of the audit fee can be found in note 4 to the Group financial statements.

In line with policy, the Committee also reviews any non-audit services provided by the external auditors and such fees and services are regularly reported to the Committee to ensure this work does not exceed 50 per cent of the audit fee for any one year.

Notwithstanding the necessary flexibility given by the non-audit fee policy, the Committee has requested that where practicable, non-audit services should generally be contracted from firms other than PwC, including firms that are not members of the "Big Four".

Pre-approved audit and audit related services to a maximum of £100,000 are permitted without reference to the Audit Committee.

Any non-audit work performed by the external auditors with fees expected to be in excess of £100,000 in aggregate in any one year are subject to Audit Committee approval.

A schedule of prohibited work includes bookkeeping and accounting, tax services, internal audit services, design and implementation of financial information systems and payroll, and actuarial and recruitment services.

During 2018 non-audit fees paid to PwC were 4.7 per cent (2017: 3.9 per cent) of the annual Group audit fee. This work related mainly to the provision of compliance or regulation services customarily performed by the Group external auditors.

The Committee is satisfied that the provision of such services does not in any way prejudice the objectivity and independence of the external auditors.

The Group's policy on non-audit fees was reviewed during the year and considered to remain appropriate. This policy may be found at the Group's website.

### Internal audit

Internal audit has been co-sourced with BDO since 2013, providing independent assurance and a level of resource that is not available in house.

The annual internal audit plan was reviewed by the Committee following discussions with management in consideration of the areas requiring review. During 2018 all planned audits were completed and final reports issued. The majority of findings were minor and have been resolved. The Committee considers that businesses joining the Group through acquisition require detailed reviews of IT General Controls and therefore particular focus has been given to this area. For 2018 IT General Controls audits were completed for SchlegelGiesse, Italy and Bilco, USA.

The Committee also considered the allocation of internal audit time to ensure the programme remained appropriate for the business. A revised strategic plan was agreed which provided for more detailed reviews in the larger sites across the Group.

One of the recommendations coming from the effectiveness review of internal audit was for a greater level of interaction between BDO and PwC. Meetings have been held between BDO and PwC to review the results of recent field work and to share information where relevant.

Overall the Committee is pleased with the improvement in the follow-up rate being achieved and having reviewed the work of the internal audit function, together with the receipt of internal audit plans and audit reports, and discussions with management, considers that the internal audit function continues to be effective and complementary to the work of PwC.

## Financial reporting and significant judgements

The Committee is responsible for monitoring the integrity of the financial statements including significant judgements. In undertaking this review, the following critical accounting policies and judgements were discussed with management and the external auditors.

	Audit Committee review	Conclusions
<p><b>Carrying value of goodwill and intangibles</b> See note 10 to the Group financial statements</p>	<p>The Group has goodwill and intangible assets of £516.9 million. The assessment of the carrying value of intangible assets involves significant estimates related to drivers of future cash flows, long term growth rates and discount rates.</p> <p>The Committee received a detailed report from management outlining the valuation methodology, key assumptions used, headroom, comparison to external market information and sensitivity analysis.</p> <p>The Committee discussed the report with management and PwC and considered whether the key assumptions were appropriate and the extent to which the valuation was sensitive to changes in these assumptions.</p>	<p>The Committee was satisfied that the methodology and assumptions used in the impairment testing were appropriate and that no impairment charge was required.</p>
<p><b>Carrying value of provisions</b> See note 19 to the Group financial statements</p>	<p>The Group holds provisions related to restructuring, properties, warranty claims and tax exposures of £15.1 million. There is a high degree of judgement involved in assessing the level of provision required.</p> <p>The Committee discussed the key assumptions used in determining these provisions with management and with PwC to assure themselves as to the adequacy and appropriateness of the provisions.</p>	<p>The Committee was satisfied that the judgements exercised were appropriate and that the provisions were fairly stated in the annual accounts.</p>
<p><b>Alternative performance measures (APMs) and exceptional items</b> Further information on APMs can be found on pages 166 to 172 and on exceptional items in note 6 to the Group financial statements</p>	<p>The Group uses a number of alternative performance measures and draws out certain significant, non-recurring items as exceptional. The selection of APMs and classification of items as exceptional is judgemental.</p> <p>The Committee considered the use of these measures as part of its assessment of whether the Annual Report is fair, balanced and understandable. This included considering whether the APMs are useful to users and present a faithful representation of underlying trading, the consistency of APMs used and their calculation, and the disclosure of reconciliations to GAAP numbers which were enhanced in the current year.</p> <p>The Committee received reports from management outlining details of exceptional items and discussed the appropriateness of drawing these out with management and PwC. Specific consideration was given to the costs of the North American footprint project which spans a number of periods. The Committee has received regular reports on the progress of this project during the year.</p>	<p>The Committee was satisfied that APMs are appropriate and provide useful information to users, changes made to the definitions were appropriate and transparent, and these are clearly reconciled to the nearest GAAP number where appropriate.</p> <p>The Committee considered that the items drawn out as exceptional were in accordance with the Group's accounting policy and disclosures in the financial statements were appropriate and consistent.</p>
<p><b>Acquisition accounting</b> See note 24 to the Group financial statements</p>	<p>During the year the Group made four acquisitions. There is judgement and estimation in applying the requirements of IFRS 3, in particular identifying and valuing assets and liabilities acquired.</p> <p>The Committee received detailed papers from management outlining the purchase price allocation exercise. The Committee discussed the significant judgements and estimates used with management and PwC, with particular focus on the assumptions used in valuing intangible assets, such as the expected useful lives, forecast growth rates and customer attrition rates.</p>	<p>The Committee was satisfied that the key assumptions used in valuing intangible assets were reasonable and that the acquisition accounting and purchase price allocation had been completed appropriately.</p>

## Audit Committee report continued

### Financial reporting and significant judgements continued

	Audit Committee review	Conclusions
<p><b>Adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers</b> See note 32 to the Group financial statements</p>	<p>The Group applied IFRS 9 and IFRS 15 for the first time in 2018. Neither of these new standards had a material impact on the Group's financial statements; however, certain judgements and estimates were taken by management and changes were required to accounting policies.</p> <p>The Committee received detailed papers from management outlining the transition exercises performed and considered whether the process undertaken was sufficiently robust. Consideration was given to whether use of the modified retrospective approach to adoption was appropriate and the revised accounting policies were reviewed.</p>	<p>The Committee was satisfied that the transition exercises performed were sufficiently robust, the application of the modified retrospective approach was appropriate, and no material adjustments were required. The Committee also approved the adoption of the revised accounting policies.</p>
<p><b>Carrying value of accounts receivable</b> See note 13 to the Group financial statements</p>	<p>IFRS 9 Financial Instruments was applied by the Group for the first time in 2018. This requires the Group to estimate the expected credit loss on receivables, taking into account past experience and expectations about future losses. The expected credit loss rates are a significant estimate made by management.</p> <p>The Committee reviewed the assumptions used by management in determining the expected credit loss rates. This included reviewing the ageing of accounts receivable and historical write offs, and considering the current and forecast market environment in each of the key markets the Group operates in.</p>	<p>The Committee was satisfied that the expected credit loss rates used were appropriate and the resultant carrying value of trade receivables was reasonable.</p>
<p><b>Carrying value of inventory</b> See note 12 to the Group financial statements</p>	<p>Inventories are stated at the lower of cost and net realisable value, with due allowance for excess, obsolete or slow-moving items. Management exercises judgement in assessing net realisable value and provisions required for slow-moving and obsolete inventory.</p> <p>The Committee considered the basis for the provisions made by management for obsolete and slow-moving inventory, which included consideration of the ageing of inventory, assessments of future demand, market conditions and new product development initiatives.</p>	<p>The Committee was satisfied that the inventory valuation was consistent with the Group's accounting policy and previous practice and that the resultant valuation was reasonable.</p>
<p><b>Taxation</b> See note 8 to the Group financial statements</p>	<p>The focus by the Committee on taxation during the year considered the high current level of fiscal authority activity and the four acquisitions made by Tyman in the year. Taxation is evaluated by the Committee in the context of the Group's overall tax strategy, with a particular focus in 2018 on the reductions in corporate taxation rates in a number of the Group's territories, including the US, and new tax legislation introduced under the OECD BEPS project.</p> <p>Taxation represents a significant cost to Tyman in both in cash and accounting terms and the Group is exposed to differing tax regimes and risks which affect both the carrying values of tax balances (including deferred tax) and the resultant income statement charges. There is an element of judgement in the assessment of tax provisioning and in the calculation of deferred tax balances together with the associated probability of crystallisation.</p>	<p>The Audit Committee reviewed the tax charge for the half year and the full year, including the underlying tax effect, the appropriateness of and movement in tax provisions recognised and the risks associated with them. The Audit Committee is satisfied that the disclosure is appropriate.</p>

## 2018 Annual Report and Accounts

Following discussions with the auditors, and the deliberations set out above, the Committee was satisfied that the financial statements dealt appropriately with each of the areas of significant judgement. PwC also reported to the Committee on any misstatements that they had found in the course of their work and confirmed that no material amounts remained unadjusted.

Throughout 2018 and up to the date of approval of this Annual Report and Accounts there has been in place an established, ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has been regularly reviewed by the Committee and the Board, and is in accordance with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Group's assessment of its principal risks and uncertainties is set out on pages 41 and 44. The key elements of risk management and internal controls are detailed on page 40 of the Risk management section of this Annual Report.

In accordance with the Code, the Committee reviewed the Annual Report and was able to confirm to the Board that the Committee considered the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's performance, business model and strategy.

## Audit Committee priorities for 2019

Following the results of the Committee's effectiveness review, the priorities for the Committee for 2019 are set out below:

- promoting the continuous improvement of the Group's systems of internal control and risk management and assess the effectiveness of these systems for 2019;
- review the Group's non-financial reporting practices and procedures, including sustainability and stakeholder engagement;
- continue to ensure sufficient time for extended risk-based discussions is included in the Committee's timetable, including a focus on cyber risks and other emerging risks; and
- ensure focused training on topical issues is included in the Committee schedule.

The results of the work on these priorities will be reported in the 2019 Annual Report.

On behalf of the Audit Committee

**Helen Clatworthy**  
Chair, Audit Committee  
5 March 2019

Nominations Committee report

# Managing transition



**Chairman, Nominations Committee**  
Martin Towers

**Other members**  
Pamela Bingham  
Helen Clatworthy  
Mark Rollins

**Meetings held**  
7

## DEAR SHAREHOLDER

I am pleased to report the work of the Committee continued during the year with further recruitment to the Board as the Committee approved the appointment of Pamela Bingham, Non-executive Director, in January 2018. As an executive manager of an external business Pamela has extensive current operational experience in the engineering and manufacturing sector and therefore has first-hand experience with which she can help support and challenge the Executive managers throughout the Group. As well as Pamela's operational experience she has a legal background having qualified as a solicitor. Pamela's appointment further strengthens the diversity of the Board.

The Committee also completed the more considerable task of recruiting a new CEO for the Group and I am therefore pleased to report on the recruitment of Jo Hallas, who brings extensive international operational expertise to the role at Tyman. It was important for the Committee to recommend the recruitment of someone who had not only achieved a successful track record but who shared the appropriate cultural attitudes and strategic aims of the Board and who had the right attributes to lead this business in the future.

The appointment of Jo Hallas fulfils the criteria set at the start of the recruitment process and I will be delighted to introduce Jo to our shareholders at the Company's AGM.

The Committee is focused on progressing its work in ensuring each part of the Group has the right talent and talent pipeline in order to promote the continued success of the Company and Group as a whole and I look forward to leading this work in the coming year.

## Role of the Committee

The Board has delegated responsibility to the Committee for reviewing and making recommendations to the Board on the size, structure and composition of the Board and Committees and in compliance with the Code to ensure that plans are in place for the orderly succession to both Board and senior management positions, including overseeing the development of a diverse pipeline for succession that is appropriate for both the current and future cultural and strategic needs of the Group.

In addition, the Committee must evaluate the balance of skills, diversity, knowledge and experience of the Board. In doing so the Committee is responsible for the identification and nomination of candidates to fill Board positions, recommending the reappointment of Non-executive Directors and the re-election of Directors.

The Committee ensures all Board appointments are made in line with the Group's stated employment policies and practices. These make provision for equal opportunities and non-discrimination and aim to ensure that an individual's skills, experience and talent are the sole determinants in recruitment and career development.

## Committee membership

The members of the Nominations Committee during the year ended 31 December 2018 were as follows:

Nominations Committee members	Appointed to the Committee
Helen Clatworthy	January 2017
Pamela Bingham <sup>1</sup>	January 2018
Mark Rollins	April 2015
Martin Towers <sup>2</sup> (Chairman)	December 2009
Angelika Westerwelle <sup>3</sup>	November 2012

<sup>1</sup> Pamela Bingham was appointed to the Committee on 18 January 2018.

<sup>2</sup> Martin Towers was appointed Chairman of the Committee on 12 May 2017.

<sup>3</sup> Angelika Westerwelle stepped down from the Board and Committee at the conclusion of the AGM on 10 May 2018.

All members of the Committee are independent Non-executive Directors. The Chairman was considered independent on appointment.

## Activities of the Committee during 2018

The Committee's role has strengthened over the past two years and in response to the increased workload required of it the Committee held seven meetings in 2018. Three scheduled meetings were held to consider the Committee's ongoing responsibilities of Board and senior management succession planning and the appointment and reappointment of Directors. The additional meetings were held to further the CEO recruitment process.

In light of the importance that is placed on the link between talent management and Company strategy, and in conjunction with the Board, the Committee also participated in a combined strategy and succession planning day, which was attended by the Divisional CEOs.

During the day, discussions covered the strategic aims of each Division and how the available skills and experience within the management teams were best placed for the achievement of these objectives.

Following on from the work carried out during 2017, the Committee recommended the appointment of Pamela Bingham as a Non-executive Director, who was appointed to the Board on 18 January 2018.

The Committee reviewed the induction programme of Pamela Bingham and ensured all Directors received both formal and informal training updates.

Pamela has been appointed the Non-executive Director responsible for employee engagement, further details of which are covered in the Sustainability report on page 48.

During the year Louis Eperjesi took the opportunity of advising the Committee that he wished to retire during 2019 and asked the Committee to commence the search process for his successor, confirming that he would not retire until such time as a suitable successor had been found. Further details on this process are noted below.

Subsequent to the publication of the 2018 Code the Committee's terms of reference have been updated and approved by the Committee and may be found at the Group's website. These revised terms of reference will inform the Committee's work in the year ahead.

## Succession planning

As evidenced by the Board changes implemented during the past three years the Committee has kept the composition of the Board under constant review. With each change the Committee has taken the opportunity of strengthening the experience and skills mix of the Board, ensuring the right attributes are available to support and challenge the business.

Appointments to the Board are assisted by the use of an external search consultancy, Russell Reynolds, with which the Board has no other connection, which provides impartial access to individuals with the right mix of experience and skills which will contribute to the overall work of the Board.

The Committee takes a keen interest in senior management and the up and coming talent within the organisation through regular Board updates and the more focused strategy and succession planning process where updates are received on each individual's achievements, progress and further development requirements. Through this process the Committee supports the development of a diverse pipeline, which will be a focus of the Committee's work during the year.

## Non-executive Directors

During the year a revised Code was published, which highlighted the succession planning requirements for board chairmen, stating tenure should be no longer than nine years as a whole. During 2018 Martin Towers, Chairman of the Board, completed nine years as a Non-executive Director of the Company. The 2018 Code also notes that in order to facilitate effective succession planning and the continued development of a diverse Board, this period may be extended, particularly in those cases where the Chairman was an existing Non-executive Director on appointment.

This matter has been discussed by the Board as whole and agreed there is a continued requirement for Martin to remain in post, to support the ongoing succession planning work of the Committee and in ensuring the structure of the Board and Executive management is progressed, which includes supporting the full induction programme of the newly appointed CEO. Martin Towers therefore has the full support of the Board and noting the time and commitment he makes to the Company, the Board as a whole continues to recommend him for reappointment at the forthcoming AGM.

## Executive Directors

As noted above, Mr Eperjesi informed the Board of his intention to retire during 2019, following the successful recruitment of his successor. The Committee engaged Russell Reynolds, an external executive search consultancy, with which the Board has no other connection, to commence the recruitment process.

As part of this process a longlist of candidates was prepared, including those from within the business, which was reviewed by the Chairman and Non-executive Directors. Following this review, a shortlist of candidates was interviewed by the Committee.

## Nominations Committee report continued

### Executive Directors continued

The position specification made clear the successful candidate should have a successful track record in international operational management, gained mainly in the manufacturing sector. It was also essential the successful candidate was a strong and supportive leader with the right personal qualities to further the Company's cultural and strategic aims.

Further to this full recruitment process the Committee was pleased to recommend to the Board the appointment of Jo Hallas.

### Senior management team

The Committee, in conjunction with the Board, reviewed the senior management team, assisted by presentations and discussions with the Divisional CEOs, as part of the succession planning review. Presentations covered the skills, experience and potential of each member of the team, which provided the Committee with a greater understanding of each of the Divisional teams and the current mix of skills and development capabilities to ensure it remained appropriate for the future strategic needs of the Group.

This is a key responsibility for the Committee and therefore senior management talent is kept under review during the course of the year, receiving regular Board updates and Executive management briefings during site visits. These updates provide assurance to the Committee that these plans are being effectively managed and the appropriate development plans are in place or highlight where further focus is needed.

### Evaluation

#### Committee evaluation

Following on from the previous year's externally led evaluation, the Committee participated in a questionnaire, using Independent Audit's Thinking Board platform, which sought to establish progress made during the year. The questions were based on key areas previously highlighted and the results showed the Committee was working well, as evidenced by the recent successful recruitment of both Pamela Bingham and Jo Hallas, CEO Designate. It was suggested the Committee should establish and maintain a Non-executive succession plan, which set out the current skills matrix and highlighted the capabilities, skills and experience required to support the business in the future. The Chairman's tenure and succession was a topic of focus, which would be kept under review in the year ahead.

The evaluation also showed monitoring of the senior management pipeline had improved in the past two years which included the improved succession planning process and discussions. It was agreed the Board as a whole had good exposure to the talent pool within the business, providing first-hand contact with the next tier of management, especially during site visits and Group conferences. It was recognised there was room for further work on talent development, training, mentoring and the broadening of business experience for key individuals, which would be a key focus in the year ahead.

### Director evaluation

As part of the evaluation process, each Director had one-to-one performance reviews with the Chairman, which included any development or training needs which may be required to support them in making further contributions to the work of the Board.

The Directors provided feedback to Mark Rollins, as Senior Independent Director, on the performance of the Chairman. The results of this evaluation confirmed the Directors were positive and supportive of the Chairman's running of the Board.

The Committee considers the results of these performance reviews prior to the proposal for re-election to ensure the Director has demonstrated the required contribution and commitment to the role.

### Diversity of the Board

The aim of the Committee is to ensure that the Board is well balanced and appropriate for the needs of the business and the achievement of its strategy, comprising Directors who are appropriately experienced and are independent in character and judgement. Before recommending new candidates to the Board, the Nominations Committee takes account of the balance of skills, knowledge, experience, diversity of background and cultural fit.

Although Tyman is not a member of the FTSE 350 the Committee is mindful of the Hampton-Alexander Review targets in respect of gender diversity and keeps this under review when considering appointments to the Board and is pleased to confirm continued adherence to these recommendations. The Committee is also aware of the Parker Review recommendation that each board should have at least one director of colour by 2024. The Committee will continue to ensure all aspects of diversity are considered for each appointment.

Following the AGM held in May 2018, the Board had two female Non-executive Directors representing 33.0 per cent of the Board. On the appointment of Jo Hallas and the retirement of Louis Eperjesi on 1 April 2019 this will rise to 50.0 per cent female representation on the Board.

### Committee priorities for 2019

The priorities for the Committee for 2019 are set out below:

- facilitate a full induction programme for the newly appointed CEO;
- continue with the review of senior management succession planning and talent management including training and mentoring;
- consider the overall diversity of the Board, with particular awareness of the tenure of the Chairman of the Board; and
- review the development of a more diverse senior management and Executive pipeline.

On behalf of the Nominations Committee

**Martin Towers**  
Chairman, Nominations Committee  
5 March 2019

## Other statutory information

### Principal activities

The Group is a leading international supplier of engineered components to the door and window industry. These activities remain unchanged from the prior year. The Company is the ultimate holding company of the Tyman Group of companies. A full list of subsidiaries may be found on pages 150 to 152.

### Articles of Association

The Company's current Articles of Association were last approved by shareholders on 25 May 2012 and it was thought appropriate to refresh the Articles at the 2019 AGM, in order to bring them up to date. The principal differences between the new and the existing Articles of Association are summarised in Appendix 2 to the Notice of AGM. Other changes, which are of a minor, technical or clarifying nature, have not been detailed. The amended Articles of Association will be put to shareholders as a special resolution at the AGM. These new Articles of Association as proposed, should they be approved, will take effect from the conclusion of the AGM.

A copy of the Company's current Articles of Association, and a copy marked to show the differences between those and the new Articles of Association will be available for inspection from 1 April 2019 and up to the time of the AGM at the registered office of the Company during usual business hours and at the place of the AGM. Both sets of Articles may also be found at the Group's website.

### Share capital

The Company's shares are listed in the premium segment of the Official List and are traded on the Main Market of the London Stock Exchange. The Company's share capital consists of ordinary shares of 5.00 pence each, carrying the right to attend, vote and speak at general meetings of the Company. The ordinary shares also have the right to profits of the Company which are available for distribution and the return of capital on winding up.

The Company issued 17,758,620 shares, on 7 March 2018 to institutional investors, to part fund the acquisition of Ashland Hardware. The net proceeds raised were £50.4 million, with the level of discount being 9.74 per cent of the five-day day average preceding the issue.

A further 420,926 shares were issued on 10 May 2018 on a non-pre-emptive basis as non-cash consideration for the acquisition of Zoo Hardware.

Over the three year period to 7 March 2018, the Company's voting share capital increase due to non-pre-emptive issues for cash was 13.37 per cent calculated using the voting share capital as at 31 December 2018. Of this amount, 9.97 per cent was used to fund the acquisition of Ashland Hardware in 2018 and 4.99 per cent was raised in June 2016 to reduce the balance sheet gearing following the acquisitions of Giesse and Bilco (each of such percentages being calculated using the voting share capital at the time of these transactions).

A total of 18,179,546 shares were issued during the year and the issued share capital of the Company as at 31 December 2018 was 196,762,059 ordinary shares of 5.00 pence each, of which 529,183 shares are held in Treasury.

Further information on the Company's share capital may be found in note 21 to the financial statements.

### 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 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.

### Directors

The names and biographical details of the Directors who served during the year and those of Jo Hallas, who is to succeed Louis Eperjesi as CEO with effect from 1 April 2019, are on pages 56 and 57 of this report. Further information regarding the Directors who served during the year to 31 December 2018 may be found on pages 84 to 93 in the Remuneration report.

### Re-election of Directors

With the exception of Louis Eperjesi, who will be stepping down from the Board, each Director will stand for election or re-election at the AGM. Accordingly, Pamela Bingham, James Brotherton, Helen Clatworthy, Mark Rollins and Martin Towers will offer themselves for re-election at the 2019 AGM. As this is Jo Hallas' first year of appointment, she will offer herself for election to the Board.

### Annual General Meeting

At the Company's 2018 AGM the Directors were authorised to allot shares equal to approximately one-third of the issued share capital of the Company as at 10 May 2018 or a further one-third of the issued share capital in connection with a pre-emptive offer by way of a rights issue.

The Directors were also given the authority to allot shares for cash representing up to 5.0 per cent of the Company's issued share capital as at 10 May 2018, without first offering these shares to existing shareholders in the proportion to their existing holding. The Directors confirmed there was no intention to issue more than 7.5 per cent of the issued share capital of the Company on a non-pre-emptive basis in any rolling three-year period without prior consultation with the relevant investor groups (except in connection with an acquisition or specified capital investment as contemplated by the Pre-Emption Group's Statement of Principles).

## Other statutory information continued

### Annual General Meeting continued

Shareholders also approved an additional authority for the Directors to issue ordinary shares, or sell treasury shares, for cash in connection with an acquisition or capital investment of the kind contemplated by the Pre-Emption Group's Statement of Principles up to an additional aggregate amount being approximately 5.0 per cent of the issued ordinary share capital as at 10 May 2018.

At the 2018 AGM the Company was also authorised to make market purchases of its own shares of up to approximately 14.99 per cent of the shares in issue as at 10 May 2018. The Board had no immediate intention of exercising this authority but wished to retain the flexibility to do so should it be needed in the future. This authority was not used during the year and therefore remained in full at the year end.

The Directors believe that it is in the best interests of the Company that these powers are renewed and, as in previous years, resolutions to renew these authorities will be put to shareholders at the Company's AGM to be held on 9 May 2019.

The Notice of the Company's AGM and related explanatory notes accompany this Annual Report and Accounts, which may also be found with further information on these resolutions on the Group's website. Other than elections to the Board and authorities to allot shares, to disapply pre-emption rights in certain limited circumstances and to purchase its own shares as explained above, the principal business to be considered at the AGM is the authority to convert the Company's unrealised profits into distributable reserves by way of a bonus share issue and capital reduction, the approval of a new set of Articles of Association and other routine matters.

### Waiver of dividends

The Tyman Employee Benefit Trust purchased 891,986 ordinary shares in the Company on 13 March 2018 to ensure that it continued to hold sufficient shares to satisfy the future vesting of awards. As at 31 December 2018 the Trust held 1,477,604 ordinary shares in Tyman plc. Further information on the Employee Benefit Trust may be found on page 36. Dividend waivers are in place from Tyman plc, in respect of the 529,183 shares held in Treasury as at 31 December 2018 and all but £0.01 of the total dividend to the Tyman Employee Benefit Trust.

### Substantial shareholders

The Company has been notified of, or has identified, the following direct or indirect interests comprising 3.0 per cent or more of its voting share capital (the issued share capital less shares held by the Company in Treasury) in accordance with DTR 5. The Company's substantial shareholders do not have different voting rights from those of other shareholders:

	Ordinary shares held as at 31 December 2018	%	Ordinary shares held as at 5 March 2019	%
Wellington Management Co	24,275,946	12.37	<b>24,150,740</b>	<b>12.31</b>
Alantra EQMC Asset Management	19,605,449	9.99	<b>20,755,449</b>	<b>10.58</b>
Aberdeen Standard Investments	15,054,287	7.67	<b>15,686,062</b>	<b>7.99</b>
Allianz Global Investors	11,679,120	5.95	<b>13,347,529</b>	<b>6.80</b>
GVQ Investment Management	9,783,793	4.99	<b>10,675,793</b>	<b>5.44</b>
Sterling Strategic Value	8,509,928	4.34	<b>8,509,928</b>	<b>4.34</b>
Canaccord Genuity Wealth Management (Inst)	8,404,287	4.28	<b>8,069,287</b>	<b>4.11</b>
T Rowe Price Global Investments	8,294,631	4.23	<b>8,228,230</b>	<b>4.19</b>
Columbia Threadneedle Investments	8,105,920	4.13	<b>8,149,252</b>	<b>4.15</b>
Royal London Asset Management	6,706,983	3.42	<b>6,715,777</b>	<b>3.42</b>
Lazard Asset Management	6,039,855	3.08	<b>6,039,855</b>	<b>3.08</b>

### Strategic report

Pages 2 to 99 inclusive of this Annual Report comprise the Strategic report, Governance and Directors' report and the Remuneration report and have been written and presented in accordance with English law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided accordingly.

The Directors are required under the Disclosure Guidance and Transparency Rules to include a Management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company. The Management report disclosures can be found in the Strategic report on pages 2 to 55.

A description of the main features of the Group's internal control and risk management systems in relation to the process for preparing the consolidated accounts continues further on pages 39 to 44 of the Strategic report.

Pursuant to Section 414c of the Companies Act 2006 the Strategic report on pages 2 to 55 contains disclosures in relation to future developments, dividends, finance and financial risk management, the disclosures relating to the Group's greenhouse gas emissions and environmental policy and performance.

A full description of the Group's activities relating to our employees, their involvement with the Company and our employment and health and safety practices and policies may be found on pages 47 to 55 of the Strategic report.

### Share transfer restrictions

There are no restrictions on the transfer of fully paid up shares in the Company.

### Directors' insurance

Details of Directors' insurance may be found on page 64.

## Financing

The Group finances its operations through a mixture of retained profits, equity and borrowings. The Group does not trade in financial instruments. Full details of the Group's borrowing facilities are set out in note 17 to the financial statements.

The main risks arising from the Group's borrowings are market risk, interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and the policies, which have been applied throughout the year, are set out in note 18 to the financial statements.

## Financial reporting

The Annual Report and Accounts is intended to provide a balanced and clear assessment of the Group's past performance, present position and future prospects. A statement by the Directors on their responsibility for preparing the financial statements is given on pages 64 and 65 and a statement by the auditors on their responsibilities is given on pages 100 to 106.

## Going concern

As a consequence of the work undertaken to support the viability statement, which may be found on pages 45 and 46, the Directors have continued to adopt the going concern basis in preparing the financial statements (see note 2 in the financial statements).

## Auditors and disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

## Political donations

The Company did not make any political donations during the year (2017: £Nil).

## Disclosure of information under Listing Rule 9.8.4

Reporting requirements under LR 9.8.4R (4), (5) and (6) and LR 9.8.6 (1), if applicable, have been included in the Remuneration report on pages 80 to 99. All other information required to be disclosed, under LR 9.8.4R (1), (2) and (7) to (14), if applicable, is covered in this report. There is no further information to disclose.

## Events after the reporting year

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 £10.0 million, subject to reaching certain performance targets, to be paid in instalments over a three-year period.

By order of the Board

**Carolyn Gibson**

**Group Company Secretary**

5 March 2019

Company registration number: 02806007

## Remuneration report

Annual Statement

# Balanced reward



**Chairman, Remuneration Committee**  
Mark Rollins

**Other members**  
Pamela Bingham  
Helen Clatworthy  
Martin Towers

**Meetings held**  
4

## DEAR SHAREHOLDER

On behalf of the Board I am pleased to present the report on Directors' remuneration for the year ended 31 December 2018.

This Remuneration report is set out in three sections:

- > this Annual Statement, which summarises the key decisions made by the Remuneration Committee during the year and how they were arrived at;
- > the Annual Report on Directors' Remuneration, which sets out the remuneration paid to the Directors in 2018 and provides details on how the Committee intends to implement the Remuneration Policy in 2019. The Annual Report on Directors' Remuneration will be put to shareholders, for an advisory vote, at the 2019 AGM (pages 84 to 93); and
- > a summary of the Remuneration Policy. This policy was approved by nearly 97 per cent of shareholders voting at the 2017 AGM and sets out the Company's policy on Directors' remuneration for the three years from May 2017 to May 2020.

## Group performance in 2018

Tyman delivered a solid financial performance for 2018, with reported Revenue and Underlying Operating Profit increasing by 13.2 and 8.8 per cent, respectively. Growth was aided by the successful major acquisitions of Ashland and Zoo during the year. On a constant currency like for like basis Revenue grew by 2.7 per cent. Underlying Profit before Taxation increased by 6.4 per cent and Underlying Earnings per Share increased by 2.8 per cent over the prior year to 27.68 pence. Cash generation was very strong with Leverage at the year end being 1.96x, back within the Group's target range of 1.50x to 2.00x. Continued investment in the footprint and integration projects and the impact of acquisitions have resulted in a slight decrease in ROCE to 13.4 per cent. The Group continues to target a ROCE of 15.0 per cent under current accounting policies over the medium term.

## Work of the Committee during 2018

The Committee considered the following matters during the past 12 months:

### Salaries

- > Reviewed and approved the base salaries to be paid to the Executive Directors and senior managers from 1 January 2019, taking account of the general pay awards across the Group.

### Bonus

- > Determined the level of bonus payable for 2018 to the Executive Directors and senior managers, including an assessment of the performance of the CEO against his personal objectives.
- > Established the basis of the 2019 bonus arrangements and thresholds for the Executive Directors and senior managers.

### Share plans

- Set the Earnings per Share thresholds, ROCE underpin and TSR comparator group for the 2018 LTIP, awarded in March 2018. Approved the proposed participant list and level of award for each person.
- Following the end of the year it reviewed and approved the extent to which the 2016 LTIP awards, whose performance period was the three years ended 31 December 2018, would vest. This included the Committee using its discretion to reduce the level of vesting from 100 per cent to 90.0 per cent for the Executive Directors following a review of the TSR underpin.
- Approved the terms of the UK, US, and International Employee Sharesave plans.
- Consideration and approval, in March 2019, of the proposed list of participants for the forthcoming 2019 LTIP award and the approximate number of shares proposed to be awarded to each participant.

### CEO succession

- Considered and approved the remuneration arrangements for the incoming CEO, including the buyout arrangements in respect of share incentive awards at her previous employment that she would forfeit by taking up employment with Tyman.
- Reviewed and approved the treatment of outstanding share plan awards for the outgoing CEO.

### Policy

- Considered the Company's Remuneration Policy in light of revisions to the 2018 Code and the future changes required in response to these revisions.

### Governance

- Approved the purchase by the Employee Benefit Trust of shares for the satisfaction of future employee awards.
- Approved the revised LTIP rules that were put to shareholders at the 2018 AGM.
- Ensured the Group complied with gender pay gap reporting.
- Reviewed changes to the Committee's terms of reference, in line with changes to the Code.
- Monitored the Committee's progress against its set objectives.
- Assessed the Committee's performance.
- Reviewed and approved this 2018 Annual Remuneration Report.

### Market trends in remuneration

- Received presentations on market trends and corporate governance developments in corporate remuneration.

## Performance and reward in 2018

Full details of the Directors' remuneration for 2018 are set out in the Annual Report on Remuneration on pages 84 to 93. Explanations for some of the key aspects of 2018 remuneration are below.

### Pay review

As reported in the 2017 Annual Report, the salary of Louis Eperjesi was increased by 3.2 per cent to £420,000 from the start of 2018. James Brotherton received a mid-year adjustment in 2017 that took account of his change of role and wider responsibilities. Accordingly, as planned, he received no pay increase in 2018 and his salary remained at £297,500 throughout the year.

### Annual bonus

The annual bonus scheme for the Executive Directors, which offers a maximum award of 125 per cent of bonusable salary, continues to be based on stretching targets: 70.0 per cent bonusable on Underlying Profit targets and 30.0 per cent on Free Cash Flow targets. The awards are assessed across four categories: profit growth over prior year; profit performance versus target; the ratio of operating cash generated to operating profit; and absolute cash generation versus target. Where appropriate, the targets were increased during the year to ensure they remained appropriately stretching following the acquisitions of Ashland, Zoo, Profab and Reguitti.

For 2018, 20.0 per cent of Louis Eperjesi's 2018 annual bonus (25.0 per cent of salary) was linked to the progress made in 2018 in delivering and embedding the Group's plans in respect of: the Group's strategy (10.0 per cent of salary); health and safety (7.5 per cent of salary); and succession planning (7.5 per cent of salary). The remaining 80.0 per cent of his bonus (100.0 per cent of salary) was based on the achievement of the financial targets described above. James Brotherton's bonus was entirely assessed on the achievement of the financial targets.

The specific targets and outcomes of each element of the bonus scheme for 2018 are set out in a table on page 85 of the Remuneration report. This shows that the strong cash generation of the Group in 2018 delivered 23.5 per cent out of the maximum 30.0 per cent available for cash measures whereas the slower than anticipated profit growth of the Group meant that only 16.0 per cent out of the maximum 70.0 per cent available for profit measures was achieved. Therefore James Brotherton received 39.5 per cent of his maximum bonus of 125 per cent of bonusable salary, which equates to a total bonus of 45.64 per cent of his 2018 salary being earned in respect of the 2018 financial year (2017: 51.30 per cent of salary).

The Remuneration Committee's assessment of Louis Eperjesi's achievement of his personal objectives was: strategy objective 75.0 per cent; health and safety objective 78.0 per cent; and succession planning objective 72.0 per cent. When combined with the 39.5 per cent outcome for the financial objectives described above, this equates to an overall bonus achievement of 46.6 per cent of his bonusable salary. Therefore, Louis Eperjesi earned a total bonus of 58.25 per cent of salary in respect of 2018 (2017: 51.30 per cent of salary).

### Long Term Incentive Plan

The LTIP awarded in 2016 was subject to a performance condition of cumulative three-year underlying Earnings per Share of between 67.0 pence (25.0 per cent vesting) and 78.5 pence (100.0 per cent vesting). In addition, for the Executive Directors the award was subject to a discretionary TSR underpin. The actual cumulative underlying Earnings per Share outcome for the three years, 2016 to 2018, was 80.00 pence with the outcome of 27.68 pence for 2018 representing a compound annual growth rate of 12.7 per cent per annum over the three-year performance period. The 2016 LTIP therefore could have vested at the maximum level of 100 per cent. However, the Company was ranked 20 out of 27 companies in the comparator group for the TSR underpin and the absolute TSR over the three years to 31 December 2018 was 12.8 per cent. As a result, the Remuneration Committee chose to exercise its discretion and to reduce the vesting from 100 per cent to 90 per cent for the Executive Directors.

## Remuneration report continued

Annual Statement continued

### Performance and reward in 2018 continued

#### Incoming CEO

As announced on 20 November 2018 the Board appointed Jo Hallas to succeed Louis Eperjesi as CEO. She joined Tyman on 1 March 2019 and will take over as CEO with effect from 1 April 2019. As part of this recruitment process the Committee was asked to determine her remuneration arrangements.

The Committee considered the total remuneration paid for the position should be commensurate with the scope, complexities and international nature of the role and should be similar to that of the outgoing CEO and at broadly median level. As a result the basic salary to be paid to Jo Hallas is £445,000, with all other elements and benefits paid in accordance with the Remuneration Policy. It is anticipated that future increases will be in line with the general workforce. In respect of the cash allowance paid in lieu of pension contributions, the current policy states that newly appointed Executive Directors receive an allowance of 15.0 per cent of salary.

This is the arrangement for Jo Hallas, and represents a reduction on the 20.0 per cent that Louis Eperjesi receives. The Remuneration Committee fully acknowledges the very recent developments in this area and intends to review its policy for cash allowances in lieu of pension contributions ahead of putting a new Remuneration Policy to its shareholders for approval at the 2020 AGM.

It was also considered appropriate to buy out the outstanding LTIP awards held by Jo Hallas at her previous employer, Spectris plc, which she would forfeit by leaving its employment. The value of this buyout takes account of the current value of these awards including the likelihood of any applicable performance conditions being achieved and is estimated at £775,224 with final calculations ongoing. Once finalised, a number of shares in Tyman plc, whose value equates to the LTIP buyout value, will be awarded to Jo Hallas under Listing Rules 9.4.2. Full details of the buyout awards will be disclosed at the time of the award and in next year's report. However, it is intended that half of these shares will vest on 30 April 2020 and half on 30 April 2021, subject only to Jo being employed by the Group at that time.

#### Retiring CEO

The Committee also considered the remuneration arrangements for Louis Eperjesi, as retiring CEO, and confirmed all remuneration would be in line with policy with Louis being treated as a good leaver. Accordingly, Louis will receive his normal salary and benefits until he leaves the Group at the end of June 2019, but he will not receive any bonus in respect of 2019 nor will he be eligible for any further LTIP awards. His outstanding LTIP awards will be subject to the existing performance conditions and periods with the number of shares vesting being pro-rated for the portion of the performance period that Louis was employed by the Group.

The Group, like most companies, does not currently have provisions in place for Executive Directors post-employment shareholdings. However, Louis Eperjesi has indicated he would voluntarily continue to hold shares worth at least two times his salary for one year after he leaves the Group and worth at least one times his salary for a further year. This holding to be no lower than 350,000 shares and 175,000 shares respectively, calculated using a share price of 240.0 pence per share.

This is a voluntary commitment and as such the Committee has no means to enforce compliance. The Remuneration Committee intends to review the matter of post-employment shareholdings in the coming year ahead of putting a new policy to its shareholders at the 2020 AGM.

### Remuneration in 2019

#### Salaries

The Committee is responsible for the remuneration arrangements for the Executive Directors and senior management, as well as overseeing the pay conditions of the general workforce. The Committee receives updates on the pay and benefits of all employees and takes these into account when setting remuneration and benefits for the Executive Directors and senior managers.

The salaries of the Group's senior management team were reviewed in December 2018 and in general were awarded an increase to their base salaries of between 1.0 and 3.0 per cent, these being in line with the average increases for the Group's UK, USA and European-based employees. Taking these awards into account, along with the performance of the Executive Directors themselves, the Committee awarded the Executive Directors an increase to their base salaries of 2.85 per cent. This resulted in Louis Eperjesi's 2019 base salary rising to £432,000 and James Brotherton's base salary rising to £306,000.

#### Annual bonus

The overall structure of the 2019 annual bonus scheme for Executive Directors and other senior managers remains unchanged from that operated in 2018 with 70.0 per cent of their bonus based on Underlying Profit targets and 30.0 per cent on Free Cash Flow targets. As Jo Hallas is set to join the Company part way through the year, her 2019 bonus will be pro-rated to take account of her time in post during the performance period. During 2019 the Executive Directors will have all of their bonuses assessed on financial targets – there will be no personal objectives element to their bonus.

Consistent with prior years, the precise financial bonus targets for 2019 (which the Committee considers to be commercially sensitive) will be disclosed in detail in the 2019 Annual Report.

#### Long Term Incentive Plan

The Committee has determined that LTIP awards made in 2019 will be subject to the same performance measures, underpins and holding periods as those awarded in 2018, namely: the financial performance measure will be cumulative underlying Earnings per Share over the three-year performance period subject to discretionary TSR (for Executive Directors) and ROCE underpins. The targets are set out on page 92 of the Annual Report on Remuneration.

## Other matters

### UK Corporate Governance Code

In response to the publication of the 2018 Code, the Committee reviewed the changes coming into force with effect from 1 January 2019 and as a result refreshed the Committee's terms of reference, which may be found at the Group's website. These changes included expanding the Committee's remit to having greater powers over wider employee pay arrangements, ensuring any future Chair has sufficient experience and strengthening the link between the Company's Remuneration policy and key principles. It also considered the changes required to incorporate four areas of emerging practice into the Company's Remuneration Policy in the future, namely: extending the circumstances under which malus and clawback will apply; the method for calculating Executive Directors shareholding; the nature of post-employment shareholding requirements for Executive Directors; and the level of cash in lieu of pension contributions paid to Executive Directors. It is intended that the Remuneration Policy will be updated during 2019 to reflect all of these matters before a revised policy is put to the 2020 AGM for shareholder approval. In addition, the Group intends, as required by the Code, to report on the CEO pay ratio starting with the 2019 Annual Report and Accounts.

### Brexit

One additional area for the Committee's consideration is the eventual outcome of the negotiations for the UK's exit from the EU and how this will affect the trading arrangements with our European markets. The Committee will continue to monitor this situation and any impact it may have on the Group's performance and remuneration outcomes.

### Annual General Meeting

Shareholder support for the remuneration arrangements for the Executive Directors remains strong, which is reflected in the high level of votes received at the 2018 AGM, details of which may be found on page 93.

The Remuneration Policy is set and applied with the objective of attracting and retaining the highest calibre of individuals who are incentivised to deliver long term shareholder value. This is achieved through the setting of appropriate targets and these individuals receiving rewards commensurate with their performance. The Committee is committed to ensuring executive remuneration is fully aligned with the strategic aims of the business and is balanced with the wider stakeholder interest.

The Committee looks forward to your continued support at the 2019 AGM, where I, and the other members of the Committee, will be happy to answer questions or receive feedback on any aspect of the Group's remuneration.

### Mark Rollins

#### Chairman, Remuneration Committee

5 March 2019

## Remuneration report continued

### Annual Report on Directors' Remuneration

The Annual Report on Directors' Remuneration set out below (together with the Remuneration Committee Chairman's Annual Statement) will be put to a single advisory shareholder vote at the 2019 AGM. This report sets out the pay outcomes in respect of the 2018 financial year and explains how the Committee intends to operate the approved Remuneration Policy in 2019. The information from the single total remuneration figures for Directors on page 85 to the end of the section on loss of office payments on page 88 has been audited. The remainder of the Annual Report on Directors' Remuneration is unaudited.

### Role of the Remuneration Committee

The Remuneration Committee is responsible for setting and implementing the Remuneration Policy for the Executive Directors and the Company's Chairman.

In addition, the Committee considers the remuneration arrangements for the Tyman Management Committee and for other senior managers. This ensures a consistent application of Remuneration Policy across the Group and aligns all senior managers' remuneration to the Group's strategic objectives. Remuneration received reflects the contribution made by senior Executives to the business, the performance of the Group, the size and complexity of the Group's operations and the need to attract, retain and incentivise Executives of the highest quality.

### Committee membership

The members of the Committee during the year ended 31 December 2018 were as follows:

Remuneration Committee member	Appointed to the Committee
Pamela Bingham <sup>1</sup>	January 2018
Helen Clatworthy	January 2017
Mark Rollins (Chairman)	April 2015
Martin Towers	December 2009
Angelika Westerwelle <sup>2</sup>	November 2012

<sup>1</sup> Pamela Bingham was appointed to the Committee on 18 January 2018.

<sup>2</sup> Angelika Westerwelle stepped down from the Board and Committee at the conclusion of the AGM on 10 May 2018.

All members of the Committee are Independent Non-executive Directors. The Chief Executive and Chief Financial Officer attend meetings at the invitation of the Committee Chairman. Other individuals such as external advisers may be invited to attend all or part of any meeting, as and when appropriate and necessary. None of these individuals were present or participated in any discussion in respect of their own remuneration.

The Committee held four scheduled meetings during the year, at which there was full attendance, timed to coincide with the reporting cycle of the Company, including the approval of the Annual Report, and the management of the Executive Directors' remuneration and incentive plans. The Committee operates under terms of reference approved by the Board. These terms of reference have been reviewed by the Committee and updated to take into account the changes to the Code published in 2018 and to ensure these remained relevant for the aims of the Committee and continued to meet the requirements of the business, the Group's shareholders and other stakeholders. The terms of reference may be found at the Group website.

### External advisers

The Committee is advised by Aon. Aon is a signatory of the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code which sets out guidelines to ensure that its advice is independent and free of undue influence. Aon did not provide any other service to the Group during the year. Total fees for advice provided to the Committee during the year were £57,647 (2017: £50,706) excluding VAT.

## Remuneration outcomes for 2018

### Single figure of total remuneration (audited)

The following table sets out the single figure of total remuneration for Directors for the financial years ended 31 December 2017 and 2018:

Directors' remuneration for the year ended 31 December	Salary/fees <sup>1</sup>		Annual bonus: cash		Annual bonus: deferred shares		Cash payments in lieu of pension <sup>2</sup>		Benefits <sup>3</sup>		Vested LTIP awards <sup>4</sup>		Total remuneration	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Executive Directors</b>														
Louis Eperjesi	420	407	122	104	122	104	84	81	19	18	417	162	1,184	876
James Brotherton	298	270	68	64	68	64	45	41	18	18	257	99	754	556
<b>Non-executive Directors</b>														
Pamela Bingham <sup>5</sup>	48	—	—	—	—	—	—	—	—	—	—	—	48	—
Helen Clatworthy	55	49	—	—	—	—	—	—	—	—	—	—	55	49
Mark Rollins	58	55	—	—	—	—	—	—	—	—	—	—	58	55
Martin Towers <sup>6</sup>	133	99	—	—	—	—	—	—	—	—	—	—	133	99
Angelika Westerwelle <sup>7</sup>	20	47	—	—	—	—	—	—	—	—	—	—	20	47

1 Effective 1 January 2018, Louis Eperjesi received an increase of 3.2 per cent; this increase was broadly in line with those received by the wider workforce. Following a review of Executive Directors roles, James Brotherton's salary was increased to £297,500 with effect from 1 August 2017 and remained the same throughout 2018.

2 Louis Eperjesi and James Brotherton received cash in lieu of pension amounting to 20 per cent and 15 per cent of base salary respectively. The Executive Directors are not members of any of the Group pension schemes.

3 The benefits provided to the Executive Directors included car allowance, private medical insurance, permanent health insurance and life assurance. There were no changes to the benefit policies or levels during the year.

4 The estimated value of the LTIP awards vesting by reference to performance in 2018 (granted in 2016), which vests on 9 March 2019, is based on the average share price over the three months ended 31 December 2018 of £2.7416, including the dividend equivalent shares. The comparative value of LTIP awards for 2017 has been restated using the actual share price at vesting on 8 March 2018 and so it is different to the value shown in the 2017 Remuneration report.

5 Pamela Bingham was appointed to the Board on 18 January 2018.

6 Martin Towers was appointed Chairman at the conclusion of the AGM on 12 May 2017.

7 Angelika Westerwelle stepped down from the Board at the conclusion of the AGM on 10 May 2018.

### Determination of the 2018 Group Bonus Plan

The maximum bonus opportunity for Executive Directors in respect of the 2018 financial year was 125 per cent of bonusable salary for the Chief Executive Officer and 125 per cent of bonusable salary for the Chief Financial Officer of which 50.0 per cent is to be paid in cash and 50.0 per cent is deferred in shares which vest after three years. Whilst the Chief Financial Officer's bonus was based entirely on financial measures, 20 per cent of the Chief Executive Officer's bonus (25 per cent of base salary) was based on personal objectives connected to Company strategy. The outcome of the 2018 bonus, alongside the performance targets set, is shown below:

Measure	Threshold 0%	Target 50%	Exceeds 100%	Performance achieved	Bonus as % of salary <sup>1</sup>
Profit growth over prior year (25% weighting)	£68.3m	£71.7m	£75.1m	£72.7m	16.0
Profit performance versus target (45% weighting) <sup>2</sup>	£73.2m	£81.4m	£89.5m	£72.7m	0.0
Cash conversion of operating profit (15% weighting)	75.0%	85.0%	95.0%	98.1%	15.0
Cash generation versus target (15% weighting) <sup>3</sup>	£72.8m	£80.9m	£89.0m	£82.0m	8.5
<b>Total bonus achieved</b>					<b>39.5</b>

1 Calculation is performed on the basis of targets and performance in £'000 rounded to one decimal percentage place.

2 Profit performance versus target is measured on a constant currency basis.

3 Cash generation targets for the Group exclude the investment impact of major projects. The Group recorded an Operational Cash Flow in the year of £77.3 million and the investment impact of major projects in the year was £4.7 million.

Straight-line vesting occurs between target and stretch performance.

## Remuneration report continued

Annual Report on Directors' Remuneration continued

### Determination of the 2018 Group Bonus Plan continued

#### Achievement of personal targets – Chief Executive Officer

In addition to the financial metrics element of Louis Eperjesi's bonus, 25.0 per cent of his bonus has been calculated on personal performance objectives; these objectives being overall strategy development (10.0 per cent), significant progress on health and safety performance (7.5 per cent) and succession planning (7.5 per cent). The Committee considered performance against these individual elements and concluded that:

- in respect of the development of the Group strategy the outcome was a performance of 75.0 per cent (equal to 7.5 per cent of the maximum 10.0 per cent);
- the significant progress made year on year on the Group's health and safety performance resulted in an outcome of 78.0 per cent (equal to 5.85 per cent of maximum 7.5 per cent); and
- Louis's positive contribution to succession planning resulted in a 72.0 per cent performance (equal to 5.40 per cent of maximum 7.5 per cent).

Taken together these individual elements have resulted in the achievement of 75.0 per cent of the maximum award.

In total, 58.25 per cent of salary was earned as a bonus by Louis Eperjesi (2017: 51.30 per cent) and James Brotherton earned a bonus of 45.64 per cent of salary (2017: 51.30 per cent). The monetary amounts are payable in cash and deferred shares as set out below:

Director	Bonusable salary £	Bonus maximum (% of bonusable salary)	Achievement (% of award)	Bonus awarded £	Cash bonus £	Deferred bonus £
Louis Eperjesi – Financial metrics	420,000	100	39.5	165,900	82,950	82,950
Louis Eperjesi – Personal objectives	420,000	25	75.0	78,750	39,375	39,375
Total bonus earned				244,650	122,325	122,325
James Brotherton – Financial metrics	275,000	125	39.5	135,780	67,890	67,890

As disclosed in last year's Remuneration report, James Brotherton's 2018 bonus was calculated on an intermediate bonusable salary, shown above, to mitigate any "ratchet effect" of his salary increase following his increase in responsibilities.

Bonuses in respect of 2018 performance are subject to recovery and withholding provisions covering the exceptional circumstances of a material misstatement of the accounts, a material miscalculation of the performance of the Company or gross misconduct before the vesting date. The Committee believes the above payments to be in line with Company performance and therefore no discretion was used during the year.

### DSBP awards granted during the year

The table below details the deferred shares granted in 2018 in respect of the 2017 annual bonus award:

Director	Number of shares <sup>1</sup>	Share price – five-day average	Face value <sup>2</sup>	Vesting date
Louis Eperjesi	34,419	£3.033	£104,393	March 2021
James Brotherton	21,243	£3.033	£64,430	March 2021

1 Shares are deferred for three years.

2 The actual value will be the value at the vesting date and will include dividend equivalent award shares.

### LTIP awards vesting in respect of 2018

LTIP awards were made to Executive Directors on 9 March 2016, subject to performance measured over three years ending 31 December 2018. Awards were measured against targets outlined below dependent upon underlying EPS from continuing operations:

EPS targets (100% weighting)	Cumulative EPS target over the three years ending December 2018 <sup>1</sup>
Threshold – 25% award	67.00p
Maximum – 100% award	78.50p

1 Straight-line vesting between these points. No award is made if performance is below threshold. The three-year EPS targets equate to EPS growth of 8 per cent p.a. at the lower threshold and 16 per cent p.a. at the maximum award level.

Performance year	Earnings per share
2016	25.41p
2017	26.91p
2018	27.68p
<b>Underlying cumulative EPS</b>	<b>80.00p</b>

In addition to the targets above, vesting is subject to financial underpins for the Executive Directors which consider relative TSR, actual EPS achieved in 2018 and whether the three-year cumulative EPS target has been achieved through increased and inappropriate gearing of the balance sheet.

The Remuneration Committee was satisfied that the Underlying Earnings Per Share performance in 2018 of 27.68 pence was a fair reflection of the performance of the Group and undue risk was not taken in its achievement. However, the Company's TSR performance was below median and therefore the Committee has chosen to exercise its discretion and to reduce the vesting from 100 per cent to 90 per cent for the Executive Directors.

Details of the Directors' awards which vested are shown below:

Director	Date of grant	Earliest date for vesting	Number of shares under award	Number of shares vesting <sup>1</sup>	Average share price (1 October – 30 December 2018)	Estimated award value on vesting	Estimated value attributable to share price <sup>2</sup> growth
Louis Eperjesi	9 March 2016	March 2019	151,442	152,001	£2.7416	£416,726	£(2,849)
James Brotherton	9 March 2016	March 2019	93,459	93,804	£2.7416	£257,173	£(1,758)

1 90.0 per cent vesting calculated on a straight-line basis, together with dividend equivalent shares paid to Louis Eperjesi 15,704 and James Brotherton 9,691.

2 Calculated using an average share price of £2.7416 pence per share, against the share price at date of grant of £2.7625, excluding dividend equivalent shares.

In accordance with the regulations, the estimated value of the award is based on the average share price over the last quarter of the financial year. The actual value at the vesting date, 9 March 2019, will also include the value of the dividends that have accrued on those shares over the vesting period. The Committee believes the above payment to be appropriate against the performance achieved.

### LTIP awards granted during the financial year

LTIP awards were granted to both Executive Directors on 5 April 2018 with a face value of 125 per cent of salary.

Director	Award scheme	Date of award	Normal vesting date <sup>1</sup>	Number of shares awarded	Face value of award	Share price – 30-day average	Level of award receivable at lower threshold
Louis Eperjesi	LTIP	5 April 2018	5 April 2021	176,381	525,000	£2.9765	25%
James Brotherton	LTIP	5 April 2018	5 April 2021	115,487	343,750	£2.9765	25%

1 The award is subject to a two-year holding period after normal vesting.

Vesting of the 2018 Awards is based on the Company's three-year cumulative underlying EPS for the financial years 2018 to 2020 of 92.0 pence (lower threshold – 25 per cent vesting) and 109.0 pence (upper threshold – 100 per cent vesting) and subject to a discretionary underpin based on, inter alia, relative TSR over the period 2018–2020 and reported ROCE performance in 2020 of not less than 15 per cent.

Performance will be measured against EPS targets as set out below:

EPS targets (100% weighting)	Cumulative EPS target over the three years ending December 2020	CAGR of EPS over 2017 EPS required to meet target
Threshold – 25% award	92.0p	6.7%
Maximum – 100% award	109.0p	15.8%

In 2017 the Remuneration Committee introduced a discretionary ROCE underpin as an additional measure to ensure the performance conditions remain suitably challenging and fully aligned with shareholder interests. The ROCE underpin operates in addition to the existing financial underpin, with the Committee having the discretion to reduce LTIP awards in the event that ROCE under current 2018 accounting policies does not meet certain pre-determined targets over the performance period. In 2019, it is intended that the discretion to reduce the LTIP award would apply if ROCE under 2018 accounting policies was not above 15 per cent

## Remuneration report continued

Annual Report on Directors' Remuneration continued

### Directors' interests in shares

The interests of each person who was a Director of the Company as at 31 December 2018 (together with interests held by his or her connected persons) were:

	Unrestricted shares	Restricted shares <sup>1</sup>	Total ordinary shares held <sup>2</sup>	% of salary <sup>3</sup> required (2018)	% of salary achieved <sup>4</sup>	2018 guidelines met?	Ordinary shares at 31 December 2017
Pamela Bingham	—	—	—	—	—	—	—
James Brotherton	424,321	42,240	<b>466,561</b>	200%	369%	Yes	442,717
Helen Clatworthy	—	—	<b>15,000</b>	—	—	—	15,000
Louis Eperjesi	583,624	61,834	<b>645,458</b>	200%	361%	Yes	607,496
Mark Rollins	—	—	<b>40,000</b>	—	—	—	25,000
Martin Towers	—	—	<b>62,984</b>	—	—	—	62,984

1 Two-years holding period on LTIP2014 and LTIP2015 award vested in March 2017 and March 2018.

2 From 31 December 2018 to 5 March 2019 there were no changes to the above stated holdings. Pamela Bingham did not hold shares on either date.

3 Base salary as at 31 December 2018.

4 Based on the closing price of Tyman plc ordinary shares of £2.350 on 31 December 2018.

### Directors' interests in shares under all share plans (LTIP, DSBP and SAYE) (audited)

Award scheme	Award date	Shares over which awards				Held at 31 December 2018	Exercise price	Earliest vesting date <sup>2</sup>
		Held at 1 January 2018	Granted during the year	Vested during the year <sup>1</sup>	Lapsed during the year			
<b>Louis Eperjesi</b>								
DSBP	10/03/15	16,057	—	16,057	—	—		Mar 2018
LTIP	22/06/15	121,131	—	50,499	70,632	—		Mar 2018
DSBP	08/03/16	40,099	—	—	—	<b>40,099</b>		Mar 2019
LTIP	09/03/16	151,442	—	—	—	<b>151,442</b>		Mar 2019
DSBP	23/03/17	58,581	—	—	—	<b>58,581</b>		Mar 2020
LTIP	14/03/17	140,661	—	—	—	<b>140,661</b>		Mar 2020
DSBP	14/03/18	—	34,419	—	—	<b>34,419</b>		Mar 2021
LTIP	05/04/18	—	176,381	—	—	<b>176,381</b>		Mar 2021
<b>James Brotherton</b>								
DSBP	10/03/15	10,865	—	10,865	—	—		Mar 2018
LTIP	22/06/15	74,181	—	30,926	43,255	—		Mar 2018
UK ESSP <sup>3</sup>	24/09/15	2,608	—	—	—	<b>2,608</b>	£2.7612	Nov 2018
DSBP	08/03/16	24,557	—	—	—	<b>24,557</b>		Mar 2019
LTIP	09/03/16	93,459	—	—	—	<b>93,459</b>		Mar 2019
UK ESSP	22/09/16	2,750	—	—	—	<b>2,750</b>	£2.6177	Nov 2019
DSBP	23/03/17	36,152	—	—	—	<b>36,152</b>		Mar 2020
LTIP	14/03/17	86,816	—	—	—	<b>86,816</b>		Mar 2020
UK ESSP	29/09/17	1,101	—	—	—	<b>1,101</b>	£3.2685	Nov 2020
DSBP	14/03/18	—	21,243	—	—	<b>21,243</b>		Mar 2021
LTIP	05/04/18	—	115,487	—	—	<b>115,487</b>		Mar 2021
UK ESSP	28/09/18	—	2,217	—	—	<b>2,217</b>	£3.2462	Nov 2021

1 LTIPs are subject to a mandatory two-year holding period, upon vesting, after the sale of the necessary number of shares to cover tax and National Insurance payments.

2 All awards lapse 10 years from the date of grant.

3 Not exercised to date.

### Payments to past Directors

There were no payments to past Directors during the year.

### Loss of office

No payments in respect of loss of office were made to Directors during the year.

## Service contracts

Service contracts were entered into between the Company and the Executive Directors as follows:

	Commencement date	Notice period in months
Louis Eperjesi	7 March 2014	12
James Brotherton	7 March 2014	12

Details of the letters of appointment of the Non-executives are shown below:

Non-executive Director	Date of appointment	Latest date of appointment/reappointment	Expiry date	Notice period in months
Pamela Bingham	18 January 2018	18 January 2018	18 January 2021	One
Helen Clatworthy	9 January 2017	9 January 2017	9 January 2020	One
Mark Rollins	1 April 2015	1 April 2018	1 April 2021	One
Martin Towers	17 December 2009	12 May 2017	—	One

Copies of service contracts and letters of appointment are available to view at the Company's registered office.

## External appointments of Executive Directors

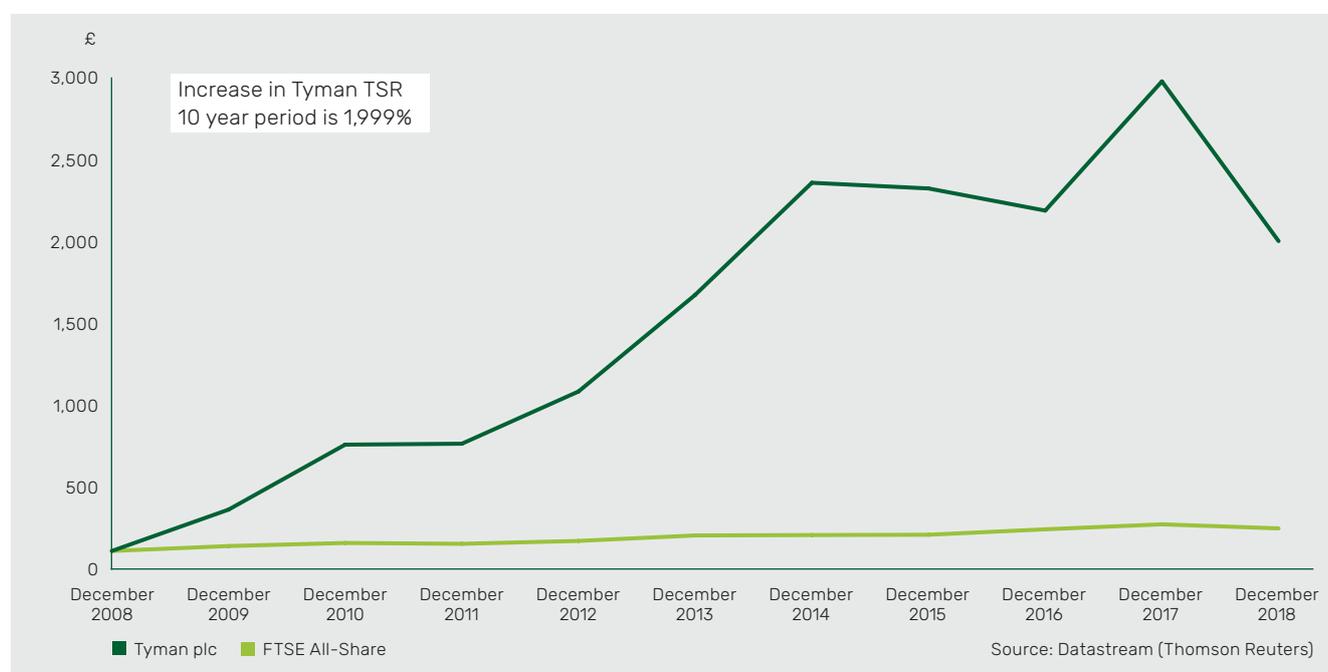
James Brotherton became a director of the Quoted Companies Alliance on 17 January 2017 (this is an unpaid position). Louis Eperjesi was appointed a trustee of the Cheltenham Trust on 2 February 2018 (this is an unpaid position) and a non-executive director of lbstock plc on 1 June 2018. During the year Louis Eperjesi was paid fees of £29,167 in respect of this role, which he retained.

## Performance graph and table

The graph below shows the total shareholder return for Tyman plc and the FTSE All-Share Index over the past 10 years. The Committee considers the FTSE All-Share Index relevant to the Company since it is a recognised benchmark for companies of Tyman's size.

The graph shows the value of £100 invested in Tyman plc on 31 December 2008, compared with the value of £100 invested in the FTSE All-Share Index at the same time. Points are plotted at each year end.

### Total shareholder return since December 2008



## Remuneration report continued

Annual Report on Directors' Remuneration continued

### Historical Chief Executive remuneration outcomes

The table below sets out the single figure for the total remuneration paid to the Chief Executive Officer, together with the annual bonus payout (expressed as a percentage of the maximum opportunity) and the LTIP payout (expressed as a percentage of the maximum opportunity), for the current year and previous nine years.

Year	CEO	Single figure of total remuneration £'000	Annual bonus payout %	LTIP payout %
2018	Louis Eperjesi	1,184	58%	90%
2017	Louis Eperjesi	876 <sup>1</sup>	51%	42%
2016	Louis Eperjesi	1,052	91%	49%
2015	Louis Eperjesi	1,026	58%	100%
2014	Louis Eperjesi	1,137	31%	94%
2013	Louis Eperjesi	1,821	90%	100%
2012	Louis Eperjesi	493	68%	Nil
2011	Louis Eperjesi	338	22%	Nil
2010	Louis Eperjesi	394	100%	Nil
	Denis Mulhall	438	Nil	Nil
	Keith Taylor	73	n/e <sup>3</sup>	n/e <sup>3</sup>
2009	Keith Taylor	572	100%	n/e <sup>3</sup>
	Greg Hutchings <sup>2</sup>	713	Nil	Nil

1 The LTIP awards that vested in 2018 have been recalculated using the actual exercise share price.

2 Executive Chairman.

3 "n/e"= not eligible - individual was employed during the year but was not eligible to participate in the bonus or LTIP scheme as appropriate that year.

### Relative spend on pay

The table below sets out, for the years ended 31 December 2018 and 31 December 2017, the total cost of employee remuneration for the Group together with the total distributions made to shareholders by way of dividends.

Relative spend on pay (£'000)	2018	2017	Year on year % change
Total employee remuneration for the Group (excluding share-based payments)	<b>142,199</b>	136,965	3.82
Dividends paid in the financial year	<b>22,362</b>	19,497	14.69

### Statement of implementation for the 2019 financial year

Details of the Directors' remuneration for the 2019 financial year are set out in the table below:

<b>Salary</b>	Louis Eperjesi – £432,000 (2018: £420,000 – 2.85 per cent increase) Jo Hallas – £445,000 (with effect from employment on 1 March 2019) James Brotherton – £306,000 (2018: £297,500 – 2.85 per cent increase)
<b>Pension allowance</b>	Louis Eperjesi – 20 per cent of base salary Jo Hallas – 15 per cent of base salary James Brotherton – 15 per cent of base salary
<b>Benefits</b>	Life assurance cover, critical illness cover, private medical and dental cover, car allowance and professional tax and financial advice. The Directors to receive a car allowance of £17,000 per annum with effect from 1 January 2019.

<b>Annual bonus</b>	<p>125 per cent of base salary, with half payable in cash and half in shares deferred for three years.</p> <p>Bonuses will be based entirely on financial measures for both Jo Hallas and James Brotherton and will remain 70 per cent linked to profitability (PBTA) and 30 per cent linked to cash generation. Consistent with prior years, the precise bonus targets will be disclosed in detail in the 2019 Annual Report and Accounts.</p> <p>Louis Eperjesi will not be eligible to receive an annual bonus award for the 2019 financial year. The bonus award for Jo Hallas for 2019 will be pro-rated to take account of her joining Tyman part way through the financial year.</p>
<b>LTIP</b>	<p>Nil-cost options of 125 per cent of base salary. Performance metrics based on cumulative underlying EPS measured over a three-year period, and subject to discretionary relative total shareholder return and absolute ROCE underpins. 25 per cent vests for threshold performance, with 0 per cent below threshold, increasing pro rata to full vesting for stretch performance. LTIP awards to be retained for two years after vesting.</p> <p>The performance targets will be based on cumulative EPS over the three-year period, with the threshold and maximum targets for the period 2019–2021 and will be subject to a minimum threshold of 95.0 pence (6.9 per cent growth p.a.) to a maximum threshold of 112.0 pence (15.7 per cent growth p.a.) and subject to a discretionary financial underpin based on, inter alia, relative TSR and reported ROCE. These performance targets have been set on the basis of the Group's 2018 accounting policies and have not been amended for the impact of IFRS 16.</p>

The salaries of the Group's senior management team were reviewed in December 2018 and in general were awarded an increase to their base salaries of 2.5 per cent, these being in line with the average increases for all UK-based employees, excluding exceptional increases reflecting local operating or market conditions in the various geographies where Tyman operates. The average increase for the general worldwide workforce was 3.0 per cent.

#### Remuneration arrangements for retiring CEO

As announced on 20 November Louis Eperjesi has decided to step down from the Board and from his role as Chief Executive during 2019.

Louis Eperjesi received a salary increase broadly in line with the level of the general workforce in 2019; however, given his intention to retire he will not be eligible to receive an annual bonus award and nor will he be granted a long term incentive award. Outstanding deferred bonus awards and LTIP awards will be allowed to vest on the normal timetable subject to the achievement of performance conditions and pro-rated for time served, where applicable. Whilst Louis Eperjesi is not subject to any post-employment shareholding requirements, he has indicated he would voluntarily continue to hold shares worth at least two times his salary for one year after he leaves the Group and worth at least one times his salary for a further year. This holding to be no lower than 350,000 shares and 175,000 shares respectively, calculated using a share price of 240.0 pence per share. This is a voluntary commitment and as such the Committee has no means to enforce compliance.

#### Approach to the future CEO's remuneration

During the year, the Committee approved the remuneration package of the incoming CEO, Jo Hallas. Jo's annual base salary has been set at £445,000 and, in line with the approved policy, her pension provision will be below that of her predecessor, at 15 per cent of salary p.a. Jo Hallas will be eligible to receive an annual bonus award up to a maximum of 125 per cent of base salary subject to the satisfaction of annual performance metrics. In addition, Jo will be eligible to participate in the Company's LTIP where she may be awarded nil-cost options up to a maximum of 125 per cent of base salary subject to performance conditions measured over three years. A further two-year post-vesting holding period will apply to all LTIP awards.

#### Details of arrangements to buy out existing entitlements.

The Committee considered it appropriate to buy out the outstanding LTIP awards held by Jo Hallas at her previous employer, Spectris plc, which she would forfeit by leaving its employment. The value of this buyout takes account of the current value of these awards including the likelihood of any applicable performance conditions being achieved and it is estimated at £775,224 with financial calculations ongoing. Once finalised, a number of shares in Tyman plc, whose value equates to the LTIP buyout value, will be awarded to Jo Hallas. Full details of the buyout awards will be disclosed at the time of award and in next year's report. However, it is intended that half of these shares will vest on 30 April 2020 and half on 30 April 2021, subject only to Jo being employed by the Group at that time.

## Remuneration report continued

Annual Report on Directors' Remuneration continued

### Statement of implementation for the 2019 financial year continued

#### LTIP awards

In line with the approved Remuneration Policy it is expected that an award of shares will be made under Tyman's Long Term Incentive Plan in mid-March 2019, shortly after the release of the Group's financial results for 2018 (the 2019 Awards), with Jo Hallas and James Brotherton being awarded shares to the value of 125 per cent of their respective base salaries in line with the Policy approved at the 2017 AGM. The measurement period for the 2019 Awards will be from 1 January 2019 to 31 December 2021. These awards will be subject to a two-year post-vesting holding period and three-year post-vesting recovery provisions.

The 2019 Awards will be made under the rules of the 2010 Long Term Incentive Plan (the 2010 LTIP) under which awards with a face value of up to 125 per cent of salary may be granted in normal circumstances. The performance targets will be based on cumulative EPS over the 2019 to 2021 financial years and subject to a minimum threshold of 95.0 pence (6.9 per cent growth p.a.) to a maximum threshold of 112.0 pence (15.7 per cent growth p.a.) and subject to a discretionary financial underpin based on, inter alia, relative TSR and reported ROCE performance. These performance targets have been set on the basis of the Group's 2018 accounting policies and have now been amended for the impact of IFRS 16.

The table below shows the performance period and corresponding targets of the outstanding LTIP awards.

LTIP awards granted in	Performance period	Vesting date	Cumulative EPS target range over the performance period	Number of shares outstanding as at 31 December 2018
2016	2016–2018	March 2019	67.00–78.50p	692,816
2017	2017–2019	March 2020	89.10–103.30p	748,865
2018	2018–2020	March 2021	92.0–109.0p	822,531
2019 <sup>1</sup>	2019–2021	March 2020	95.0–112.0p	928,631 <sup>2</sup>

1 It is expected that awards under the LTIP will be awarded in mid-March 2019.

2 The estimated number of shares to be awarded using an average share price of £2.405 pence per share.

#### Non-executive Director fees

The Chairman is paid a fee of £137,500 per annum, with no additional fee for chairing the Nominations Committee.

Non-executive Directors are paid an annual basic fee, plus an additional fee for chairing a Board Committee.

Position	Annual fee 2019 £	Annual fee 2018 £
Chairman	137,500	132,600
Non-executive Director	48,500	47,750
Annual fee for the Chair of the Audit or Remuneration Committees	8,000	7,000
Annual fee for the Senior Independent Director <sup>1</sup>	6,500	6,000

1 Paid at 50 per cent if Senior Independent Director is also Chair of a Committee.

All Non-executive Director fees, the fee for the Chairman, fees for the Committee Chairs and the fee for the Senior Independent Director were reviewed in December 2018. Taking into account the time commitment, continued work on the Group's succession planning and overall commitment to the Company it was decided that Martin Towers should be awarded an increase of 3.7 per cent, raising his fee for 2019 to £137,500. The Non-executive Directors were awarded an increase of 1.6 per cent, raising the basic fee to £48,500 per annum.

The fees paid to the Chairs of the Audit and Remuneration Committees were increased to £48,500 per annum and the fee for the role of Senior Independent Director was reviewed and increased to £6,500. As in prior years, where the Senior Independent Director is also Chair of a Committee, this fee is reduced by 50 per cent. Mark Rollins, who is Chair of the Remuneration Committee, will therefore receive an additional fee of £3,250 as Senior Independent Director.

#### Other items

##### Details of share plans

During the year awards were made under the following plans:

- Tyman Sharesave Plans in the form of options totalling 126,286 shares at a price of £3.2462 to £3.382, vesting over a one or three-year period, depending on jurisdiction. The total number of awards outstanding as at 31 December 2018 is 319,209.
- Deferred Share Bonus Plan in the form of deferred share awards totalling 115,614 shares. Awarded as a nil-cost option in respect of deferred bonus. Vesting over a three-year period. The total number of share awards outstanding as at 31 December 2018 is 421,280.
- Tyman Long Term Incentive Plan awards totalling 832,543 shares. Awarded with performance conditions, vesting over a three-year period, with a further two-year holding period. The total number of LTIP awards outstanding as at 31 December 2018 is 2,293,219.
- The total number of shares outstanding under all share plans as at 31 December 2018 is 3,033,708 shares.

## Dilution

The Group operates the general principle that the vesting of share awards under Executive and employee share plans should be satisfied either by the issue of shares out of treasury or, subject to Trustee consent, through shares acquired on the market by the Tyman Employee Benefit Trust.

Certain jurisdictions require that new shares are issued to employees to settle vesting under share arrangements. Where new shares are issued in these circumstances it is the Group's intention to match the new shares issued with an equal purchase of shares on the market either into treasury or into the Tyman Employee Benefit Trust.

As at 31 December 2018, shares equivalent to 4.4 per cent of the Group's issued share capital (excluding treasury shares) would be required to settle all outstanding awards under Executive and employee share plans, assuming maximum vesting.

## Statement of voting at Annual General Meetings

The table below sets out the results of the 2017 and 2018 AGMs in respect of the Remuneration Policy and Annual Report on Directors' Remuneration respectively:

	Votes for	Votes at discretion	Votes against	Total number of votes cast	Total number of votes withheld
Remuneration Policy (2017 AGM)	138,245,599 (96.79%)	48,673 (0.03%)	4,546,304 (3.18%)	142,840,576 (100%)	1,436,928
Annual Report on Directors' Remuneration (2018 AGM)	156,506,590 (97.29%)	89,784 (0.06%)	4,263,502 (2.65%)	160,859,876 (100%)	5,887,672

The Committee is grateful to the Group's shareholders for their support as shown in the voting levels at the 2018 AGM and looks forward to receiving their continued support in 2019.

This Annual Report on Directors' Remuneration has been approved by the Remuneration Committee and is signed on its behalf by:

### Mark Rollins

Chairman, Remuneration Committee

5 March 2019

## Remuneration report continued

### Policy report

### Remuneration Policy table

This section of the Directors' remuneration report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and sets out the Remuneration Policy which was approved by shareholders at the AGM on 12 May 2017. The policy took formal effect from the date of approval and is intended to apply until the 2020 AGM. Please note that some of the information shown has been updated to take account of the fact that the policy is now approved and enacted rather than proposed. A full version of the original shareholder approved policy can be found in the Annual Report for the year ended 31 December 2016 available at the Group website.

Link to strategy	Operation	Maximum opportunity	Metrics
<b>Base salary</b>			
<p>To pay Executive Directors at a level commensurate with their contribution to the Company and appropriately based on skill, experience and performance achieved.</p> <p>The level of salary paid is considered appropriate for motivation and retention of the calibre of executive required to ensure the successful formation and delivery of the Group's strategy and the management of its business in the international environment in which it operates.</p>	<p>Base salary is paid monthly in cash.</p> <p>The Executive Directors' salaries are set having regard to typical pay levels at companies of a similar size, internationality and complexity.</p> <p>Salaries are normally reviewed annually and are typically effective from 1 January each year. When reviewing salaries, the Committee considers all relevant factors including:</p> <ul style="list-style-type: none"> <li>&gt; prevailing market and economic conditions;</li> <li>&gt; scope and responsibilities of the role;</li> <li>&gt; the level of increase for other roles within the business; and</li> <li>&gt; Company and individual performance.</li> </ul>	<p>There is no prescribed maximum salary.</p> <p>Salary increases will normally be broadly in line with the general annual salary increase received by Group employees in the relevant Director's country of residence.</p> <p>The Committee retains the discretion to award larger increases, for example, to reflect a change in role, development and performance of a Director or reflect an increase in complexity of the Group.</p>	<p>While there are no performance targets attached to the payment of salary, Company and individual performance is a factor considered in the salary review process.</p>
<b>Benefits</b>			
<p>To provide a range of market-competitive benefits to facilitate the recruitment of high calibre individuals and encourage their retention.</p>	<p>Executive Directors are eligible for a range of benefits that may include:</p> <ul style="list-style-type: none"> <li>&gt; life assurance cover;</li> <li>&gt; critical illness cover;</li> <li>&gt; private medical and dental cover;</li> <li>&gt; car allowance; and</li> <li>&gt; professional tax and financial advice.</li> </ul> <p>Additional benefits may also be provided in certain circumstances which may include relocation and associated expenses.</p> <p>Other benefits may be offered if considered appropriate, reasonable and necessary by the Committee and any reasonable business related expenses can be reimbursed (including tax thereon if determined to be a taxable benefit).</p> <p>Executive Directors are eligible for other benefits introduced for the wider workforce on broadly similar terms.</p>	<p>No overall maximum level has been set since some costs may change in accordance with market conditions.</p> <p>Benefits are reviewed by the Committee on an annual basis and set at an appropriate market rate.</p>	<p>No performance metrics apply.</p>

Link to strategy	Operation	Maximum opportunity	Metrics
<b>Pension</b>			
To provide a market-competitive benefit for retirement, to facilitate the recruitment of high calibre individuals and encourage their retention.	<p>Executive Directors are eligible to participate in the relevant pension arrangements offered by the Group or to receive a cash salary supplement in lieu of pension entitlement.</p> <p>The Committee may amend the form of any Executive Director's pension arrangements in response to changes in legislation or similar developments, provided that the amendment does not materially increase the cost to the Company of the pension provision.</p>	<p>The maximum opportunity, either by way of a contribution to a Group pension arrangement or payment of a cash salary supplement, is 20 per cent of base salary.</p> <p>The maximum cash salary supplement for any new Executive Director would be limited to 15 per cent of base salary.</p>	No performance metrics apply.
<b>Annual bonus</b>			
<p>To incentivise and reward achievement of annual goals consistent with the strategic direction of the business.</p> <p>To create further alignment with shareholders' interests via the delivery and retention of deferred equity.</p>	<p>Rewards annual performance against targets set and assessed by the Committee.</p> <p>Any bonus payable under the annual bonus scheme is paid 50 per cent in cash and 50 per cent in shares deferred for three years under the DSBP and is not pensionable.</p> <p>A dividend equivalent provision allows the payment of dividends, at the Committee's discretion on vested shares at the time of vesting.</p> <p>Three-year recovery and withholding provisions apply.</p>	The normal maximum annual bonus opportunity for the Executive Directors is 125 per cent of salary.	<p>Performance metrics are selected annually based on the objectives of the business at the time, with the majority of the bonus linked to financial metrics. Annual financial performance targets have historically been focused on profit and cash generation metrics.</p> <p>Performance below threshold results in zero payment. Payments normally rise from 0 per cent to 100 per cent of the maximum opportunity for performance between the threshold and maximum targets.</p>
<b>Long Term Incentive Plan</b>			
<p>To align the interests of senior executives to those of shareholders in developing the long term growth of the business and execution and delivery of the Group's strategy.</p> <p>To facilitate share ownership.</p>	<p>Consists of awards of shares that vest subject to the achievement of performance conditions.</p> <p>Participation and individual award levels will be determined at the discretion of the Committee and within the approved limits of the policy.</p> <p>The Committee reviews the LTIP performance measures in advance of each grant to ensure their ongoing appropriateness and, where material changes to performance measures are proposed, it consults with shareholders.</p> <p>Awards made under the LTIP are non-pensionable and will normally require Executive Directors to retain any awards that vest, net of tax, (whether held as shares or options) for a minimum of two further years from the date of vesting.</p> <p>Three-year recovery and withholding provisions apply.</p> <p>Dividend equivalents may be paid.</p>	125 per cent of salary or 200 per cent, in exceptional circumstances, such as the recruitment or retention of critical talent on a targeted basis.	<p>Awards are subject to the achievement of defined targets measured over three financial years, starting at the beginning of the financial year in which the award is made.</p> <p>In respect of each performance measure, performance below threshold results in zero vesting. The starting point for the vesting of each performance element will be no higher than 25 per cent of the maximum opportunity and will rise a straight-line basis to 100 per cent of maximum opportunity for attainment of levels of performance between threshold and maximum.</p> <p>Awards will be granted subject to performance conditions that measure the long term success of the Company. The Committee may introduce or reweight performance measures so that they are directly aligned with the Company's strategic objectives for each performance period.</p>

## Remuneration report continued

Policy report continued

### Remuneration Policy table continued

Link to strategy	Operation	Maximum opportunity	Metrics
<b>Shareholding requirement</b>			
To motivate and reward the creation of long term shareholder value. To ensure alignment with shareholders' interests.	<p>Executive Directors are expected to retain a minimum shareholding equivalent to 200 per cent of basic salary.</p> <p>Executive Directors are required to retain 50 per cent of shares vesting (after any disposals necessary to pay associated tax charges) under both the Deferred Share Bonus Plan and the LTIP until the minimum shareholding is reached.</p>	–	No performance metrics apply.
<b>Chairman and Non-executive Director fees</b>			
To attract and retain high calibre Non-executive Directors.	<p>Non-executive Director fees are set by the Board.</p> <p>Fees are normally reviewed annually, but not necessarily increased. Reviews take into account the time commitment, responsibilities and fees paid by companies of a similar size and complexity.</p> <p>Fee increases, if applicable, for Non-executive Directors, take effect from 1 January.</p> <p>Additional fees may be paid to Chairmen of Board Committees and to the Senior Independent Director.</p> <p>If there is a temporary yet material increase in the time commitments for Non-executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.</p> <p>No eligibility to receive bonuses or retirement benefits or to participate in the Group's long term incentive plans or employee share plans.</p> <p>Any reasonable business related expenses can be reimbursed (including tax thereon if determined to be a taxable benefit).</p>	Aggregate annual fees to Directors are limited to £500,000 under the Company's Articles of Association.	No performance metrics apply.

### Notes to the Remuneration policy table

- 1 Recovery and withholding provisions may be applied to LTIP and DSBP awards in the exceptional circumstances of a material misstatement, gross misconduct, or a material misjudgement of the performance of the Company.
- 2 For the avoidance of doubt, by approval of the policy, authority has been given to the Company to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous Directors' remuneration reports. Details of any payments to former Directors, where required by relevant regulations, will be set out in the Annual Report on Remuneration as they arise.
- 3 The Remuneration Committee retains discretion over the operation of certain elements of pay, particularly variable pay. This includes the discretion to adjust either the annual bonus or LTIP if the outcome is not considered to be reflective of Company performance. In addition, the Committee may adjust elements of the plan including, but not limited to:
  - participation;
  - the timing of the grant and/or payment;
  - the size of an award (up to plan limits) and/or payment;
  - discretion relating to the measurement of performance in the event of a change of control;
  - determination of a good leaver for incentive plan purposes;
  - adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends);
  - in certain circumstances to grant and/or settle bonus or LTIP awards in cash. In practice, this will only be used in exceptional circumstances for Executive Directors;
  - revise any formulaic bonus award downwards or upwards in the event that an exceptional negative or positive event occurs during the bonus year in question; however, in practice, the Committee would not normally expect to revise any formulaic bonus upwards; and
  - the ability to recognise exceptional events within the existing performance conditions.
- 4 Annual bonus performance metrics are determined at the start of each year based on the key business priorities for the year. The majority will be based on clear financial targets that include a significant weighting towards profit and cash generation as, when combined, these are often strong indicators of sustainable growth.
- 5 LTIP performance metrics are determined at the time of grant. Performance measures may include measures of profitability (such as EPS), measures of capital allocation discipline (such as ROCE) and other measures of long term success (such as relative TSR). These measures align with the Company's goal of value creation for shareholders through financial growth and above market returns. Performance against targets may also be subject to appropriate discretionary underpins.

### Executive Directors' service agreements and exit payment policy

The service agreements of the Executive Directors provide for a notice period of 12 months from either party. On termination of their contract by Tyman, and during the period of notice, Executive Directors would be eligible to be paid their salary, pension contributions and other employment benefits (but not annual bonus or grants under long term incentive plans) until the earlier of 12 months from notice of termination or the Director obtaining full time employment, with an obligation on the part of the Director to mitigate.

Payments will normally be made monthly, although the Committee retains discretion to agree settlement terms. These may include a pro-rata bonus in respect of the period worked by the Executive Director up until the date of termination. Bonuses in the final year of employment may also be settled in cash. The Committee may pay reasonable outplacement and legal fees where considered appropriate. The Committee may pay any statutory entitlements or settle or compromise claims in connection with a termination of employment, where considered in the best interests of the Company.

Executive Directors who are categorised as "good leavers" by the Committee will generally be eligible to receive outstanding awards under the Executive Share Plans as they vest in future years. Awards that vest under the LTIP post-employment will normally be pro-rated to reflect the fact that the Executive Director was not employed for the entire period under measurement. For LTIP awards made after the 2014 AGM, the Committee retains discretion to waive the post-vesting holding period requirement for good leavers depending on circumstances. Similar provisions apply in the event of a change of control.

In the event that an Executive Director is dismissed for reasons constituting gross misconduct, all unvested awards under Executive Share Plans lapse and the Committee retains no discretion in this regard.

### Non-executive Directors' letters of appointment and shareholding guidelines

The Chairman and Non-executive Directors do not have service agreements but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment. Non-executive Directors are employed for terms of three years' duration, terminable on a month's notice by the Company or the Director. All Non-executive Directors are required to undertake that they will submit themselves for re-election at each Annual General Meeting occurring during their term of office and no Non-executive Director will serve more than three terms of three years without prior shareholder approval.

Non-executive Directors do not have a minimum shareholding requirement; however, they are expected to acquire and retain a shareholding in the Group for the duration of their appointment.

## Remuneration report continued

Policy report continued

### Other policies

#### Recruitment of Executive Directors

The Committee's general policy on recruitment remuneration is that new Executive Directors should be offered a contract on similar terms to the existing Executive Directors, except for pension contributions which would be capped at 15 per cent of salary. The Committee may agree that the Company will meet certain relocation and associated expenses of a new Executive Director, subject to circumstances.

For a new Executive Director their annual bonus framework and LTIP awards will be in line with the limits set out in the Remuneration Policy table. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions to the current Executive Directors for the first year of appointment. An LTIP award can be made shortly following an appointment (assuming the Company is not in a Closed Period).

Where individuals are promoted to the Board from within the Group, their existing share grants or awards will be allowed to pay out on their original terms.

In certain circumstances, and in order to secure the services of an outstanding candidate, it may be necessary to make an award to a new Executive Director to "buy out" unvested performance plan share or cash awards forfeited on leaving their previous employment. Any such reimbursement would be subject to independent confirmation of the existence, forfeiture on departure and probability of these historical awards vesting had the new Executive Director remained in post. In doing so, the Committee will seek to do no more than match the fair value of the awards forfeited, taking account of performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. Such awards may be made using existing arrangements or using the flexibility provided by the Listing Rules to make awards without prior shareholder approval.

Any such reimbursement would be made in cash or in shares in Tyman plc, and may be subject to performance conditions attached to Tyman. No such incentives were paid in connection with the recruitment of Louis Eperjesi or for the promotion of James Brotherton to their respective roles, both of which occurred in 2010.

Details of incentive arrangements in respect of the incoming CEO, Jo Hallas may be found on page 82.

#### Recruitment of Non-executive Directors

New Non-executive Directors recruited to the Board will be paid the same rates and be subject to the same provisions concerning annual re-election and shareholdings as the then current Non-executive Directors.

#### Policy on external appointments

Executive Directors are allowed to accept external appointments as Non-executive Directors. In respect of quoted companies, this is limited to one other quoted company, subject to Board approval, provided that these are not with competing companies and are not likely to lead to conflicts of interest. Executive Directors would normally be allowed to retain the fees paid from these appointments. Executive Directors may not serve as the Non-executive Chairman of another quoted company.

#### Other share plans

The Executive Directors may participate in any all-employee share plans on the same basis as other employees in their country of residence. The maximum level of participation is subject to the limits imposed by HMRC (or a lower cap set by the Company).

#### Employment conditions elsewhere in the Group

The Remuneration Policy for Executive Directors is consistent with that for other employees save lower levels of incentive opportunity based on seniority and market norms. All senior management employees of the Group participate in bonus arrangements, with all permanent UK, US and other international employees eligible to participate in one or more share schemes. Employees in certain other jurisdictions are also eligible to participate in all-employee share plans. Although the Committee does not consult directly with employees on the Directors' Remuneration Policy, the Committee does consider the general basic salary increase, remuneration arrangements and employment conditions for the broader employee population when determining remuneration policy for the Executive Directors.

#### Consultation with shareholders and shareholder bodies

The Committee is committed to regular engagement with shareholders and governance bodies. During 2017, the Committee wrote to shareholders representing over 50 per cent of the Group's issued shares and a number of governance bodies advising them of the changes to the CFO role and resultant increase in base salary, at the time of the announcement. Overall, the responses received were positive and acknowledged the Committee's restraint in the phasing impact on variable pay of the base salary increase together with the fact that the base salary would not be reviewed again until 1 January 2019.

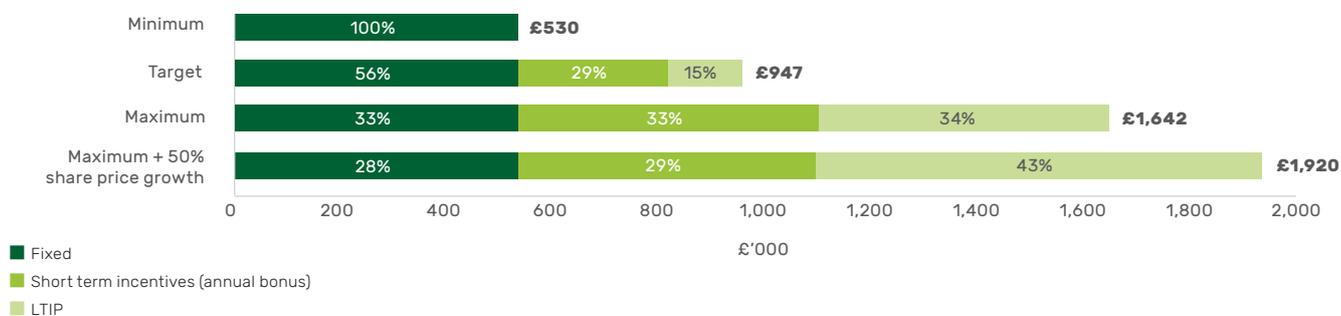
In advance of implementing any material future changes to the Executive Directors' remuneration the Committee would normally engage in consultation with shareholders.

All Committee members attend the Annual General Meeting and may also be contacted through the Group's registered office to answer any questions shareholders or shareholder bodies may have in relation to the Group's Remuneration Policy.

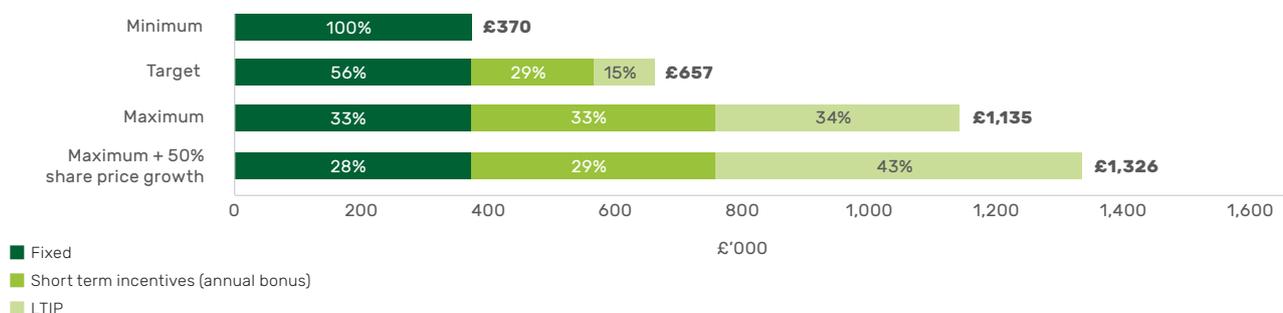
## Illustrative performance scenarios

The table below sets out performance scenarios for each Executive Director, for the financial year 2019, showing an indication of the level of remuneration that would be received at minimum, on-target and maximum performance.

### Chief Executive Officer



### Chief Financial Officer



The above charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration and the value of each component. These assumptions are shown for illustration purposes only.

Three scenarios have been illustrated for each Executive Director:

2019

#### Minimum performance

Fixed remuneration  
No annual bonus  
No vesting of LTIP awards

#### On target performance

Fixed remuneration  
50 per cent annual bonus payout (62.50 per cent of salary)  
25 per cent of LTIP awards vest (31.25 per cent of salary)

#### Maximum performance

Fixed remuneration  
100 per cent annual bonus payout (125 per cent of salary)  
100 per cent of LTIP awards vest (125 per cent of salary)

#### Maximum + 50 per cent share price growth

Fixed remuneration  
100 per cent annual bonus payout (125 per cent of salary)  
100 per cent of LTIP awards vest (125 per cent of salary)  
and 50 per cent. share price growth applied to the LTIP award

The fixed pay element is based on the following elements:

- Base salary is the base salary effective for Jo Hallas and James Brotherton for the year ended 31 December 2019, as set out on pages 90 and 91.
- Benefits are the value of benefits paid in the year ended 31 December 2018, as set out in the table of Directors' remuneration on page 85.
- Cash contribution in lieu of pension of 15 per cent of base salary for the CEO and CFO.

## Independent auditors' report

To the members of Tyman plc

### Report on the audit of the Group financial statements

#### Opinion

In our opinion, Tyman plc's Group financial statements (the "financial statements"):

- > give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- > have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- > have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and accounts (the "Annual Report"), which comprise: the consolidated balance sheet as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

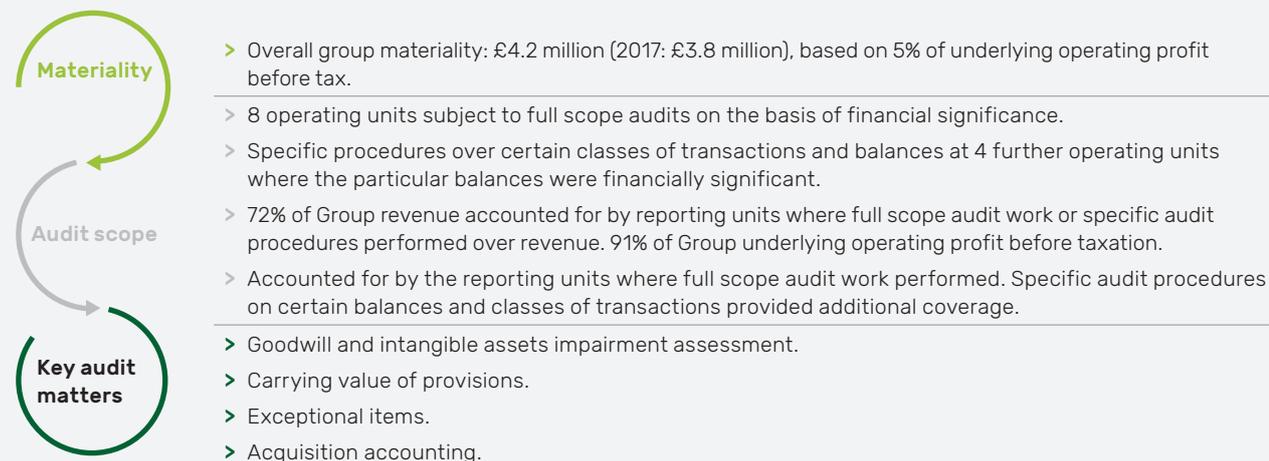
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Group in the period from 1 January 2018 to 31 December 2018.

#### Our audit approach

##### Overview



#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

#### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches in health and safety regulations and employment law, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work.

## Report on the audit of the Group financial statements continued

### Our audit approach continued

#### Capability of the audit in detecting irregularities, including fraud continued

Audit procedures performed by the Group engagement team and/or component auditors included:

- discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of matters reported on the entity's whistleblowing helpline;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to goodwill and intangible assets impairment assessment, carrying value of provisions and exceptional items (see related key audit matter below); and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted to exceptional items.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Goodwill and intangible assets impairment assessment</b> Refer to page 71 (Audit Committee Report), page 123 (notes).</p> <p>There is £382 million of goodwill and £134 million of intangible assets recognised on the balance sheet, predominantly arising from past acquisitions. The Group operates in the building products market and therefore future results are impacted by fluctuations in the housing market and wider economy.</p> <p>We focused on these balances because the determination of whether or not an impairment charge was necessary involved significant judgements about the future results of the business and the allocation of assets to cash generating units (CGUs).</p> <p>The value in use calculation to support the carrying value of goodwill and intangibles includes the impact of some anticipated industry growth and realisation of the benefits of synergies arising from acquisitions, the footprint rationalisation project and investment made by the Group.</p>	<p>We evaluated the appropriateness of the allocation of acquired assets to CGUs. We considered the level of integration of acquisitions made during the year to assess the level at which cash flows were independently generated.</p> <p>We were satisfied that the level of integration was such that the cash flows of acquired entities are not independently generated and therefore the allocation to CGUs was appropriate.</p> <p>For all CGUs, namely AmesburyTruth, ERA and SchlegelGiesse, we evaluated the reasonableness of management's future cash flow forecasts and tested the underlying value in use calculations. We agreed management's forecast to the latest Board approved strategic plan. We also compared historic actual results to those budgeted to assess the quality of management's forecasting. Where performance was below budget, we assessed why this was the case. Based on this evaluation, we considered management's ability to forecast was fair.</p> <p>The key assumptions in the calculations were growth in revenue and EBITDA margins. In assessing these assumptions we considered external construction industry outlook reports and economic growth forecasts from a variety of sources, as these were good indicators of building product sales. We also tested:</p> <ul style="list-style-type: none"> <li>➤ management's assumption in respect of the long term growth rates in the forecasts by comparing them to long term average growth rates of the economies in the relevant territories; and</li> <li>➤ the discount rate by assessing the cost of capital for the Company and comparable organisations.</li> </ul> <p>We were satisfied these assumptions were appropriate.</p> <p>We performed sensitivity analysis in respect of the key assumptions, which were flexed to determine at what level this would eliminate the headroom in the model.</p> <p>There were no changes in the key assumptions that were considered reasonably possible which would eliminate headroom, as outlined in the disclosure in note 10.</p>

## Independent auditors' report continued

To the members of Tyman plc

### Report on the audit of the Group financial statements continued

#### Our audit approach continued

#### Key audit matters continued

Key audit matter

How our audit addressed the key audit matter

#### Carrying value of provisions

Refer to page 71 (Audit Committee Report), page 139 (notes).

The Group holds a number of provisions which are inherently judgemental, including:

##### Property related provisions (2018: £3.2 million, 2017: £3.5 million)

The Group has grown through acquisition and is in the process of undertaking a footprint rationalisation programme which has resulted in the exit and consolidation of manufacturing and warehouse facilities. Consequently there are a number of manufacturing and warehouse sites which are no longer used. Provisions have therefore been made in relation to onerous leases. In addition, a number of leasehold properties require the Group to reinstate them to their original state of repair, for which dilapidation provisions have been made. We focused on these because there is inherent judgement in assessing the minimum expected costs of onerous leases as well as the cost of repairs at the end of a lease term.

##### Restructuring provisions (2018: £7.0 million, 2017: £8.0 million)

Restructuring provisions are comprised mainly of provisions for the closure of the Rochester, NY and Amesbury, MA plants, (£6.8 million).

##### Warranty provisions (2018: £2.5 million, 2017: £0.9 million)

The provision is based on the estimated costs of warranty claims on products sold. We focused on this provision as the estimation and timing of costs in respect of future warranty claims requires judgement, and, as such, there is a risk that the provision may be understated. This has increased during the year due to the acquisitions made.

#### Exceptional items

Refer to page 71 (Audit Committee Report), page 117 (notes).

The Group has recognised £7.3 million net exceptional costs in the year, the classification of which is subject to judgement. The exceptional items relate to:

##### Footprint restructuring (£4.7 million charge and £0.9 million credit)

These costs relate to the footprint rationalisation programme across the Group, predominantly in AmesburyTruth, where the costs relate to plant closures (severance and clean-up costs) and relocation expenses.

The North American footprint project is expected to conclude by 2020.

##### M&A and integration (£1.7 million charge)

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 (£2.5 million charge)

As part of the Group's acquisitions, and in accordance with IFRS 3, fair value adjustments were made to revalue the inventory held by Ashland, Profab, Reguitti and Zoo to market value on acquisition. This treatment has been consistently applied to each of the Group's acquisitions in recent years.

#### Property related provisions

The Group obtained external valuations for costs of reinstating leasehold properties to their original state of repair. Where applicable we read available external valuation reports, assessed the competence and objectivity of the valuation expert by reviewing qualifications, and agreed their estimate to management's calculation. Where no external valuations were available, we considered the reasonableness of the items included in the calculation, being the estimated removal costs of equipment, and repair costs considering the relative size and complexity of work across sites.

#### Restructuring provisions

The restructuring provisions are predominantly for severance costs to employees and clean-up costs of the plants to get them into a saleable condition. We assessed the reasonableness of the valuation of the clean-up costs performed by an independent external valuation expert and examined the communication to employees of the plant closure.

#### Warranty provisions

We tested the accuracy of management's calculation of forecast claims, which contain an element based on historic claims experience, and specific elements for known warranty issues, and compared the level of historic warranty claims to that forecast.

Based on the work performed, we were satisfied that the provisions were made on a reasonable basis.

We have evaluated the appropriateness of recognising the income and charges as exceptional items and considered the impact of them on the underlying results.

Specifically, we have understood the criteria for and governance over the footprint restructuring and M&A and integration projects and the costs associated with them that management deem to be exceptional items.

Accordingly, we have tested the costs associated with such projects to underlying evidence to support the amounts recognised and challenged management on the rationale of classifying these amounts as exceptional.

We have considered the governance and oversight in place with regards to the restructuring projects and note the current year expense is in line with guidance previously disclosed.

We have determined that the rationale for including or excluding items from adjusted profit has been consistently applied across gains and losses and year on year.

We consider the disclosure of the exceptional items within the financial statements to be in line with the Group's accounting policy, which has been consistently applied. We are satisfied that the accounting treatment and disclosure is appropriate.

## Report on the audit of the Group financial statements continued

### Our audit approach continued

#### Key audit matters continued

Key audit matter

How our audit addressed the key audit matter

#### Acquisition accounting

Refer to page 71 (Audit Committee Report), page 146 (notes).

The Group acquired Ashland Hardware ("Ashland"), Zoo Hardware ("Zoo"), Profab Access ("Profab") and Reguitti during the year.

Customer relationship intangible assets of £38.1 million and brand intangible assets of £12.3 million were recognised.

Accounting standards require that all assets and liabilities are recorded at their fair value on acquisition. The determination of fair value inherently requires judgement.

In particular, the identification and valuation of intangible assets of £50.4 million, valuation of inventory of £24.4 million, property, plant and equipment £6.3 million, and provisions of £1.2 million required judgement.

For all material and complex transactions we obtained and read the sale and purchase agreements ("SPAs") and obtained and audited management's detailed accounting papers.

In testing acquisitions during the year we:

- assessed the appropriateness of the identification of intangible assets acquired by reviewing the SPAs to identify any assets listed, considered the assets based on those in comparative companies and comparing the ratio of the value of goodwill acquired to the intangible assets to comparable transactions;
- obtained the directors' calculation of the fair value of intangible assets acquired, and corroborated the appropriateness of the assumptions over levels of customer attrition, useful economic lives and forecast cash flows to external benchmarks, historical performance and the acquisition plans;
- in respect of inventory valuation, we assessed the margin uplift applied against historic actual margins earned and tested the calculation of the obsolescence provisions made based on inventory ageing and alignment to Group policy; and
- verified the fair value of consideration paid of acquisitions, including any deferred or contingent element, to cash transactions and the SPAs.

Based on the procedures performed, we concluded that the accounting for acquisitions was appropriate and in line with the requirements of IFRS 3.

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

The Group is structured along three business lines being AmesburyTruth, ERA, and Schlegel Giesse along with centralised functions covering Group treasury and central costs. The Group financial statements are a consolidation of 76 reporting units for the Group's operating businesses, which map into the three business lines and centralised functions.

Of the Group's 76 reporting units, we identified 8 which, in our view, required an audit of their complete financial information, due to their size. The units were based in the United Kingdom (UK), the United States (US), and Italy.

Specific audit procedures on certain balances and classes of transactions were performed at a further 4 reporting units, as while overall the units were not financially significant, certain classes of transactions and balances were material or considered to be higher risk, including interest, loans, cash, inventory, pension and revenue.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the reporting units either by us, as the Group engagement team, or the component auditors in the US or Italy operating under our instruction.

Where work was performed by the US and Italian component auditors, the UK engagement leader and senior manager visited the US and the UK engagement leader and manager visited the Italian component teams, reviewed audit work papers related to areas of focus, and participated in the US and Italian component clearance meetings. In addition to the site visits we held regular phone calls with the US and Italian teams and obtained formal reporting. The US engagement leader also participated in the Group Audit Committee meeting in the UK.

72% of the Group's revenue is accounted for by reporting units where we performed full scope audit work or performed specific audit procedures over revenue. 91% of the Group's underlying operating profit before taxation is accounted for by the 8 reporting units where we performed full scope audit work on the complete financial information. Audit procedures were performed at a further 4 reporting units as explained above. We considered the quantitative and qualitative characteristics of the remaining reporting units which comprise a large number of small units in which we considered the risk of material misstatement to the Group to be low. The Group team performed appropriate analytical procedures over these remaining units. Together with additional procedures performed at the Group level on balances such as goodwill, intangible assets, and taxation, this gave us the evidence we needed for our opinion on the Group financial statements as a whole.

## Independent auditors' report continued

To the members of Tyman plc

### Report on the audit of the Group financial statements continued

#### Our audit approach continued

##### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£4.2 million (2017: £3.8 million).
How we determined it	5% of underlying operating profit before tax.
Rationale for benchmark applied	Underlying operating profit before tax is the key measure used internally by management in assessing the performance of the Group, externally by analysts, and is the measure disclosed as a key performance indicator in the annual report. This measure provides us with a consistent year on year basis for determining materiality based on trading performance and eliminates the impact of non-recurring items. Underlying operating profit excludes net finance costs, exceptional items, amortisation of acquired intangible assets, and impairment of acquired intangible assets and goodwill.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.09 million and £3.8 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £209,000 (2017: £200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

##### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to.  However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

## Report on the audit of the Group financial statements continued

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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### Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 41 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 45 and 46 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit. (Listing Rules)

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### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
  - The section of the Annual Report on pages 71 and 72 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
  - The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.
-

## Independent auditors' report continued

To the members of Tyman plc

### Report on the audit of the Group financial statements continued

#### Responsibilities for the financial statements and the audit

##### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on pages 64 and 65, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

##### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Other required reporting

#### Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2012 to 31 December 2018.

### Other matter

We have reported separately on the Company financial statements of Tyman plc for the year ended 31 December 2018 and on the information in the Directors' Remuneration Report that is described as having been audited.

#### Richard Porter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

5 March 2019

## Consolidated income statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Revenue</b>	3	<b>591,542</b>	522,700
Cost of sales	3	<b>(383,264)</b>	(331,831)
<b>Gross profit</b>		<b>208,278</b>	190,869
Administrative expenses		<b>(157,828)</b>	(146,962)
<b>Operating profit</b>	4	<b>50,450</b>	43,907
Analysed as:			
Underlying <sup>1</sup> operating profit	3	<b>83,584</b>	76,817
Exceptional items	6	<b>(7,285)</b>	(9,976)
Amortisation of acquired intangible assets	10.3	<b>(25,849)</b>	(22,934)
<b>Operating profit</b>	4	<b>50,450</b>	43,907
Finance income	7	<b>377</b>	224
Finance costs	7	<b>(11,966)</b>	(9,597)
<b>Net finance costs</b>	7	<b>(11,589)</b>	(9,373)
<b>Profit before taxation</b>	3	<b>38,861</b>	34,534
Income tax charge	8	<b>(12,514)</b>	(3,334)
<b>Profit for the year</b>		<b>26,347</b>	31,200
Basic earnings per share	9	<b>13.76p</b>	17.61p
Diluted earnings per share	9	<b>13.66p</b>	17.49p
<b>Non-GAAP Alternative Performance Measures<sup>1</sup></b>			
Underlying <sup>1</sup> operating profit	3	<b>83,584</b>	76,817
Underlying <sup>1</sup> profit before taxation	9	<b>72,658</b>	68,284
Basic underlying earnings per share	9	<b>27.68p</b>	26.91p
Diluted underlying earnings per share	9	<b>27.47p</b>	26.73p

<sup>1</sup> 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 166 to 172 for non-GAAP Alternative Performance Measures.

The notes on pages 111 to 155 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Profit for the year</b>		<b>26,347</b>	31,200
<b>Other comprehensive income/(expense)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of post-employment benefit obligations	20	861	(1,366)
Total items that will not be reclassified to profit or loss		861	(1,366)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		15,343	(24,069)
Effective portion of changes in value of cash flow hedges	16	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)
<b>Total comprehensive income for the year</b>		<b>42,560</b>	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 8.

The notes on pages 111 to 155 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Other reserves <sup>1</sup> £'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
<b>Total comprehensive income/(expense)</b>	–	–	–	–	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)
<b>Transactions with owners</b>	–	–	–	562	–	–	(18,919)	(18,357)
Share-based payments <sup>2</sup>	–	–	–	–	–	–	1,987	1,987
Dividends paid	–	–	–	–	–	–	(19,497)	(19,497)
Issue of own shares from Employee Benefit Trust	–	–	–	1,409	–	–	(1,409)	–
Purchase of own shares for Employee Benefit Trust	–	–	–	(847)	–	–	–	(847)
At 31 December 2017	8,929	81,407	8,920	(2,776)	(275)	56,066	212,244	<b>364,515</b>
Change in accounting policy <sup>3</sup>	–	–	–	–	–	–	(687)	<b>(687)</b>
At 1 January 2018	8,929	81,407	8,920	(2,776)	(275)	56,066	211,557	<b>363,828</b>
<b>Total comprehensive income</b>	–	–	–	–	9	15,343	27,208	<b>42,560</b>
Profit for the year	–	–	–	–	–	–	26,347	<b>26,347</b>
Other comprehensive income	–	–	–	–	9	15,343	861	<b>16,213</b>
<b>Transactions with owners</b>	909	50,812	(8,920)	(2,114)	–	–	(13,229)	<b>27,458</b>
Share-based payments <sup>2</sup>	–	–	–	–	–	–	1,251	<b>1,251</b>
Dividends paid	–	–	–	–	–	–	(22,362)	<b>(22,362)</b>
Issue of shares	909	50,812	–	–	–	–	–	<b>51,721</b>
Transfer of merger reserve <sup>1</sup>	–	–	(8,920)	–	–	–	8,920	–
Issue of own shares from Employee Benefit Trust	–	–	–	1,105	–	–	(1,038)	<b>67</b>
Purchase of own shares for Employee Benefit Trust	–	–	–	(3,219)	–	–	–	<b>(3,219)</b>
<b>At 31 December 2018</b>	<b>9,838</b>	<b>132,219</b>	<b>–</b>	<b>(4,890)</b>	<b>(266)</b>	<b>71,409</b>	<b>225,536</b>	<b>433,846</b>

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 32.

The notes on pages 111 to 155 are an integral part of these consolidated financial statements.

## Consolidated balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>TOTAL ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10.2	382,136	323,799
Intangible assets	10.3	134,763	103,393
Property, plant and equipment	11	76,963	68,424
Financial assets at fair value through profit or loss	13	1,178	1,112
Deferred tax assets	8	17,423	11,851
		612,463	508,579
Non-current assets held for sale	25	–	1,275
		612,463	509,854
<b>Current assets</b>			
Inventories	12	105,292	75,341
Trade and other receivables	13	87,338	70,062
Cash and cash equivalents	14	51,871	42,563
Derivative financial instruments	16	322	94
		244,823	188,060
<b>TOTAL ASSETS</b>		<b>857,286</b>	697,914
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(87,021)	(65,916)
Derivative financial instruments	16	–	(29)
Borrowings	17	(1,522)	(1,108)
Current tax liabilities		(7,411)	(3,964)
Provisions	19	(6,955)	(11,024)
		(102,909)	(82,041)
<b>Non-current liabilities</b>			
Borrowings	17	(259,183)	(204,309)
Derivative financial instruments	16	(266)	(275)
Deferred tax liabilities	8	(38,193)	(24,949)
Retirement benefit obligations	20	(10,781)	(12,407)
Provisions	19	(8,155)	(6,435)
Other payables	15	(3,953)	(2,983)
		(320,531)	(251,358)
<b>TOTAL LIABILITIES</b>		<b>(423,440)</b>	(333,399)
<b>NET ASSETS</b>		<b>433,846</b>	364,515
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	21	9,838	8,929
Share premium	21	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
<b>TOTAL EQUITY</b>		<b>433,846</b>	364,515

The notes on pages 111 to 155 are an integral part of these consolidated financial statements.

The financial statements on pages 107 to 110 were approved by the Board on 5 March 2019 and signed on its behalf by:

**Louis Eperjesi**  
Chief Executive Officer  
Tyman plc  
Company registration number: 02806007

**James Brotherton**  
Chief Financial Officer

## Consolidated cash flow statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Cash flow from operating activities</b>			
Profit before taxation	3	38,861	34,534
Adjustments	26	53,648	50,443
Changes in working capital <sup>1</sup> :			
Inventories		(4,451)	(8,104)
Trade and other receivables		(2,777)	(3,884)
Trade and other payables		3,302	(2,668)
Provisions utilised	19	(2,510)	(2,184)
Pension contributions	20	(1,110)	(1,171)
Income tax paid		(12,344)	(15,078)
<b>Net cash generated from operations</b>		<b>72,619</b>	51,888
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment	11	(15,687)	(15,353)
Purchases of intangible assets	10	(1,647)	(1,076)
Proceeds on disposal of property, plant and equipment		5,302	3,803
Acquisitions of subsidiary undertakings, net of cash acquired	24	(106,382)	(5,136)
Purchase of financial asset		–	(1,164)
Interest received		69	416
<b>Net cash used in investing activities</b>		<b>(118,345)</b>	(18,510)
<b>Cash flow from financing activities</b>			
Interest paid		(9,143)	(7,973)
Dividends paid	23	(22,362)	(19,497)
Net proceeds on issue of shares	21	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)
<b>Net cash generated from/(used in) financing activities</b>		<b>56,824</b>	(31,225)
<b>Net increase in cash and cash equivalents</b>			
Exchange losses on cash and cash equivalents		(1,790)	(507)
Cash and cash equivalents at the beginning of the year	14	42,563	40,917
<b>Cash and cash equivalents at the end of the year</b>	14	<b>51,871</b>	42,563

<sup>1</sup> Excluding the effects of acquisition and exchange differences on consolidation.

The notes on pages 111 to 155 are an integral part of these consolidated financial statements.

# Notes to the financial statements

For the year ended 31 December 2018

## 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. Further details on the Group's Viability statement is set out on pages 45 and 46 of the Annual report and accounts.

### 2.3 Accounting judgements and estimates

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any affected future periods.

The areas representing the critical judgements made by management in the preparation of the Group's financial statements are listed below and in more detail in the related notes:

- exceptional items (note 6); and
- business combinations (note 24).

The areas involving key assumptions concerning the future and other key sources of estimation uncertainty that are significant to the financial statements are listed below and in more detail in the related notes:

- deferred tax assets (note 8);
- the carrying amount of goodwill and intangible assets (note 10);
- the carrying amount of inventories (note 12);
- the carrying amount of trade receivables (note 13);
- provisions (note 19);
- business combinations (note 24); and
- defined benefit pension and post-retirement benefit schemes (note 20).

## Notes to the financial statements continued

For the year ended 31 December 2018

### 2. Accounting policies and basis of preparation continued

#### 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 32. The revised accounting policy for revenue is disclosed in note 3.1 and the revised financial instruments accounting policies are disclosed in notes 13.1 and 18.1.

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 32.3.

#### 2.5 Consolidation

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

#### 2.6 Foreign exchange

##### 2.6.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the functional currency of the Company and the presentation currency of the Group.

##### 2.6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Other than the ineffective element, these are recognised directly in equity until the disposal of the net investment, at which time they are recognised in the income statement.

##### 2.6.3 Group companies

On consolidation, assets and liabilities of Group companies denominated in foreign currencies are translated into Sterling at the exchange rate prevailing at the balance sheet date. Income and expense items are translated into Sterling at the average rates throughout the year.

Exchange differences arising on the translation of opening net assets of Group companies, together with differences arising from the translation of the net results at average or actual rates to the exchange rate prevailing at the balance sheet date, are taken to other comprehensive income. On disposal of a foreign entity, the cumulative translation differences recognised in other comprehensive income relating to that particular foreign operation are recognised in the income statement as part of the gain or loss on disposal.

### 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 12 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.

##### 3.1.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, defined as the Board of Directors of the Group, is responsible for allocating resources and assessing performance of the operating segments.

#### 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.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 3. Segment reporting continued

#### 3.2 Segment information continued

##### 3.2.1 Revenue

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

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)
<b>Underlying operating profit</b>		<b>83,584</b>	<b>76,817</b>
Exceptional items	6	(7,285)	(9,976)
Amortisation of acquired intangible assets	10	(25,849)	(22,934)
<b>Operating profit</b>		<b>50,450</b>	<b>43,907</b>
Net finance costs	7	(11,589)	(9,373)
<b>Profit before taxation</b>		<b>38,861</b>	<b>34,534</b>

##### 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)
<b>Total</b>	<b>(383,264)</b>	<b>(331,831)</b>	<b>(12,457)</b>	<b>(11,599)</b>	<b>(27,264)</b>	<b>(24,249)</b>

##### 3.2.4 Segment assets and liabilities

	Segment assets		Segment liabilities <sup>1</sup>		Non-current assets <sup>2</sup>	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'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)	–	–
<b>Total</b>	<b>857,286</b>	<b>697,914</b>	<b>(423,440)</b>	<b>(333,399)</b>	<b>595,040</b>	<b>496,728</b>

<sup>1</sup> 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.

<sup>2</sup> Non-current assets exclude amounts relating to deferred tax assets and non-current assets held for sale.

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

### 3. Segment reporting continued

#### 3.2 Segment information continued

##### 3.2.5 Capital expenditure

	Property, plant and equipment		Intangible assets	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
AmesburyTruth	11,154	9,062	874	321
ERA	1,262	4,261	290	81
SchlegelGiesse	3,286	2,030	501	674
<b>Total</b>	<b>15,702</b>	<b>15,353</b>	<b>1,665</b>	<b>1,076</b>

##### 3.2.6 Other disclosures

	Goodwill		Intangible assets		Retirement benefit obligations	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'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)
<b>Total</b>	<b>382,136</b>	<b>323,799</b>	<b>134,763</b>	<b>103,393</b>	<b>(10,781)</b>	<b>(12,407)</b>

### 4. Operating profit

Operating profit is stated after charging the following:

	Note	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	11	(12,457)	(11,599)
Amortisation of acquired intangible assets	10	(25,849)	(22,934)
Amortisation of other intangible assets	10	(1,415)	(1,315)
Operating lease rentals		(10,400)	(8,237)
Foreign exchange gain/(loss)		193	(1,460)
Employee costs <sup>1</sup>	5	(143,267)	(138,058)

<sup>1</sup> Excluding exceptional gain in 2017 recorded on closure of Rochester post-retirement medical benefit scheme of £3.3 million.

Analysis of auditors' remuneration:

	2018 £'000	2017 £'000
Audit of the Company and consolidated financial statements	(176)	(164)
Audit of subsidiaries	(689)	(608)
Total audit	(865)	(772)
Audit related assurance services	(41)	(26)
Total assurance services	(906)	(798)
Tax compliance services	–	(4)
Total tax services	–	(4)
Total non-audit services	(41)	(30)
<b>Total fees</b>	<b>(906)</b>	<b>(802)</b>

## Notes to the financial statements continued

For the year ended 31 December 2018

### 5. Employees and employee costs

#### 5.1 Accounting policy

##### 5.1.1 Wages and salaries

Wages and salaries are recognised in the income statement as the employees' services are rendered.

##### 5.1.2 Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

- when the Group can no longer withdraw the offer of those benefits; and
- when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

##### 5.1.3 Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on the expected level of payment to employees in respect of the relevant financial year. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 5.2 Number of employees

The average monthly number of employees during the financial year and total number of employees as at 31 December 2018 was:

	Average		At 31 December	
	2018	2017	2018	2017
Administration	420	422	425	421
Operations	3,478	3,110	3,390	3,168
Sales	405	372	420	375
<b>Employees</b>	<b>4,303</b>	<b>3,904</b>	<b>4,235</b>	<b>3,964</b>

The analysis above includes Directors.

#### 5.3 Employment costs

Employment costs of employees, including Directors' remuneration, during the year were as follows:

	Note	2018 £'000	2017 £'000 (restated) <sup>1</sup>
Wages and salaries		(126,197)	(122,626)
Social security costs		(11,276)	(10,426)
Share-based payments	22	(1,068)	(1,093)
Pension costs – defined contribution schemes <sup>1</sup>		(3,876)	(3,634)
Pension costs – defined benefit schemes	20	(848)	(279)
Other post-retirement benefits – defined benefit schemes	20	(2)	3,089
<b>Employment costs</b>		<b>(143,267)</b>	<b>(134,969)</b>

<sup>1</sup> The pension costs – defined contribution schemes comparative has been amended for comparable classification with the current year.

Full details of Directors' remuneration are set out in the Remuneration report on pages 80 to 99.

## 6. Exceptional items

### 6.1 Accounting policy

Where certain income or expense items recorded in the period are material by their size or incidence the Group presents such items as exceptional within a separate line on the income statement except for those exceptional items that relate to net finance costs and tax. Separate presentation provides an improved understanding of the elements of financial performance during the year to facilitate comparison with prior periods and to assess the underlying trends in financial performance.

Exceptional items include one-off redundancy and restructuring costs, transaction costs and integration costs associated with merger and acquisition activity, as well as credits relating to profit on disposal of businesses, pension remeasurements and property provision releases.

#### 6.1.1 Key judgement: Exceptional items

The Group aims to be both consistent and clear in its recognition and disclosure of exceptional gains and losses. Management judgement is required in assessing the nature and amounts of transactions that satisfy the conditions for classification as an exceptional item.

### 6.2 Exceptional items

	2018 £'000	2017 £'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	–
<b>Exceptional items</b>	<b>(7,285)</b>	<b>(9,976)</b>

#### 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 (2017: £16.4 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 credits in 2017 included £1.8 million relating to the exit of the Canton, SD, and Sioux Falls, SD, facilities and £3.3 million related to a reduction in past service costs relating to the planned closure of the Rochester, NY, post-retirement medical benefit. The North American footprint project is expected to conclude by 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. The credit of £2.2 million in 2017 principally comprised £2.3 million associated with the pension liability recoverable from and indemnified by the previous owners of Bilco together with £0.6 million surplus provisions created on an acquisition no longer required.

#### 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 the current financial year, 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.

#### Loss on disposal of business

The loss on disposal relates to the loss realised on disposal of the legacy automotive and copier business based in Rochester, NY.

#### 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.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 7. Finance income and costs

	Note	2018 £'000	2017 £'000
<b>Finance income</b>			
Interest income from short term bank deposits		69	224
Gain on revaluation of fair value hedge	16	308	–
		<b>377</b>	224
<b>Finance costs</b>			
Interest payable on bank loans, private placement notes and overdrafts		(10,702)	(8,204)
Amortisation of borrowing costs		(971)	(400)
Pension interest cost	20	(293)	(553)
Loss on revaluation of fair value hedge	16	–	(440)
		<b>(11,966)</b>	(9,597)
<b>Net finance costs</b>		<b>(11,589)</b>	(9,373)

### 8. Taxation

#### 8.1 Accounting policy

The income tax charge comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the relevant statement.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. No deferred tax liabilities are recognised if they arise from the initial recognition of:

- > goodwill; or
- > an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or when the deferred income tax liability is settled.

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Offset may be applied either within same tax entity or different taxable entities where there is an intention to settle tax balances on a net basis.

#### 8.1.1 Key source of estimation uncertainty: deferred tax assets

Estimation is required of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax liabilities are recognised for all taxable temporary differences but, where deductible temporary differences exist, management's judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. The deferred tax assets recoverable may differ from the amounts recognised if actual taxable profits differ from management's estimates.

## 8. Taxation continued

### 8.2 Taxation – income statement and other comprehensive income

#### 8.2.1 Tax on profit on ordinary activities

	Note	2018 £'000	2017 £'000
<b>Current taxation</b>			
Current tax on profit for the year		(15,616)	(18,522)
Prior year adjustments		227	3,503
<b>Total current taxation</b>		<b>(15,389)</b>	(15,019)
<b>Deferred taxation</b>			
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)
<b>Total deferred taxation</b>	8.3	<b>2,875</b>	11,685
<b>Income tax charge in the income statement</b>		<b>(12,514)</b>	(3,334)
<b>Total (charge)/credit relating to components of OCI</b>			
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	8.3	(277)	(1,181)
Deferred tax (charge)/credit on share-based payments	8.3	(97)	267
Deferred tax (charge)/credit on translation	8.3	(336)	1,939
<b>Income tax (charge)/credit in the statement of OCI</b>		<b>(1,155)</b>	2,688
Total current taxation		(15,834)	(13,356)
Total deferred taxation		2,165	12,710
<b>Total taxation</b>		<b>(13,669)</b>	(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.

#### 8.2.2 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
<b>Profit before taxation</b>	<b>38,861</b>	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
<b>Income tax charge in the income statement</b>	<b>(12,514)</b>	(3,334)

### 8.3 Taxation – balance sheet

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 £'000	2017 £'000
Deferred tax assets	17,423	11,851
Deferred tax liabilities	(38,193)	(24,949)
<b>Net deferred tax liabilities</b>	<b>(20,770)</b>	(13,098)

## Notes to the financial statements continued

For the year ended 31 December 2018

### 8. Taxation continued

#### 8.3 Taxation – balance sheet continued

The net movement in deferred tax is as follows:

	Note	2018 £'000	2017 £'000
At 1 January		(13,098)	(26,725)
Income statement credit	8.2	1,796	4,778
US Federal tax rate change adjustment	8.2	1,079	6,907
Acquisitions of subsidiaries	24	(8,648)	(483)
Tax (charge)/credit relating to components of OCI	8.2	(710)	1,025
Exchange difference		(1,189)	1,400
<b>At 31 December</b>		<b>(20,770)</b>	<b>(13,098)</b>

The movement in deferred tax assets and liabilities during the year is as follows:

	Accelerated tax depreciation £'000	Post- retirement benefit provisions £'000	Purchased goodwill £'000	Other timing differences £'000	Total £'000
<b>Deferred tax assets</b>					
At 1 January 2017	287	6,396	5,306	3,944	15,933
Income statement credit/(charge)	142	(2,334)	(795)	2,324	(663)
US Federal tax rate change adjustment	(12)	(110)	(550)	(1,248)	(1,920)
Acquisitions of subsidiaries	(16)	–	–	41	25
Tax relating to components of OCI	–	(1,181)	–	267	(914)
Exchange difference	52	(376)	(155)	(131)	(610)
At 31 December 2017	453	2,395	3,806	5,197	11,851
Income statement credit/(charge)	20	(325)	357	487	539
US Federal tax rate change adjustment	12	(145)	11	800	678
Acquisitions of subsidiaries	403	12	1,875	2,002	4,292
Tax relating to components of OCI	–	(277)	–	(119)	(396)
Exchange difference	(18)	108	118	251	459
<b>At 31 December 2018</b>	<b>870</b>	<b>1,768</b>	<b>6,167</b>	<b>8,618</b>	<b>17,423</b>

	Accelerated tax depreciation £'000	Intangible assets on acquisition £'000	Other timing differences £'000	Total £'000	
<b>Deferred tax liabilities</b>					
At 1 January 2017		(5,275)	(30,981)	(6,402)	(42,658)
Income statement (charge)/credit		(4,126)	8,300	1,267	5,441
US Federal tax rate change adjustment		3,357	5,808	(338)	8,827
Acquisitions of subsidiaries		–	(508)	–	(508)
Tax relating to components of OCI		–	–	1,939	1,939
Exchange difference		490	1,285	235	2,010
At 31 December 2017		(5,554)	(16,096)	(3,299)	(24,949)
Income statement (charge)/credit		(1,420)	1,968	709	1,257
US Federal tax rate change adjustment		400	91	(90)	401
Acquisitions of subsidiaries		(73)	(12,411)	(456)	(12,940)
Tax relating to components of OCI		–	–	(314)	(314)
Exchange difference		(366)	(904)	(378)	(1,648)
<b>At 31 December 2018</b>		<b>(7,013)</b>	<b>(27,352)</b>	<b>(3,828)</b>	<b>(38,193)</b>

The deferred tax asset arises from temporary differences arising in various tax jurisdictions, predominantly the US and UK. Given both recent and forecast trading, the Directors are of the opinion that the level of profits in the foreseeable future is more likely than not to be sufficient to recover these assets.

Deferred tax liabilities of £28.9 million (2017: £19.0 million) are expected to fall due after more than one year and deferred tax assets of £12.0 million (2017: £6.8 million) are expected to be recovered after more than one year.

## 8. Taxation continued

### 8.3 Taxation – balance sheet continued

#### 8.3.1 Factors that may affect future tax charges

The estimated tax losses within the Group are as follows:

	Gross losses		Tax effect of losses	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital losses	3,992	3,992	(719)	(719)
Trading losses	22,267	21,884	(5,794)	(5,611)
<b>Tax losses</b>	<b>26,259</b>	25,876	<b>(6,513)</b>	(6,330)

In accordance with the Group's accounting policy, as the future use of these losses is uncertain none of these losses have been recognised as a deferred tax asset.

There are no temporary differences relating to the unremitted earnings of overseas subsidiaries, as UK legislation largely exempts from UK tax dividends received from overseas subsidiaries.

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.

## 9. Earnings per share

### 9.1 Non-GAAP Alternative Performance Measures accounting policy

The Directors believe that the underlying profit and earnings per share measures provide additional useful information to shareholders on the underlying performance of the business. These measures are consistent with how business performance is measured internally. The underlying profit before tax measure is not recognised under IFRS and may not be comparable with underlying profit measures used by other companies (see Alternative Performance Measures on page 172).

### 9.2 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.

#### 9.2.1 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)
<b>Weighted average number of shares – basic</b>	<b>191,416</b>	177,222
Effect of dilutive potential ordinary shares – LTIP awards and options	1,467	1,203
<b>Weighted average number of shares – diluted</b>	<b>192,883</b>	178,425

## Notes to the financial statements continued

For the year ended 31 December 2018

### 9. Earnings per share continued

#### 9.2 Earnings per share continued

##### 9.2.2 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 168.

Underlying profit after taxation is derived as follows:

	Note	2018 £'000	2017 £'000
<b>Profit before taxation</b>		<b>38,861</b>	34,534
Exceptional items	6	<b>7,285</b>	9,976
(Gain)/loss on revaluation of fair value hedge	16	<b>(308)</b>	440
Amortisation of borrowing costs	7	<b>971</b>	400
Amortisation of acquired intangible assets	10	<b>25,849</b>	22,934
<b>Underlying profit before taxation</b>		<b>72,658</b>	68,284
Income tax charge	8	<b>(12,514)</b>	(3,334)
Add back: US Federal rate change adjustment	8	<b>–</b>	(6,907)
Add back: Underlying tax effect <sup>1</sup>		<b>(7,167)</b>	(10,345)
<b>Underlying profit after taxation</b>		<b>52,977</b>	47,698

<sup>1</sup> 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	<b>27.68p</b>	26.91p
Diluted underlying earnings per share	<b>27.47p</b>	26.73p

### 10. Goodwill and intangible assets

#### 10.1 Accounting policy

##### 10.1.1 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

## 10. Goodwill and intangible assets continued

### 10.1 Accounting policy continued

#### 10.1.2 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment. On acquisition of businesses by the Group, the Group recognises any separately identifiable intangible assets separately from goodwill, initially measuring the intangible assets at fair value.

Purchased intangible assets acquired through a business combination, including purchased brands, customer relationships, trademarks and licences, are initially measured at fair value and amortised on a straight-line basis over their estimated useful economic lives as follows:

- Acquired brands – 5 to 20 years
- Customer relationships – 9 to 15 years
- Internally developed computer software – 5 to 10 years
- Purchased computer software – 3 to 4 years

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised when the intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management.

The estimated useful lives of acquired intangible assets are reviewed whenever events or circumstances indicate that there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset. Any amendments to the estimated useful lives of intangible assets are recorded as a change in estimate in the period the change occurred.

#### 10.1.3 Impairment of goodwill and intangible assets

Intangible assets, including goodwill, that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. Goodwill previously impaired cannot be reversed at a later date.

#### 10.1.4 Critical accounting estimates and judgements: carrying amount of goodwill and intangibles

As at 31 December 2018, the Group had goodwill of £382.1 million with intangible assets amounting in total to £134.8 million. An impairment review using a value in use calculation has been performed for each CGU. There is significant judgement involved in determining the appropriate assumptions to use in the calculations, including the forecasted cash flows of each CGU and appropriate discount rates relative to the Company's cost of capital. These assumptions have been subjected to sensitivity analyses. Details of estimates used and sensitivities in the impairment reviews are set out in this note.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 10. Goodwill and intangible assets continued

#### 10.2 Carrying amount of goodwill

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

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	<b>286,044</b>	240,829
ERA	<b>59,655</b>	52,573
SchlegelGiesse	<b>36,437</b>	30,397
<b>Goodwill</b>	<b>382,136</b>	323,799

#### 10.2.1 Impairment tests for goodwill

##### Assumptions

The Group's CGUs have been defined as each of the Group's three operating Divisions. In the opinion of the Directors, the Divisions represent the smallest groups of assets that independently generate cash flows for the Group. This conclusion is consistent with the approach adopted in previous years. The acquisitions made in the year have been allocated to the CGUs of the acquiring Division on the basis that these are now managed by the relevant Division and integration has progressed to a level where cash flows are not generated independently from the Division.

The recoverable amounts of CGUs are determined from VIU calculations. VIU is determined by discounting the future pre-tax cash flows generated from the continuing use of the CGU, using a pre-tax discount rate.

Cash flow projections, which have been reviewed and approved by the Board, are derived from five-year forecasts produced by each Division comprised of a detailed bottom up budget for 2019 and a forecast based on the Division's strategic plan for 2020 to 2023. The five-year period cash flows were extrapolated using a long term growth rate of 1.5 per cent in order to calculate the terminal recoverable amount.

Discount rates are estimated using pre-tax rates that reflect current market assessments of the time value of money and the risk profiles of the CGUs.

The key assumptions used in the VIU calculations in each of the Group's CGUs at 31 December are as follows:

	Average pre-tax discount rate		Average EBITDA margin: years one to five	
	2018	2017	2018	2017
AmesburyTruth	<b>12.5%</b>	11.8%	<b>21.8%</b>	23.4%
ERA	<b>8.5%</b>	8.6%	<b>15.9%</b>	18.1%
SchlegelGiesse	<b>12.2%</b>	11.6%	<b>17.0%</b>	17.1%

##### Impairment review results: 2018

A review of the carrying amount of goodwill and intangible assets across the Group has been carried out at year end in light of current trading conditions and future prospects. The annual impairment review did not result in any impairment losses being recognised in 2018.

The ERA CGU has significant headroom such that a permanent diminution of the VIU to below the carrying value of goodwill is considered by the Board to be highly unlikely.

AmesburyTruth is the CGU with the lowest relative VIU headroom. If the average EBITDA margin for AmesburyTruth for the five years from 2019 to 2023 was to decrease by 760 basis points from 21.8 per cent to 14.2 per cent and continue at that reduced level in perpetuity, the VIU headroom for AmesburyTruth would be zero. Given that the EBITDA margin achieved in 2018 was 19.6 per cent and considering the margin uplift potential of the footprint rationalisation project once completed and expected synergies from the Ashland acquisition, this scenario is felt unlikely to occur.

SchlegelGiesse is the CGU with the smallest absolute VIU headroom. If the average EBITDA margin for SchlegelGiesse for the five years from 2019 to 2023 was to decrease by 580 basis points from 17.0 per cent to 11.2 per cent and continue at that reduced level in perpetuity, the VIU headroom of SchlegelGiesse would be zero. Given that the EBITDA margin in 2018 was 14.4 per cent, this scenario is felt unlikely to occur.

##### Impairment review results: 2017

The annual impairment review did not result in any impairment losses being recognised in 2017.

## 10. Goodwill and intangible assets continued

### 10.3 Carrying amount of intangible assets

	Note	Computer software £'000	Acquired brands £'000	Customer relationships £'000	Total £'000
<b>Cost</b>					
At 1 January 2017		13,091	76,599	229,009	318,699
Additions		984	92	–	1,076
Acquisitions of subsidiaries		–	462	2,361	2,823
Transfers to property, plant and equipment	11	(184)	–	–	(184)
Exchange difference		(899)	(3,682)	(14,710)	(19,291)
At 31 December 2017		12,992	73,471	216,660	<b>303,123</b>
Additions		1,665	–	–	<b>1,665</b>
Disposals		(263)	(929)	–	<b>(1,192)</b>
Acquisitions of subsidiaries	24	–	12,298	38,137	<b>50,435</b>
Transfers to property, plant and equipment	11	(109)	–	–	<b>(109)</b>
Exchange difference		623	4,024	12,111	<b>16,758</b>
<b>At 31 December 2018</b>		<b>14,908</b>	<b>88,864</b>	<b>266,908</b>	<b>370,680</b>
<b>Accumulated amortisation</b>					
At 1 January 2017		(2,916)	(39,473)	(145,626)	(188,015)
Amortisation charge for the year	4	(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)	<b>(199,730)</b>
Amortisation charge for the year	4	(1,415)	(5,347)	(20,502)	<b>(27,264)</b>
Disposals		263	911	–	<b>1,293</b>
Impairment		(119)	–	–	<b>(119)</b>
Exchange difference		(158)	(2,062)	(7,758)	<b>(10,097)</b>
<b>At 31 December 2018</b>		<b>(5,505)</b>	<b>(48,074)</b>	<b>(182,338)</b>	<b>(235,917)</b>
<b>Net carrying value</b>					
At 1 January 2017		10,175	37,126	83,383	130,684
At 31 December 2017		8,916	31,895	62,582	103,393
<b>At 31 December 2018</b>		<b>9,403</b>	<b>40,790</b>	<b>84,570</b>	<b>134,763</b>

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.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 11. Property, plant and equipment

#### 11.1 Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the specific asset will flow to the Group and the cost of the subsequent item can be measured reliably. The carrying amount of the replaced part is derecognised from the date of replacement. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation is provided on all other property, plant and equipment at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, at the following annual rates:

- Freehold buildings – 2.0 to 5.0 per cent
- Plant and machinery – 7.5 to 33.0 per cent

The carrying amounts of property, plant and equipment are reviewed for impairment periodically if events or changes in circumstances indicate that the carrying amount may not be recoverable. The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

#### 11.2 Carrying amount of property, plant and equipment

	Note	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>				
At 1 January 2017		37,904	98,719	136,623
Additions		442	14,911	15,353
Acquisitions of subsidiaries	24	–	170	170
Dilapidation provision	19	–	675	675
Disposals		(3,190)	(12,140)	(15,330)
Reclassified as held for sale	25	(2,045)	(996)	(3,041)
Transfers from intangible assets	10.3	–	184	184
Exchange difference		(105)	(11,239)	(11,344)
At 31 December 2017		33,006	90,284	<b>123,290</b>
Additions		187	15,515	<b>15,702</b>
Acquisitions of subsidiaries	24	–	6,287	<b>6,287</b>
Disposals		(4,814)	(7,339)	<b>(12,153)</b>
Transfers from intangible assets	10.3	–	109	<b>109</b>
Exchange difference		1,114	9,589	<b>10,703</b>
<b>At 31 December 2018</b>		<b>29,493</b>	<b>114,445</b>	<b>143,938</b>
<b>Accumulated depreciation</b>				
At 1 January 2017		(9,370)	(55,794)	(65,164)
Depreciation charge for the year	4	(966)	(10,633)	(11,599)
Disposals		1,512	10,893	12,405
Impairment		(23)	(91)	(114)
Reclassified as held for sale	25	737	969	1,706
Exchange difference		(459)	8,359	7,900
At 31 December 2017		(8,569)	(46,297)	<b>(54,866)</b>
Depreciation charge for the year	4	(898)	(11,559)	<b>(12,457)</b>
Disposals		1,616	6,546	<b>8,162</b>
Exchange difference		(540)	(7,274)	<b>(7,814)</b>
<b>At 31 December 2018</b>		<b>(8,391)</b>	<b>(58,584)</b>	<b>(66,975)</b>
<b>Net carrying value</b>				
At 1 January 2017		28,534	42,925	71,459
At 31 December 2017		24,437	43,987	68,424
<b>At 31 December 2018</b>		<b>21,102</b>	<b>55,861</b>	<b>76,963</b>

Depreciation of £12.5 million (2017: £11.6 million) is included in administrative expenses in the income statement.

The 2017 impairment charge of £0.1 million is included in administrative expenses in the income statement.

## 12. Inventories

### 12.1 Accounting policy

Inventories are valued at the lower of cost and net realisable value. Cost is determined in accordance with the first-in, first-out method. Cost includes the cost of materials determined on a purchase cost basis, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Where necessary, a provision is made to reduce cost to no more than net realisable value having regard to the nature and condition of inventory, as well as its anticipated saleability.

#### 12.1.1 Critical accounting estimates and judgements: carrying amount of inventories

The carrying amounts of inventories are stated with due allowance for excess, obsolete or slow-moving items. Group management exercises judgement in assessing net realisable value. Provisions for slow-moving and obsolete inventory are based on management's assessment of the nature and condition of the inventory, including assumptions around future demand, market conditions and new product development initiatives.

### 12.2 Carrying amount of inventories

	2018 £'000	2017 £'000
Raw materials and consumables	28,253	22,706
Work in progress	15,253	10,275
Finished goods	61,786	42,360
<b>Inventories</b>	<b>105,292</b>	<b>75,341</b>

The cost of materials charged to the income statement during the year was £238.3 million (2017: £222.0 million).

Inventories are stated net of an allowance for excess, obsolete or slow-moving items of £19.2 million (2017: £12.9 million).

An impairment charge of £0.5 million (2017: £1.7 million) was recognised in respect of inventories during the year.

There were no borrowings secured on the inventories of the Group (2017: £Nil).

## 13. Trade and other receivables

### 13.1 Accounting policy

#### Policy applicable from 1 January 2018

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less they are classified as current assets; otherwise they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional. The group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method, less appropriate allowances for estimated credit losses (provision for impairment).

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the length of time overdue. An estimate is made of the expected credit loss based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### Policy applicable prior to 1 January 2018

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less they are classified as current assets; otherwise they are presented as non-current assets.

Trade receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost, using the effective interest rate method, less appropriate allowances for estimated irrecoverable amounts (provision for impairment).

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the carrying amount and present value of estimated future cash flows.

#### 13.1.1 Critical accounting estimates and judgements: carrying amount of trade receivables

The trade receivables impairment provision requires the use of estimation techniques by Group management. The estimate is made based on the assessments of the creditworthiness of customers, the ageing profile of receivables, historical experience, and expectations about future market conditions.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 13. Trade and other receivables continued

#### 13.2 Carrying amounts of trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	75,493	59,995
Less: Impairment loss allowance	(3,925)	(2,918)
Trade receivables – net	71,568	57,077
Other receivables – net <sup>1</sup>	10,563	10,006
Accrued income	53	48
Prepayments	5,154	4,043
<b>Trade and other receivables</b>	<b>87,338</b>	<b>71,174</b>
Analysed as:		
Current assets	87,338	70,062
Non-current assets	–	1,112
<b>Trade and other receivables</b>	<b>87,338</b>	<b>71,174</b>

<sup>1</sup> Financial assets with a carrying value of £1.2 million which were previously included in 'other receivables' have been reclassified to financial assets at fair value through profit or loss on adoption of IFRS 9. See note 13.3 and note 32 for details of the change in accounting policy on adoption of IFRS 9.

All trade and other receivables are current. The net carrying amounts of trade and other receivables are considered to be a reasonable approximation of their fair values.

#### Impairment of trade receivables

An expected credit loss of £3.9 million has been recognised at 31 December 2018. As at 31 December, £2.9 million of trade receivables were impaired and provided for under the previous accounting policy.

The impairment loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows:

	Not yet due	0–3 months overdue	3–12 months overdue	> 12 months overdue	Total
<b>31 December 2018</b>					
Expected credit loss rate	0.6%	16.9%	36.4%	100.0%	5.2%
Gross trade receivables	61,684	10,999	1,734	1,076	75,493
Loss allowance	359	1,859	631	1,076	3,925
<b>1 January 2018</b>					
Expected credit loss rate	1.5%	10.3%	49.4%	100.0%	5.5%
Gross trade receivables	48,801	8,924	1,229	1,041	59,995
Loss allowance	755	917	607	1,041	3,320

<sup>1</sup> Included in the loss allowance for receivables not yet due at 1 January 2018 were receivables of £0.4 million for which a specific provision was made due to these customers being in administration. Therefore the expected loss rate applied was higher than as at 31 December 2018.

Movement in the allowance for impairment of trade receivables is as follows:

	2018 £'000	2017 £'000
At 1 January (as previously reported)	(2,918)	(3,999)
Adjustment to opening retained earnings	(402)	–
At 1 January (restated under IFRS 9)	(3,320)	(3,999)
Increase in allowance recognised in profit or loss	(537)	(169)
Receivables written off during the year	351	–
Unused amounts reversed	212	1,080
Acquisitions of subsidiaries	(564)	69
Exchange difference	(67)	101
<b>At 31 December</b>	<b>(3,925)</b>	<b>(2,918)</b>

Movements in the impairment allowance are recognised in administrative expenses in the income statement.

### 13. Trade and other receivables continued

#### 13.2 Carrying amounts of trade and other receivables continued

##### Impairment of trade receivables continued

The carrying amounts of trade and other receivables are denominated in the following currencies:

	2018 £'000	2017 £'000
Sterling	20,281	14,322
US Dollars	38,553	30,910
Euros	20,101	18,146
Other currencies	8,403	7,796
<b>Trade and other receivables</b>	<b>87,338</b>	<b>71,174</b>

#### 13.3 Financial assets at fair value through profit or loss

From 1 January 2018, the Group classifies equity investments as assets held at FVPL following adoption of IFRS 9. As at 31 December 2017 under the previous accounting policy, these investments were included in 'other receivables'. See note 18.1 for financial instruments accounting policy and note 32 for details of changes in accounting policies following adoption of IFRS 9.

Financial assets measured at FVPL are as follows:

	2018 £'000	2017 £'000
Unlisted shares	1,178	1,112

There was no gain or loss recognised in profit or loss in the year. The maximum credit risk exposure at the end of the reporting period is the carrying amount of this investment.

### 14. Cash and cash equivalents

#### 14.1 Accounting policy

In the consolidated statement of cash flows and balance sheet, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of three months or less and bank overdrafts.

#### 14.2 Carrying amounts of cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	55,548	47,088
Short term deposits	1,114	255
Bank overdrafts	(4,791)	(4,780)
<b>Cash and cash equivalents</b>	<b>51,871</b>	<b>42,563</b>

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2018 £'000	2017 £'000
Sterling	9,086	8,614
US Dollars	23,824	12,519
Euros	10,573	13,298
Other currencies	8,388	8,132
<b>Cash and cash equivalents</b>	<b>51,871</b>	<b>42,563</b>

## Notes to the financial statements continued

For the year ended 31 December 2018

### 15. Trade and other payables

#### 15.1 Accounting policy

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 15.2 Carrying amounts of trade and other payables

	2018 £'000	2017 £'000
Trade payables	(52,505)	(37,761)
Other taxes and social security costs	(6,343)	(5,000)
Accruals	(29,194)	(23,421)
Deferred income	(2,932)	(2,717)
<b>Trade and other payables</b>	<b>(90,974)</b>	<b>(68,899)</b>
Analysed as:		
Current liabilities	(87,021)	(65,916)
Non-current liabilities	(3,953)	(2,983)
<b>Trade and other payables</b>	<b>(90,974)</b>	<b>(68,899)</b>

The carrying amounts of trade and other payables are considered to be a reasonable approximation of their fair values.

The carrying amounts of trade and other payables are denominated in the following currencies:

	2018 £'000	2017 £'000
Sterling	(18,860)	(16,859)
US Dollars	(43,036)	(28,613)
Euros	(21,253)	(16,305)
Other currencies	(7,825)	(7,122)
<b>Trade and other payables</b>	<b>(90,974)</b>	<b>(68,899)</b>

### 16. Derivative financial instruments

#### 16.1 Accounting policy

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group designates certain derivatives as either:

- fair value hedge: hedges of the fair value of recognised assets or liabilities or a firm commitment;
- cash flow hedge: hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- net investment hedge: hedges of a net investment in a foreign operation.

For those instruments designated as hedges, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are recognised immediately in the income statement.

#### 16.1.1 Fair value hedges

Changes in the fair value of derivatives designated and qualifying as fair value hedges are recorded in the income statement, together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

## 16. Derivative financial instruments continued

### 16.1 Accounting policy continued

#### 16.1.2 Cash flow hedges

The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the period in which the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### 16.1.3 Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar manner to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

### 16.2 Carrying amount of derivative financial instruments

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward exchange contracts – fair value hedges	322	–	94	(29)
Interest rate swaps – cash flow hedges	–	(266)	–	(275)
<b>Derivative financial instruments</b>	<b>322</b>	<b>(266)</b>	94	(304)
Analysed as:				
Current	322	–	94	(29)
Non-current	–	(266)	–	(275)
<b>Derivative financial instruments</b>	<b>322</b>	<b>(266)</b>	94	(304)

The carrying amounts of derivative financial instruments are denominated in the following currencies:

	2018		2017	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Sterling	–	(54)	–	(134)
US Dollars	214	(212)	–	(170)
Euros	6	–	6	–
Other currencies	102	–	88	–
<b>Derivative financial instruments</b>	<b>322</b>	<b>(266)</b>	94	(304)

#### 16.2.1 Fair value hedges

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2018 was £12.6 million (2017: £10.9 million). The hedge ratio of foreign exchange contracts is 1:1, holding all other variables constant.

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

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 16. Derivative financial instruments continued

#### 16.2 Carrying amount of derivative financial instruments continued

##### 16.2.2 Cash flow hedges

The notional principal amounts of the outstanding interest rate swap at 31 December 2018 were £19.0 million (2017: £18.2 million).

The hedge ratio of foreign exchange contracts is 1:1, holding all other variables constant.

During the year a loss of £Nil (2017: loss of £Nil) was recognised in the statement of comprehensive income and £Nil (2017: £Nil) in the income statement for the ineffective portion of changes in the value of cash flow hedges.

Details of the interest rate swaps are as follows:

	Notional amount '000	Fixed interest rate paid	Floating interest rate received	Fair value '000
<b>At 31 December 2018</b>				
Swaps – Sterling	£6,000	1.7490%	0.6597%	£(55)
Swaps – US Dollar	\$16,500	1.7225%	2.1617%	\$(270)
<b>At 31 December 2017</b>				
Swaps – Sterling	£6,000	1.7490%	0.4906%	£(134)
Swaps – US Dollar	\$16,500	1.7225%	1.3906%	\$(190)

The maturity date of the swaps is 17 June 2020. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets on the balance sheet.

Refer to note 18.4 for the fair value measurement methodology.

##### 16.2.3 Net investment hedges

The Group uses foreign currency-denominated debt to hedge the value of its US Dollar and Euro-denominated net assets which may change due to respective movements in US Dollar and Euro exchange rates. At 31 December 2018, the value of the net investment hedges was £238.8 million (2017: £168.2 million). These hedges are considered highly effective and no ineffective portion has been recognised in the income statement.

The hedge ratio of each net investment hedge was 1:1, holding all other variables constant. The weighted average hedged rate of the US net investment hedge was 1.335 (2017: 1.249) and of the EUR net investment hedge was 1.130 (2017: 1.126). The effect of the net investment hedges on the Group's financial statements for the year ended 31 December 2018 is summarised as follows:

	2018 US net investment hedge £'000	2018 EUR net investment hedge £'000	2017 US net investment hedge £'000	2017 EUR net investment hedge £'000
Loan carrying amount	(188,005)	(50,773)	(133,704)	(61,262)
Change in carrying amount of loans as a result of foreign currency movements recognised in OCI	(11,033)	(556)	9,917	1,222
Change in value of hedged item used to determine hedge effectiveness	11,033	556	(9,317)	(1,222)

### 17. Interest-bearing loans and borrowings

#### 17.1 Accounting policy

Interest-bearing loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing loans and borrowings are subsequently carried at amortised cost using the effective interest method.

#### 17.2 Carrying amounts of interest-bearing loans and borrowings

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

## 17. Interest-bearing loans and borrowings continued

### 17.2 Carrying amounts of interest-bearing loans and borrowings continued

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

Non-cash movements in the carrying amount of interest-bearing loans and borrowings relate to the amortisation of borrowing costs (see note 7).

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)	–
<b>Interest-bearing loans and borrowings</b>	<b>(260,705)</b>	<b>(205,417)</b>

#### 17.2.1 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.

#### 17.2.2 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

### 17.3 Net debt

#### 17.3.1 Net debt summary

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

#### 17.3.2 Net debt reconciliation

	Cash £'000	Borrowings £'000	Net debt £'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)	<b>(162,854)</b>
Cash flows	9,560	(41,167)	<b>(31,607)</b>
Acquisitions	1,538	(2,553)	<b>(1,015)</b>
Foreign exchange adjustments	(1,790)	(10,597)	<b>(12,387)</b>
Amortisation of borrowing costs	–	(971)	<b>(971)</b>
<b>At 31 December 2018</b>	<b>51,871</b>	<b>(260,705)</b>	<b>(208,834)</b>

## Notes to the financial statements continued

For the year ended 31 December 2018

### 18. Financial risk management and financial instruments

#### 18.1 Accounting policy

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument and are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

##### 18.1.1 Financial assets

###### Policy applicable from 1 January 2018

###### Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured subsequently at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss.

###### Initial measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

###### Subsequent measurement

###### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in administrative expenses in the income statement, together with foreign exchange gains and losses.
- FVPL: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

###### Equity instruments

The Group subsequently measures all equity investments at fair value, with any gains or losses recorded in profit or loss.

###### Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For policy on impairment of trade receivables, see note 13.

###### Policy applicable prior to 1 January 2018

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" (note 13) and "cash and cash equivalents" (note 14) in the balance sheet.

##### 18.1.2 Financial liabilities held at amortised cost

Financial liabilities held at amortised cost comprise "trade and other payables" (see note 15) and "interest-bearing loans and borrowings" (see note 17).

## 18. Financial risk management and financial instruments continued

### 18.2 Financial instruments: by category

Assets as per balance sheet:

	31 December 2018				31 December 2017		
	Financial assets at amortised cost <sup>4</sup> £'000	Financial assets at fair value through profit or loss <sup>4</sup> £'000	Derivatives used for hedging £'000	Total £'000	Loans and receivables <sup>4</sup> £'000	Derivatives used for hedging £'000	Total £'000
Trade and other receivables <sup>1</sup>	71,568	–	–	71,568	58,189	–	58,189
Financial assets at FVPL	–	1,178	–	1,178	–	–	–
Cash and cash equivalents	51,871	–	–	51,871	42,563	–	42,563
Derivative financial instruments	–	–	322	322	–	94	94
<b>Total financial assets</b>	<b>123,439</b>	<b>1,178</b>	<b>322</b>	<b>124,939</b>	<b>100,752</b>	<b>94</b>	<b>100,846</b>

Liabilities as per balance sheet:

	31 December 2018			31 December 2017		
	Derivatives used for hedging £'000	Other financial liabilities at cost £'000	Total £'000	Derivatives used for hedging £'000	Other financial liabilities at cost £'000	Total £'000
Borrowings <sup>2</sup>	–	(262,544)	(262,544)	–	(206,213)	(206,213)
Derivative financial instruments	(266)	–	(266)	(304)	–	(304)
Trade and other payables <sup>3</sup>	–	(81,699)	(81,699)	–	(61,182)	(61,182)
<b>Total financial liabilities</b>	<b>(266)</b>	<b>(344,243)</b>	<b>(344,509)</b>	<b>(304)</b>	<b>(267,395)</b>	<b>(267,699)</b>

1 Excludes non-financial assets.

2 Excludes capitalised borrowing costs of £1.8 million (2017: £0.8 million).

3 Excludes non-financial liabilities.

4 See note 32 for details of the impact from changes in accounting policies.

### 18.3 Financial instruments: risk profile

#### 18.3.1 Capital risk management

The Group manages its capital structure to ensure that it will be able to continue as a going concern. The capital structure of the Group consists of cash and cash equivalents (note 14), interest-bearing loans and borrowings (see note 17) and equity attributable to the shareholders of the Company as disclosed in the consolidated statement of changes in equity.

#### 18.3.2 Financial management

The Group's principal financial instruments comprise bank loans, private debt and cash and short term deposits. The Group has various other financial instruments such as trade receivables and trade payables that arise directly from its operations. No trading in financial instruments is undertaken.

The Board reviews and agrees policies for managing each financial instrument risk and they are summarised below.

#### 18.3.3 Liquidity and credit risk

The Group maintains sufficient cash and marketable securities and the availability of funding through an adequate amount of credit facilities. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow.

The Group manages liquidity risk by the pooling of cash resources and depositing funds available for investment in approved financial instruments with financial institutions. Counterparty risk with respect to cash and cash equivalents is managed by only investing in banks and financial instruments with independently assessed credit ratings of at least A2 as published by Standard and Poor's. Individual risk limits are assessed by management based on the external ratings. Management does not expect any losses from the non-performance of these counterparties.

Credit risk is also attributable to the Group's exposure to trade receivables due from customers. Management assesses the credit quality of customers taking into account their financial position, past experience and other factors. In order to mitigate credit risk the Group utilises credit insurance in those areas of its operations where such insurance is available. In areas where such insurance is not available or it is uneconomical to purchase, management monitors the utilisation of credit limits by customers, identified either individually or by group, and incorporates this information in credit risk controls. The diverse nature of the Group's customer base means that the Group has no significant concentrations of credit risk.

Trade receivables are presented in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date. Management considers all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

During the year ended 31 December 2018 the Group operated within its borrowing facilities.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 18. Financial risk management and financial instruments continued

#### 18.3 Financial instruments: risk profile continued

##### 18.3.3 Liquidity and credit risk continued

The table below analyses the present value of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Not later than one year £'000	Later than one year but not later than two years £'000	Later than two years but not later than five years £'000	Later than five years £'000	Total £'000
Borrowings <sup>1</sup>	–	(183,797)	–	(82,564)	(266,361)
Derivative financial instruments	–	–	(266)	–	(266)
Trade and other payables <sup>2</sup>	(80,193)	(1,506)	–	–	(81,699)
<b>At 31 December 2018</b>	<b>(80,193)</b>	<b>(185,303)</b>	<b>(266)</b>	<b>(82,564)</b>	<b>(348,326)</b>
Borrowings <sup>1</sup>	–	(132,098)	–	(77,932)	(210,030)
Derivative financial instruments	(29)	–	(275)	–	(304)
Trade and other payables <sup>2</sup>	(60,664)	(518)	–	–	(61,182)
At 31 December 2017	(60,693)	(132,616)	(275)	(77,932)	(271,516)

1 Excludes capitalised borrowing costs of £1.8 million (2017: £0.8 million).

2 Excludes non-financial liabilities.

##### 18.3.4 Interest rate risk

The interest rate profile of the Group's borrowings as at 31 December 2018 was as follows:

	Floating rate borrowings <sup>1</sup> £'000	Fixed rate borrowings <sup>2</sup> £'000	Total £'000
Sterling	(5,841)	(186)	(6,027)
US Dollars	(109,558)	(78,520)	(188,078)
Euros	(68,420)	–	(68,420)
Other	–	(19)	(19)
<b>At 31 December 2018</b>	<b>(183,819)</b>	<b>(78,725)</b>	<b>(262,544)</b>
Sterling	(38,041)	–	(38,041)
US Dollars	(30,805)	(74,115)	(104,920)
Euros	(63,252)	–	(63,252)
At 31 December 2017	(132,098)	(74,115)	(206,213)

1 Excludes capitalised borrowing costs of £1.6 million (2017: £0.5 million).

2 Excludes capitalised borrowing costs of £0.2 million (2017: £0.3 million).

The interest rate on the floating bank loans is linked to LIBOR. The Board periodically reviews any exposure the Group may have to interest rate fluctuations. The Group has used interest rate swaps to fix the cost of a proportion of these floating rate borrowings.

	Floating rate borrowings <sup>1</sup> £'000	Covered by swaps £'000	Swap fixed rate
Sterling	(5,841)	(6,000)	1.7490%
US Dollars	(109,558)	(12,956)	1.7225%
Euros	(68,420)	–	n/a
<b>At 31 December 2018</b>	<b>(183,819)</b>	<b>(18,956)</b>	
Sterling	(38,041)	(6,000)	1.7490%
US Dollars	(30,805)	(12,229)	1.7225%
Euros	(63,252)	–	n/a
At 31 December 2017	(132,098)	(18,229)	

1 Excludes capitalised borrowing costs of £1.6 million (2017: £0.5 million).

##### Interest rate sensitivity

The impact of a 50 basis point movement in floating interest rates on borrowings would have a c. £1.0 million (2017: £0.7 million) impact on profits. This impact would be reduced by the tax effect on such a change.

##### Interest rate risk of financial assets

The weighted average interest rate received on deposited funds was 0.2 per cent during the year (2017: 0.6 per cent).

## 18. Financial risk management and financial instruments continued

### 18.3 Financial instruments: risk profile continued

#### 18.3.5 Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial and financing transactions, recognised assets and liabilities denominated in a currency that is not the Group's functional currency and net investments in overseas entities.

The Group owns subsidiaries which transact in currencies other than Sterling and that have functional currencies other than Sterling, whose net assets are therefore subject to currency translation risk. The Group borrows in local currencies as appropriate to minimise the impact of this risk on the balance sheet. See details of net investment hedges in note 16.

#### Foreign currency exchange rate sensitivity

Foreign currency financial assets and liabilities, translated into Sterling at the closing rate, are as follows:

At 31 December 2018	Sterling £'000	US Dollars £'000	Euros £'000	Other £'000	Total £'000
<b>Financial assets</b>					
Trade and other receivables <sup>1</sup>	16,662	32,989	18,363	4,732	<b>72,746</b>
Cash and cash equivalents	9,086	23,824	10,573	8,388	<b>51,871</b>
Derivative financial instruments	–	214	6	102	<b>322</b>
<b>Total financial assets</b>	<b>25,748</b>	<b>57,027</b>	<b>28,942</b>	<b>13,222</b>	<b>124,939</b>
<b>Financial liabilities</b>					
Borrowings <sup>2</sup>	(6,027)	(188,078)	(68,420)	(19)	<b>(262,544)</b>
Derivative financial instruments	(54)	(212)	–	–	<b>(266)</b>
Trade and other payables <sup>3</sup>	(15,563)	(42,187)	(19,222)	(4,727)	<b>(81,699)</b>
<b>Total financial liabilities</b>	<b>(21,644)</b>	<b>(230,477)</b>	<b>(87,642)</b>	<b>(4,746)</b>	<b>(344,509)</b>
Potential impact on profit or loss – (loss)/gain					
10% increase in functional currency		(1,336)	(641)	(491)	<b>(2,468)</b>
10% decrease in functional currency		1,633	783	600	<b>3,016</b>
Potential impact on other comprehensive income – gain/(loss)					
10% increase in functional currency		15,875	5,336	(699)	<b>20,512</b>
10% decrease in functional currency		(19,403)	(6,522)	854	<b>(25,071)</b>
At 31 December 2017	Sterling £'000	US Dollars £'000	Euros £'000	Other £'000	Total £'000
<b>Financial assets</b>					
Trade and other receivables <sup>1</sup>	12,285	25,810	14,710	5,384	58,189
Cash and cash equivalents	8,614	12,519	13,298	8,132	42,563
Derivative financial instruments	–	–	6	88	94
<b>Total financial assets</b>	<b>20,899</b>	<b>38,329</b>	<b>28,014</b>	<b>13,604</b>	<b>100,846</b>
<b>Financial liabilities</b>					
Borrowings <sup>2</sup>	(38,041)	(104,920)	(63,252)	–	(206,213)
Derivative financial instruments	(134)	(170)	–	–	(304)
Trade and other payables <sup>3</sup>	(12,978)	(28,185)	(14,554)	(5,465)	(61,182)
<b>Total financial liabilities</b>	<b>(51,153)</b>	<b>(133,275)</b>	<b>(77,806)</b>	<b>(5,465)</b>	<b>(267,699)</b>
Potential impact on profit or loss – (loss)/gain					
10% increase in functional currency		(2,367)	(205)	(348)	(2,920)
10% decrease in functional currency		2,893	251	425	3,569
Potential impact on other comprehensive income – gain/(loss)					
10% increase in functional currency		8,732	4,527	(684)	12,575
10% decrease in functional currency		(10,673)	(5,532)	835	(15,370)

1 Excludes non-financial assets.

2 Excludes capitalised borrowing costs of £1.8 million (2017: £0.8 million).

3 Excludes non-financial liabilities.

The 10 per cent movements in exchange rates are considered to be indicative of a reasonable annual movement, based on historical average movements in exchange rates.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 18. Financial risk management and financial instruments continued

#### 18.3 Financial instruments: risk profile continued

##### 18.3.6 Capital management

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern so as to provide returns to shareholders and benefits to stakeholders. The Group defines its capital as total equity plus net debt.

In maintaining the capital structure, the Group may adjust the amount paid as dividends to shareholders, issue new shares or dispose of assets to reduce debt.

The Group monitors its financial capacity by reference to its financial covenant ratios, including Leverage and interest cover. If the Group fails to meet its key financial covenant ratios required by its lenders, this could impact the Group's average interest rate of borrowings and the future availability of credit to the Group.

The Group is in compliance with the financial covenants contained within its credit facilities, and has been in compliance throughout the financial year.

		2018 £'000	2017 £'000
Total borrowings <sup>1</sup>	17	262,544	206,213
Less: Cash and cash equivalents	14	(51,871)	(42,563)
<b>Underlying net debt</b>		<b>210,673</b>	163,650
Total equity		433,846	364,515
<b>Total capital</b>		<b>644,519</b>	528,165

<sup>1</sup> Excludes capitalised borrowing costs of £1.8 million (2017: £0.8 million).

#### 18.4 Fair value estimation

The Group's derivative financial instrument used for hedging is measured at fair value. The Group uses the following hierarchy for measuring fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

Derivatives shown at fair value in the balance sheet have been valued by reference to level 2 techniques described above.

There were no transfers between levels during the year.

##### 18.4.1 Valuation techniques used to derive level 2 fair values

Level 2 hedging derivatives comprise interest rate swaps fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for level 2 derivatives. The fair value of the derivative financial instruments at 31 December 2018 is a net asset of £0.1 million (2017: net liability of £0.2 million).

There were no changes in valuation techniques during the year.

##### 18.4.2 Group's valuation process

The Group has a team that performs the valuations of financial assets required for financial reporting purposes. This team reports to the CFO and the Audit Committee.

##### 18.4.3 Fair value of financial assets and liabilities measured at amortised cost

The fair values of borrowings are as follows:

		2018 £'000	2017 £'000
Current liabilities		(1,404)	(1,101)
Non-current liabilities		(257,956)	(204,040)
Fair value of borrowings		(259,360)	(205,141)

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

## 19. Provisions

### 19.1 Accounting policy

Provisions are recognised when:

- > the Group has a present legal or constructive obligation as a result of a past event;
- > it is probable that an outflow of resources will be required to settle the obligation; and
- > a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised in the income statement within net finance costs. Provisions are not recognised for future operating losses.

#### 19.1.1 Critical accounting estimates and judgements: carrying amount of provisions

Provisions, by their nature, are uncertain and highly judgemental. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date based on the nature of the provisions, the potential outcomes, any developments relating to specific claims and previous experience.

#### 19.2 Carrying amounts of provisions

	Note	Property related £'000	Restructuring £'000	Warranty £'000	Other £'000	Total £'000
At 1 January 2017		(3,758)	(1,090)	(1,905)	(5,915)	(12,668)
<b>(Charged)/credited to the income statement:</b>						
Additional provisions in the year		(51)	(7,905)	(11)	(305)	(8,272)
Unused amounts reversed		46	193	155	538	932
<b>Charged to property, plant and equipment:</b>						
Additional provisions in the year	11	(675)	–	–	–	(675)
Utilised in the year		667	439	925	153	2,184
Acquisitions of subsidiaries		(100)	–	(100)	–	(200)
Reclassification to current tax		–	–	–	760	760
Reclassification between categories		330	–	–	(330)	–
Exchange difference		6	326	55	93	480
At 31 December 2017		(3,535)	(8,037)	(881)	(5,006)	<b>(17,459)</b>
<b>(Charged)/credited to the income statement:</b>						
Additional provisions in the year		(1,102)	(107)	(335)	(31)	<b>(1,575)</b>
Unused amounts reversed		1,435	1,097	135	809	<b>3,476</b>
Utilised in the year		250	433	122	1,705	<b>2,510</b>
Acquisitions of subsidiaries	24	(289)	–	(1,393)	(39)	<b>(1,721)</b>
Exchange difference		(8)	(394)	(106)	167	<b>(341)</b>
<b>At 31 December 2018</b>		<b>(3,249)</b>	<b>(7,008)</b>	<b>(2,458)</b>	<b>(2,395)</b>	<b>(15,110)</b>

Analysed as:

	2018 £'000	2017 £'000
Current liabilities	<b>(6,955)</b>	(11,024)
Non-current liabilities	<b>(8,155)</b>	(6,435)
	<b>(15,110)</b>	(17,459)

Current liabilities are those aspects of provisions that are expected to be utilised within the next 12 months.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 19. Provisions continued

#### 19.2 Carrying amounts of provisions continued

##### 19.2.1 Property related

Property provisions include provisions for onerous leases of £1.3 million (2017: £2.1 million) and leasehold dilapidations of £2.0 million (2017: £1.4 million). Property provisions are expected to be utilised by 2042. Additional provisions in the year relate primarily to an increase in expected dilapidations costs as a result of a revised assessment performed in the year. Unused amounts released predominantly relate to an onerous lease provision that is no longer required.

For onerous leases, the Group has provided for the rental payments due over the remaining term of existing operating lease contracts where a period of vacancy is ongoing. The provision has been calculated after taking into account both the periods over which properties are likely to remain vacant and any likely sub-lease income on a property-by-property basis. The provision covers potential transfer of economic benefit over the full range of current lease commitments disclosed in note 27.

The provision for leasehold dilapidations relates to contractual obligations to reinstate leasehold properties to their original state of repair.

##### 19.2.2 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. These restructuring provisions are expected to be utilised by 2021.

##### 19.2.3 Warranty

Warranty provisions are calculated based on historical experience of the ultimate cost of settling product warranty claims and potential claims. These warranty provisions are expected to be utilised by 2025.

##### 19.2.4 Other

Included in other provisions is £0.4 million (2017: £0.3 million) relating to the tax consequences of international intragroup transactions for which the fiscal authorities may be expected to adopt opposing treatments in respect of revenue and cost recognition. The remaining £2.0 million (2017: £4.7 million) relates to various provisions for potential obligations mainly arising from the Group's M&A activity. The utilisation in the year principally relates to the settlement of a fully indemnified tax liability for which no cash outflow was recorded by the Group. These other provisions are expected to be utilised by 2021.

### 20. Retirement benefit obligations

#### 20.1 Accounting policy

The Group operates both defined contribution and defined benefit pension plans and post-employment medical plans.

##### 20.1.1 Pension obligations

###### Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group recognises contributions as an employee benefit expense when they are due and has no further payment obligations once the contributions have been paid. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. Prepaid contributions are recognised as an asset to the extent that a cash refund in the future is available.

###### Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit an employee will receive on retirement. This amount is usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income.

## 20. Retirement benefit obligations continued

### 20.1 Accounting policy continued

#### 20.1.2 Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

#### 20.1.3 Key source of estimation uncertainty: defined benefit pension and post-retirement benefit schemes

Defined benefit obligations are calculated using a number of assumptions including future salary increases, increases to pension benefits, mortality rates and, in the case of post-employment medical benefits, the expected rate of increase in medical costs. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions. Effects of changes in the actuarial assumptions underlying the benefit obligation, effects of changes in the discount rate applicable to the benefit obligation and effects of differences between the expected and actual return on the plan assets are classified as actuarial gains and losses and are recognised directly in equity. Further actuarial gains and losses will be recognised during the next financial year. An analysis of the assumptions that will be used by management to determine the cost of defined benefit plans that will be recognised in the income statement in the next financial year is presented in this note.

#### 20.2 Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes, the assets of which are held externally to the Group in separate trustee-administered funds. The costs of the Group's defined contribution pension schemes are charged to the income statement in the period in which they fall due. At the year end, the Group had unpaid pension contributions of £0.2 million (2017: £0.2 million) included within employee benefit liabilities.

#### 20.3 Defined benefit pension schemes and post-employment medical benefit schemes

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	Note	2018 £'000	2017 £'000
<b>Balance sheet obligation for:</b>			
Defined pension benefits		(10,781)	(12,144)
Post-employment medical benefits		—	(263)
<b>Net liability on the balance sheet</b>		<b>(10,781)</b>	<b>(12,407)</b>
<b>Income statement (charge)/credit for:</b>			
Defined pension benefits	5	(848)	(279)
Post-employment medical benefits	5	(2)	3,089
<b>Total income statement (charge)/credit<sup>1</sup></b>		<b>(850)</b>	<b>2,810</b>
<b>Remeasurements for:</b>			
Defined pension benefits		974	(688)
Post-employment medical benefits		164	503
<b>Total remeasurements</b>		<b>1,138</b>	<b>(185)</b>

<sup>1</sup> The income statement charge included within profit before taxation includes current service costs, past service costs, administrative costs and interest costs.

The Group's principal defined benefit pension schemes are operated in the US and Italy. The US defined benefit schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The Italian schemes relate to TFR termination obligations payable to employees of the Group's Italian operations. Italian employers are required to make provision for a type of severance package to its employees equivalent to 6.9 per cent of each employee's gross annual salary, revalued on the basis of 75.0 per cent of inflation plus a fixed rate of 1.5 per cent during the period of accrual. Upon termination of employment, the employer is obliged to pay a lump sum to the employee. TFR termination obligations are unfunded by the Group.

## Notes to the financial statements continued

For the year ended 31 December 2018

## 20. Retirement benefit obligations continued

## 20.3 Defined benefit pension schemes and post-employment medical benefit schemes continued

The buyout of the Bilco retirement benefit plan was completed during the year. AmesburyTruth's obligations under this plan were fully recoverable from, and indemnified by, the previous owners. No cash outflow or gain or loss on the buyout was recorded by the Group. During the year, the Rochester, NY, post-retirement medical benefit plan closed. The two remaining AmesburyTruth schemes are closed to new entrants and from January 2019 accrual of further service ceased on closure of the Rochester, NY, and Amesbury, MA, facilities.

For certain US plans, pensions in payment do not receive inflationary increases. The benefit payments are from trustee-administered funds. Plan assets held in trusts are governed by local regulations and practice in the US, as is the nature of the relationship between the Group and the trustees and their composition.

Responsibility for governance of the plans, including investment and contribution schedules, lies jointly with the Group and the board of trustees. The board of trustees is composed of representatives of the Company and plan participants in accordance with the relevant plan rules.

Actuarial gains and losses from participant experience, changes in demographic assumptions, changes in financial assumptions and net return on plan assets are recognised, net of the related deferred tax, in the consolidated statement of comprehensive income.

The movement in the defined benefit obligation over the year is as follows:

	Note	Present value of obligations		Fair value of plan assets		Net defined liability	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Balance at 1 January		<b>(42,784)</b>	(52,673)	<b>30,377</b>	35,565	<b>(12,407)</b>	(17,108)
<b>Included in the income statement:</b>							
Current service (cost)/credit		<b>(222)</b>	406	–	–	<b>(222)</b>	406
Past service credit		–	3,287	–	–	–	3,287
Administration costs		–	–	<b>(335)</b>	(330)	<b>(335)</b>	(330)
Interest (expense)/income	7	<b>(942)</b>	(1,874)	<b>649</b>	1,321	<b>(293)</b>	(553)
<b>Sub-total in income statement<sup>1</sup></b>	5	<b>(1,164)</b>	1,819	<b>314</b>	991	<b>(850)</b>	2,810
<b>Included in other comprehensive income</b>							
Remeasurement gain/(loss) arising from:							
Net (loss)/gain on plan assets <sup>2</sup>		–	–	<b>(1,199)</b>	1,931	<b>(1,199)</b>	1,931
Changes in demographic assumptions		<b>115</b>	1,044	–	–	<b>115</b>	1,044
Changes in financial assumptions		<b>1,800</b>	(3,811)	–	–	<b>1,800</b>	(3,811)
Experience loss		<b>422</b>	651	–	–	<b>422</b>	651
<b>Sub-total in other comprehensive income<sup>3</sup></b>		<b>2,337</b>	(2,116)	<b>(1,199)</b>	1,931	<b>1,138</b>	(185)
Employer contributions		–	–	<b>857</b>	1,171	<b>857</b>	1,171
Plan participant contributions		<b>(92)</b>	(95)	<b>92</b>	95	–	–
Contribution by former owner		–	–	<b>1,648</b>	–	<b>1,648</b>	–
Benefit payments		<b>3,203</b>	6,105	<b>(2,976)</b>	(6,105)	<b>227</b>	–
Acquisitions of subsidiaries	24	<b>(964)</b>	–	–	–	<b>(964)</b>	–
Termination of pension		<b>11,957</b>	–	<b>(11,957)</b>	–	–	–
Exchange difference		<b>(1,597)</b>	4,176	<b>1,167</b>	(3,271)	<b>(430)</b>	905
<b>Balance at 31 December</b>		<b>(29,104)</b>	(42,784)	<b>18,323</b>	30,377	<b>(10,781)</b>	(12,407)

1 The current service cost, past service costs and expenses relating to the administration of the defined benefit schemes are included in the income statement within administrative expenses. Also see note 5.3. Net expense is included within net finance income and costs (note 7).

2 Excluding amounts included in interest expense.

3 A deferred tax debit of £0.3 million (2017: deferred tax debit of £1.2 million) has been recognised in other comprehensive income in respect of remeasurements of the defined benefit obligation. Also see note 8.

## 20. Retirement benefit obligations continued

### 20.3 Defined benefit pension schemes and post-employment medical benefit schemes continued

Defined benefit plan liabilities and assets by country are as follows:

	Present value of obligations		Fair value of plan assets		Net defined liability	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
United States	(25,274)	(39,732)	18,323	30,377	(6,951)	(9,355)
Italy	(3,830)	(3,052)	–	–	(3,830)	(3,052)
<b>Balance at 31 December</b>	<b>(29,104)</b>	<b>(42,784)</b>	<b>18,323</b>	<b>30,377</b>	<b>(10,781)</b>	<b>(12,407)</b>

Plan assets comprise the following asset classes:

	2018		2017	
	£'000	%	£'000	%
Equity instruments	4,755	26.0%	5,325	17.5%
Large US equity	2,806		3,167	
Small/mid US equity	451		577	
International equity	1,498		1,581	
Balanced/asset allocation	374	2.0%	385	1.3%
Fixed income	13,194	72.0%	24,667	81.2%
<b>Balance at 31 December</b>	<b>18,323</b>		<b>30,377</b>	

Equity instruments comprise listed investments.

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The US plans hold a significant proportion of fixed income investments, comprising a mixture of government and corporate bonds, and provide an acceptable level of investment risk to better match liabilities. The Group believes that given the long term nature of plan liabilities, and the strength of the supporting Group, a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the plans efficiently. Equities are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term. As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The Italian plans do not have plan assets.
Changes in bond yields	A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
Inflation risk	Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plans' assets are either unaffected by fixed interest bonds or loosely correlated with equities inflation, meaning that an increase in inflation will also increase the deficit. In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk.
Life expectancies	The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The significant actuarial assumptions were as follows:

	2018		2017	
	United States	Italy	United States	Italy
Discount rate	4.11%	1.35%	3.30%	1.29%
Inflation	2.25%	1.50%	2.00%	1.50%
Salary growth rate	n/a	1.50%	n/a	1.50%
Pension growth rate	n/a	n/a	n/a	n/a
Healthcare cost trend	n/a	n/a	4.5% to 7.0%	n/a

## Notes to the financial statements continued

For the year ended 31 December 2018

### 20. Retirement benefit obligations continued

#### 20.3 Defined benefit pension schemes and post-employment medical benefit schemes continued

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each jurisdiction. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 for the US schemes as below. This assumption is not relevant to the Italian schemes.

Retiring at the end of the reporting year:	
Male	20.0
Female	22.5
Retiring 20 years after the end of the reporting year:	
Male	21.7
Female	24.1

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	Change in discount rate assumption	Impact of increase in assumption	Impact of decrease in assumption
US	0.25%	(2.8)%	3.0%
Italy	0.50%	(5.3)%	3.8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same methodology has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to the previous year.

The US pension schemes are closed to new entrants and closed to further accrual of service; as a result there will be no further services costs incurred by the Group related to these schemes. The expected level of contributions to the defined benefit pension scheme and post-employment medical benefits in the year to December 2019 is £0.9 million.

The weighted average duration of the defined benefit obligation is 12 years for US plans and 10 years for Italian plans.

The expected maturity analysis of undiscounted post-employment pension benefits is as follows:

	Defined pension benefits £'000
No later than one year	(1,701)
Between one and two years	(1,633)
Between two and five years	(5,063)
Later than five years	(12,064)
<b>At 31 December 2018</b>	<b>(20,461)</b>

### 21. Share capital and share premium

#### 21.1 Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds received by the Company.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

#### 21.2 Share capital and share premium

	Number of shares '000	Ordinary shares £'000	Share premium £'000
At 1 January 2017 and 2018	178,582	8,929	81,407
Shares issued	18,180	909	50,812
<b>At 31 December 2018</b>	<b>196,762</b>	<b>9,838</b>	<b>132,219</b>

Ordinary shares in the Company have a par value of 5.00 pence per share (2017: 5.00 pence per share). All issued shares are fully paid up.

On 13 March 2018 the Group issued 17,758,620 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 420,926 shares as part consideration for the acquisition of Zoo Hardware.

## 22. Share-based payments

### 22.1 Accounting policy

The Group operates the LTIP, which is an equity-settled share-based compensation plan for certain employees under which the entity receives services from employees as consideration for equity instruments (share options) of the Group. The fair value of the employee services received in exchange for the grant of options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest, with any changes in estimate recognised in the income statement, with a corresponding adjustment in equity. The fair value of awards granted under LTIP is measured using a probability model to predict target EPS levels.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised. The Group also operates a save as you earn scheme for employees and a deferred share bonus plan for senior management.

The charge in respect of the save as you earn scheme of £0.1 million is immaterial and therefore further disclosures are not provided. Further details of the deferred share bonus scheme are included in the Remuneration report on page 92.

### 22.2 LTIP

The charge to the income statement in 2018 in relation to the LTIP was £1.0 million (2017: £1.1 million).

Conditional, annual awards of shares are granted under the LTIP to the Executive Directors and certain senior managers at the discretion of the Remuneration Committee. Provided the participant remains an employee of the Group and the performance conditions are met, awards will vest three years after the date of the grant at no cost to the employee. Further information on the LTIP and the performance conditions for each grant are given in the Remuneration report.

The fair value of the awards granted under the LTIP in 2018 and the assumptions used in the calculation of the share-based payment charge are outlined below. For the LTIPs to vest, employees must remain in continuous service for the three year vesting period and cumulative Underlying EPS over the three years 2018 to 2020 must be in the range of 92.0 to 109.0 pence.

Valuation model	Black-Scholes	Expected volatility	27.29%
Date of grant	5 April 2018	Expected dividend yield	3.89%
Fair value	258 pence	Risk free rate	1.00%
Share price at date of award	299 pence	Expected life of award	Three years
Exercise price	Nil pence		

Movements in the number of outstanding conditional awards of shares currently exercisable are as follows:

	2018 '000	2017 '000
At 1 January	2,106	1,996
Exercised	(250)	(290)
Granted	833	792
Lapsed	(401)	(392)
<b>At 31 December</b>	<b>2,288</b>	2,106

### 22.3 Employee Benefit Trust purchases

Details of shares purchased by the Employee Benefit Trust to satisfy certain share awards vested in the year as well as future obligations under the Group's various share plans are as follows:

	2018 '000	2017 '000
Number of ordinary shares	1,070	268
Cost to Company	£3,219	£847

## Notes to the financial statements continued

For the year ended 31 December 2018

### 23. Dividends

	2018 £'000	2017 £'000
<b>Amounts recognised as distributions to owners in the year:</b>		
Final dividend for the year ended 31 December 2017 of 7.75 pence (2016: 7.50 pence)	<b>15,059</b>	13,293
Interim dividend for the year ended 31 December 2018 of 3.75 pence (2017: 3.50 pence)	<b>7,303</b>	6,204
<b>Total amounts recognised as distributions to owners in the year</b>	<b>22,362</b>	19,497
<b>Amounts not recognised in the financial statements:</b>		
Final dividend proposed for the year ended 31 December 2018 of 8.25 pence (2017: 7.75 pence)	<b>16,067</b>	13,739

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in the financial statements for the year ended 31 December 2018.

### 24. Business combinations

#### 24.1 Accounting policy

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities assumed and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 10.2). If the total of consideration transferred is less than the fair value of the net assets of the subsidiary acquired (a bargain purchase), the difference is recognised directly in the income statement.

#### 24.1.1 Critical accounting estimates and judgements: acquisition accounting

IFRS 3 requires assets and liabilities acquired to be recorded at fair value and to identify intangible assets separately from goodwill, initially measuring each group of intangible assets at fair value. Groups of intangible assets include purchased brands and customer relationships. There is judgement involved in estimating fair value, particularly in relation to identifiable intangible assets, which requires the Directors to estimate the useful economic life of each asset and the future cash flows expected to arise from each asset and to apply a suitable discount rate.

## 24. Business combinations continued

### 24.2 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 12 months of each acquisition date.

	Note	Ashland <sup>1</sup> £'000	Zoo Hardware £'000	Reguitti £'000	Profab £'000	Total £'000
Intangible assets	10	34,567	6,401	6,437	3,030	50,435
Property, plant and equipment	11	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	17	–	(1,799)	(556)	(198)	(2,553)
Derivative financial instruments		–	(51)	–	–	(51)
Deferred tax liabilities	8	(5,569)	(1,101)	(1,493)	(485)	(8,648)
Retirement benefit obligations	20	–	–	(964)	–	(964)
Provisions	19	(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	10	27,576	5,050	6,179	2,032	40,837
<b>Total consideration</b>		<b>73,274</b>	<b>17,159</b>	<b>14,174</b>	<b>6,487</b>	<b>111,094</b>
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
<b>Total consideration</b>		<b>73,274</b>	<b>17,159</b>	<b>14,174</b>	<b>6,487</b>	<b>111,094</b>
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)
<b>Net cash outflow</b>		<b>73,379</b>	<b>13,972</b>	<b>13,937</b>	<b>5,094</b>	<b>106,382</b>

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.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 24. Business combinations continued

#### 24.3 Description of business combinations

	Ashland	Zoo	Reguitti	Profab
Acquisition date	14 March 2018	10 May 2018	30 August 2018	31 July 2018
Business description	North American manufacturer of hardware for residential windows and doors.	Designer and supplier of architectural hardware for the UK residential and commercial markets.	Designer and supplier of architectural hardware for the Italian residential and commercial markets.	UK-based designer and supplier of riser doors, access panels and security doors for the commercial and residential markets.
Consideration	Cash consideration of £73.3 million.	Initial cash consideration of £14.3 million and £1.4 million in the form of shares in Tyman plc. A further £1.5 million of cash consideration is deferred for two years.	Initial cash consideration of £13.9 million. A further £0.3 million of deferred consideration is expected to be settled within the next 12 months.	Cash consideration of £6.5 million.
Acquiring Division	AmesburyTruth	ERA	SchlegelGiese	ERA
Description of how residual goodwill is primarily derived through profitability of the acquired business	<ul style="list-style-type: none"> <li>➢ consolidation of surplus offices and facilities and elimination of duplicate administrative overheads;</li> <li>➢ alignment of sales and marketing resources;</li> <li>➢ co-ordination of third party sourcing, freight and logistics; and</li> <li>➢ acquired workforce.</li> </ul>	<ul style="list-style-type: none"> <li>➢ unquantifiable revenue synergies from cross-selling;</li> <li>➢ potential to win new customers as a result of the increased product offering and scale; co-ordination of third party sourcing, freight and logistics; and</li> <li>➢ acquired workforce.</li> </ul>	<ul style="list-style-type: none"> <li>➢ cross-selling;</li> <li>➢ potential to win new customers as a result of the increased product offering and scale; and</li> <li>➢ acquired workforce.</li> </ul>	<ul style="list-style-type: none"> <li>➢ unquantifiable revenue synergies from cross selling;</li> <li>➢ potential to win new customers as a result of the increased product offering; and</li> <li>➢ acquired workforce.</li> </ul>

#### 24.4 Financial information relating to business combinations

	Ashland £'000	Zoo Hardware £'000	Reguitti £'000	Profab £'000
Acquisition related costs <sup>1</sup>	978	304	186	89
Fair value of trade and other receivables	4,535	4,406	3,488	1,154
Fair value of trade receivables	4,026	4,275	3,105	1,082
Provision for uncollectable trade receivables	(117)	(238)	(152)	(176)
Revenue since acquisition	44,607	12,740	3,629	4,401
Underlying operating profit since acquisition	9,131	2,675	409	580
Additional revenue contributed if acquired on 1 January 2018	8,566	6,788	7,312	2,669
Additional Underlying operating profit contributed if acquired on 1 January 2018	1,307	873	1,037	574
Estimated value of intangibles, including goodwill, deductible for tax purposes	1,915	—	—	—

<sup>1</sup> Acquisition related costs are included in exceptional costs in the Group's consolidated income statement (note 6).

## 25. Non-current assets held for sale

### 25.1 Accounting policy

Non-current assets classified as held for sale are measured at the lower of carrying amount or fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### 25.2 Non-current assets classified as held for sale

As at 31 December 2017, the Statesville, NC, freehold property was classified as an asset held for sale and was being actively marketed for sale at that year end. On 7 February 2018, this property was sold for a consideration of US\$1.4 million (see note 6). There were no assets held for sale as at 31 December 2018.

## 26. 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:

	Note	2018 £'000	2017 £'000
Net finance costs	7	11,589	9,373
Depreciation	11	12,457	11,599
Amortisation of intangible assets	10	27,264	24,249
Impairment of computer software	10	119	114
Profit on disposal of property, plant and equipment		(21)	(878)
Write-off of inventory fair value adjustments	6	2,515	22
Pension service costs and expected administration costs	20	557	(3,363)
Non-cash provision movements	19	(1,900)	7,340
Share-based payments	22	1,068	1,987
<b>Adjustments to cash flows from operating activities</b>		<b>53,648</b>	50,443

## 27. Financial commitments

### 27.1 Capital commitments

	2018 £'000	2017 £'000
Property, plant and equipment	223	585

### 27.2 Operating lease commitments

The Group has entered into commercial leases on certain properties. There are no restrictions placed upon the lessee by entering into these leases.

The present values of future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Not later than one year	7,979	7,806	1,371	1,174
Later than one years but not later than five years	24,693	21,009	2,088	1,930
Later than five years	55,378	56,137	—	13
<b>Total lease commitment</b>	<b>88,050</b>	84,952	<b>3,459</b>	3,117

## 28. Contingent liabilities

There are no contingent liabilities.

## 29. 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.

## Notes to the financial statements continued

For the year ended 31 December 2018

### 30. Related party transactions

The following transactions were carried out with related parties of Tyman plc:

#### 30.1 Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, are eliminated on consolidation. There were no transactions between the Company and its subsidiaries made during the year other than intercompany loans.

#### 30.2 Key management compensation

The Group considers its Directors to be the key management personnel. Compensation for Directors who have the sole responsibility for planning, directing and controlling the Group are set out in the Remuneration report on pages 80 to 99.

Full details of individual Directors' remuneration are given in the Remuneration report on pages 80 to 99.

### 31. Subsidiaries

Details of the subsidiaries of the Group as at 31 December 2018 are detailed below. Unless otherwise indicated, all subsidiaries are wholly owned.

Registered name and office address	Country of incorporation	Nature of business
<b>UK</b>		
<i>29 Queen Anne's Gate, London SW1H 9BU</i>		
Amesbury Holdings Limited <sup>1</sup>	United Kingdom	Holding company
Balance UK Limited <sup>1</sup>	United Kingdom	Dormant
Bilco Access Solutions Limited <sup>1</sup>	United Kingdom	Building products
Crompton Limited <sup>1</sup>	United Kingdom	Dormant
ERA Home Security Limited <sup>1</sup>	United Kingdom	Building products
ERA Products Limited <sup>1</sup>	United Kingdom	Dormant
ERA Security Hardware Limited <sup>1</sup>	United Kingdom	Dormant
Grouphomesafe Limited <sup>1</sup>	United Kingdom	Dormant
Howe Green Limited <sup>1</sup>	United Kingdom	Building products
Jasper Acquisition Holdings Limited	United Kingdom	Holding company
Jasper Acquisition Limited <sup>1</sup>	United Kingdom	Holding company
Lupus Capital Limited	United Kingdom	Dormant
Octroi Group Limited	United Kingdom	Holding company
Octroi Investments Limited <sup>1</sup>	United Kingdom	Dormant
Otterburn Limited <sup>1</sup>	United Kingdom	Dormant
Profab Access Limited	United Kingdom	Building products
Response Electronics Ltd <sup>1</sup>	United Kingdom	Building products
Schlegel Acquisition Holdings Limited	United Kingdom	Holding company
Schlegel Building Products Limited <sup>1</sup>	United Kingdom	Dormant
Schlegel Limited <sup>1</sup>	United Kingdom	Building products
Tyman Equities Limited	United Kingdom	Dormant
Tyman Financial Services Limited <sup>1</sup>	United Kingdom	Financing company
Tyman Investments <sup>1</sup>	United Kingdom	Dormant
Tyman Management Limited <sup>1</sup>	United Kingdom	Holding company
Ventrolla Limited <sup>1</sup>	United Kingdom	Dormant
Window Fabrication & Fixing Supplies Limited <sup>1</sup>	United Kingdom	Dormant
Zoo Hardware Limited	United Kingdom	Building products
<b>North America</b>		
<i>333 Bay Street, Toronto, Ontario M5H 2T4</i>		
Amesbury Canada Inc <sup>1</sup>	Canada	Holding company
<i>Via Monterrey Matamoros No. 600, Parque Industrial Milenium, Apodaca, Nuevo Leon, Mexico, 66600</i>		
Ashland Hardware and Casting Systems de Mexico, S.De R.L. De C.V.	Mexico	Building products
<i>1-460 Hanlan Road, Woodbridge ON L4L 3P6</i>		
Ashland Hardware Canada Inc.	Canada	Building products

### 31. Subsidiaries continued

Registered name and office address	Country of incorporation	Nature of business
<b>North America continued</b>		
<i>Suite 610, 545 East John Carpenter Freeway, Irving TX 75062</i>		
Ashland Hardware Holdings, Inc	United States	Holding company
Ashland Hardware, LLC	United States	Building products
<i>8005 Dixie Road, Unit 8043, Brampton, Ontario L6T 3V1</i>		
Atlas Holdings Company Limited <sup>1</sup>	Canada	Holding company
<i>Roberto Fierro #6351, Industrial Park Aero Juarez, Juarez, Chihuahua 32695</i>		
Amesbury Mexico S.De R.L. De C.V. <sup>1</sup>	Mexico	Building products
<i>Deportistas 7820 Parque Industrial Gema Ciudad, Juarez, Chihuahua 32648</i>		
Bilcomex Comercializadora S.De R.L. De C.V. <sup>1</sup>	Mexico	Building products
Bilcomex S.De R.L. De C.V. <sup>1</sup>	Mexico	Building products
<i>3600 Minnesota Drive, Edina MN 55435</i>		
Amesbury Acquisition Holdings (2) Inc <sup>1</sup>	United States	Holding company
Amesbury Door Hardware Inc <sup>1</sup>	United States	Building products
Amesbury Finance Holdings LLC <sup>1</sup>	United States	Holding company
Amesbury Group Inc <sup>1</sup>	United States	Holding company
Amesbury Group Plastic Profiles Inc <sup>1</sup>	United States	Building products
Amesbury Industries Inc <sup>1</sup>	United States	Holding company
Balance Systems Inc <sup>1</sup>	United States	Building products
Bandlock Corporation Inc <sup>1</sup>	United States	Building products
Fastek Products Inc <sup>1</sup>	United States	Building products
Giesse Group North America Inc <sup>1</sup>	United States	Building products
Overland Products Company, Inc <sup>1</sup>	United States	Building products
Schlegel Acquisition Holdings USA Inc <sup>1</sup>	United States	Holding company
Schlegel Systems Inc <sup>1</sup>	United States	Building products
The Bilco Company <sup>1</sup>	United States	Holding company
The Bilco Holding Company <sup>1</sup>	United States	Holding company
Truth Hardware Corporation <sup>1</sup>	United States	Building products
Tyman Ventures Inc <sup>1</sup>	United States	Holding company
Unipoly Schlegel Holdings Inc <sup>1</sup>	United States	Holding company
<i>370 James Street, Suite 201, West Haven CT 06513</i>		
Bilco UK Ltd <sup>1</sup>	United States	Building products
<b>Europe</b>		
<i>Nieuwpoortsesteenweg 1028400 Oostende</i>		
Schlegel Belgium BVBA <sup>1</sup>	Belgium	Building products
<i>Bredowstrasse, 33-22113, Hamburg</i>		
Schlegel Germany GmbH <sup>1</sup>	Germany	Building products
<i>Carl-Zeiss-Strasse, 37 63322 – Rodermark</i>		
Jatec GmbH <sup>1</sup>	Germany	Building products
<i>Kolonou 1-3, 12131 Peristeri</i>		
Giesse Group Hellas S.A. <sup>1</sup>	Greece	Building products
<i>Via Tubertini n.1, 40054 Budrio BO</i>		
Giesse S.p.A. <sup>1</sup>	Italy	Building products
<i>Località Fondi, 33 25071 – Agnosine BS</i>		
Regiutti S.P.A. <sup>1</sup>	Italy	Building products
Tropex Design S.r.l. <sup>1</sup>	Italy	Building products

## Notes to the financial statements continued

For the year ended 31 December 2018

### 31. Subsidiaries continued

Registered name and office address	Country of incorporation	Nature of business
<b>Europe continued</b>		
<i>Havenkade 99B, 1973 AK Ljmuiden, Holland</i> Tetchy Investments BV <sup>1</sup>	Netherlands	Dormant
<i>Constitucion, 84-Poligono Industrial Les Grases, 08980 Sant Feliu De Llobregat, Barcelona</i> Giesse Group Iberia S.A. <sup>1</sup>	Spain	Building products
Schlegel Taliana SL <sup>1</sup>	Spain	Building products
<b>Other</b>		
<i>Enrique Becquerel 4873, Area de promocion el Triangulo, CP 1615, Buenos Aires</i> Giesse Group Argentina S.A. <sup>1</sup>	Argentina	Building products
<i>44 Riverside Road, Chipping Norton NSW 2170</i> Schlegel Australia Pty (2006) Ltd <sup>1</sup>	Australia	Holding company
Schlegel Pty Limited <sup>1</sup>	Australia	Building products
<i>Alameda Itatinga, 617 Galpoa 2, Bairro Joapiranga II, CEP13278-480, Cidade Valinhos, Estado de Sao Paulo</i> Giesse Brasil Indústria e Comércio de Ferragens e Acessórios Ltda. <sup>1</sup>	Brazil	Building products
Schlegel América Latina – Vedação, Esquadrias e Extrusão Ltda. <sup>1</sup>	Brazil	Building products
<i>Room 810-815 F8, CWE Building, No.3 Guangqu East Road, Chaoyang District, 100124, Beijing</i> Giesse Hardware (Beijing) Co. Ltd. <sup>1</sup>	China	Building products
<i>No 8 Xingye Road Pingyi Software Park Eastern Section Ningbo Free Trade Zone, Ningbo City, Zhejiang</i> LSS Ningbo Limited <sup>1</sup>	China	Building products
<i>Unit 14-2 New City Tower No 535 Qingshuiqiao Road Jiangdong District, Ningbo City</i> LSS Trading (Ningbo) Limited <sup>1</sup>	China	Building products
Amesbury (Ningbo) Hardware Trading Co., Ltd <sup>1</sup>	China	Building products
<i>1 Commonwealth Lane, 6-18, One Commonwealth, Singapore 149544</i> Schlegel Asia Pte. Ltd <sup>1</sup>	Singapore	Building products
<i>3rd Interchange, Sheikh Zayed Road, Al Quoz Industrial Area 1, Dubai</i> Schlegel Middle East Building Materials Trading LLC <sup>1,2</sup>	United Arab Emirates	Building products
<b>Branches</b>		
<i>3 Park Farm Business Centre, Fornham St. Genevieve, Bury St. Edmunds, Suffolk IP28 6TS</i> Bilco UK Ltd	United Kingdom	Building products
<i>Burrett Business Park, 10d Burrett Ave, Penrose, Auckland 1061</i> Schlegel Pty Ltd	New Zealand	Building products
<i>D-362, MIDC, TTC Industrial Area, Behind IOC Terminal, Kukshet Village, Juinagar, Navi Mumbai 400705</i> Giesse S.p.A.	India	Building products
<i>Istanbul Merkez Şubesi, Halk Sokak Ada IS Merkezi No: 46, Kat: 2 Daire: 4, 34734 Sahrayicedid, Kadikoy, Istanbul</i> Giesse S.p.A.	Turkey	Building products
<i>8 Chemin du Jubin, 69570 Dardilly</i> Giesse S.p.A.	France	Building products
<i>Av. Eng. Duarte Pacheco, 19 – 3º DTO., 1070-100 Lisboa</i> Giesse Group Iberia S.A.	Portugal	Building products

<sup>1</sup> Held by subsidiary.

<sup>2</sup> Shareholding of 49 per cent held by the Group. The Group has managerial control and is entitled to 100 per cent of the profits and cash generated by the business.

## 32. 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.

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. 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.

### 32.1 IFRS 9 'Financial Instruments'

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The total impact on the Group's retained earnings as at 1 January 2018 was a decrease of £0.4 million. The adjustments made are explained below.

#### 32.1.1 Classification and measurement

With effect from 1 January 2018, the Group has assessed which business models apply to the financial assets and has classified its financial instruments into the appropriate IFRS 9 categories. The only change was to reclassify an equity investment with a carrying value of £1.1 million from 'other long term receivables' held at amortised cost to 'Financial assets held at fair value through profit or loss'. As the fair value was not materially different to amortised cost, there was no measurement difference.

#### 32.1.2 Impairment of financial assets

On adoption of IFRS 9, the Group was required to revise its impairment methodology for trade receivables. Under this revised methodology, the provision for bad debts as at 1 January 2018 increased by £0.4 million from £2.9 million to £3.3 million. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the length of time overdue.

Under the incurred loss model of IAS 39, the provision would have been £0.6 million lower and profit in the year would have been £0.2 million higher.

#### 32.1.3 Other

Other aspects of the standard that were considered as part of the Group's transition to IFRS 9 were hedge accounting and accounting for extinguishment of debt. These areas did not result in any measurement differences.

The Group has revised its accounting policies on adoption of IFRS 9 and the revised policies are disclosed in note 13 and note 18.

### 32.2 IFRS 15 'Revenue from contracts with customers'

In accordance with the transition provisions in IFRS 15, the Group has applied the modified retrospective approach and has recognised the cumulative effect of changes in retained earnings as at 1 January 2018 and has not restated comparatives.

The impact on the Group's retained earnings as at 1 January 2018 was a decrease of £0.3 million. The adjustments made are described below. If the Group had continued to apply the previous accounting policies, profit for the year ended 31 December 2018 would have been £0.1 million higher.

#### 32.2.1 Accounting for customer returns

IFRS 15 requires that where a customer has the right to return products, a liability for the gross amount expected to be refunded to the customer and a corresponding asset for the value of goods the Group expects to be returned to inventory must be recognised.

In applying the guidance for accounting for the right to return products, an adjustment was made to opening balances as at 1 January 2018 to increase trade and other payables by £0.3 million and increase trade and other receivables by £0.1 million.

#### 32.2.2 Accounting for service credits

IFRS 15 introduced specific guidance for accounting for variable consideration. This includes where the Group may be required to issue credits for performance penalties, such as service-related credit notes.

In applying the guidance for accounting for service credits, an adjustment was made to opening balances as at 1 January 2018 to increase trade and other payables by £0.1 million.

## Notes to the financial statements continued

For the year ended 31 December 2018

## 32. Changes in accounting policies continued

## 32.2 IFRS 15 'Revenue from contracts with customers' continued

## 32.2.3 Assessment of principal vs agent in respect of freight income

The criteria for assessing whether an entity is acting as principal or agent in an arrangement have been amended in IFRS 15. The Group assessed whether it is acting as principal or agent where customers are charged for freight services under the revised guidance.

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.

Other aspects of the standard that were considered as part of the Group's transition to IFRS 15 were whether shipping services should be considered a separate performance obligation, and whether any costs of contract acquisition or fulfilment should be capitalised. These areas did not result in any measurement differences. The Group has revised its accounting policy following adoption of IFRS 15. The revised policy is included in note 3.

## 32.3 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 and figures being rounded to the nearest million.

## Balance sheet as at 1 January 2019

	Current policies £'m	Adjustments £'m	IFRS 16 £'m
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 2018

	Current policies £'m	Adjustments £'m	IFRS 16 £'m
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

### 32. Changes in accounting policies continued

#### Cash flow statement for the year ended 31 December 2018

	Current policies £'m	Adjustments £'m	IFRS 16 £'m
Cash flows from operating activities	73	9	<b>82</b>
Cash flows from financing activities	57	(9)	<b>48</b>

#### 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.

## Independent auditors' report

To the members of Tyman plc

### Report on the audit of the Company financial statements

#### Opinion

In our opinion, Tyman plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Company balance sheet as at 31 December 2018; the Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

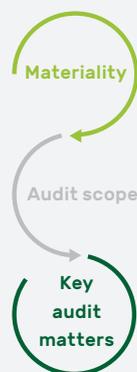
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the Group and its subsidiaries in the period from 1 January 2018 to 31 December 2018.

#### Our audit approach

##### Overview



- Overall materiality: £3.5 million (2017: £3.1 million), based on 1% of total assets.
- We performed a full scope audit over the Company ledger, providing us with 100% coverage over the Company accounts.

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

#### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to unethical and prohibited business practices and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of matters reported on the entity's whistleblowing helpline;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment assessments; and
- identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted to exceptional items.

## Report on the audit of the Company financial statements continued

### Our audit approach continued

#### Capability of the audit in detecting irregularities, including fraud continued

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the Company to communicate in our report.

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

We scoped the balances to be audited in line with the materiality determined for the year.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£3.5 million (2017: £3.1 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	As the parent entity, Tyman plc, is primarily a holding Company for the Group, the materiality benchmark has been determined to be based on total assets which is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £175,000 (2017: £155,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to.  However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

## Independent auditors' report continued

To the members of Tyman plc

### Report on the audit of the Company financial statements continued

#### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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#### Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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#### The directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 46 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 46 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

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#### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on pages 64 and 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 66 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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#### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on pages 64 and 65, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2012 to 31 December 2018.

### Other matter

We have reported separately on the Group financial statements of Tyman plc for the year ended 31 December 2018.

**Richard Porter (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
5 March 2019

## Company balance sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Fixed assets</b>			
Investments in subsidiaries	4	356,191	311,031
<b>Current assets</b>			
Debtors	5	123,082	82,190
Cash and cash equivalents		271	677
		123,353	82,867
Creditors – amounts falling due within one year	6	(2,192)	(17,225)
<b>Net current assets</b>		121,161	65,642
<b>Total assets less current liabilities</b>		477,352	376,673
Creditors – amounts falling due after more than one year	6	(78,985)	(81,711)
<b>Net assets</b>		398,367	294,962
<b>Equity</b>			
Called up share capital	9	9,838	8,929
Share premium		132,219	81,407
Other reserves		–	8,920
Treasury reserve		(4,890)	(2,776)
Retained earnings		261,200	198,482
Brought forward		198,482	203,225
Profit for the year		75,947	14,176
Other movements		(13,229)	(18,919)
<b>Total shareholders' funds</b>		398,367	294,962

The notes on pages 162 to 165 are an integral part of these financial statements.

The financial statements on pages 160 and 161 were approved by the Board on 5 March 2019 and signed on its behalf by:

**Louis Eperjesi**  
Chief Executive Officer

**James Brotherton**  
Chief Financial Officer

Tyman plc  
Company registration number: 02806007

## Company statement of changes in equity

For the year ended 31 December 2018

	Called up share capital £'000	Share premium £'000	Other reserves <sup>1</sup> £'000	Treasury reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	8,929	81,407	8,920	(3,338)	203,225	299,143
<b>Total comprehensive income</b>						
Profit for the year	–	–	–	–	14,176	14,176
<b>Transactions with owners</b>						
Share-based payments <sup>2</sup>	–	–	–	–	1,987	1,987
Dividends paid	–	–	–	–	(19,497)	(19,497)
Issue of own shares to Employee Benefit Trust	–	–	–	1,409	(1,409)	–
Purchase of own shares for Employee Benefit Trust	–	–	–	(847)	–	(847)
At 31 December 2017	8,929	81,407	8,920	(2,776)	198,482	<b>294,962</b>
<b>Total comprehensive income</b>						
Profit for the year	–	–	–	–	75,947	<b>75,947</b>
<b>Transactions with owners</b>						
	909	50,812	(8,920)	(2,114)	(13,229)	<b>27,458</b>
Share-based payments <sup>2</sup>	–	–	–	–	1,251	<b>1,251</b>
Dividends paid	–	–	–	–	(22,362)	<b>(22,362)</b>
Issue of shares	909	50,812	–	–	–	<b>51,721</b>
Transfer of merger reserve <sup>1</sup>	–	–	(8,920)	–	8,920	–
Issue of own shares to Employee Benefit Trust	–	–	–	1,105	(1,038)	<b>67</b>
Purchase of own shares for Employee Benefit Trust	–	–	–	(3,219)	–	<b>(3,219)</b>
<b>At 31 December 2018</b>	<b>9,838</b>	<b>132,219</b>	<b>–</b>	<b>(4,890)</b>	<b>261,200</b>	<b>398,367</b>

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 deferred tax debit of £0.1 million (2017: deferred tax credit of £0.5 million) and a release of the deferred share bonus plan accrual of £0.3 million (2017: £0.4 million).

The notes on pages 162 to 165 are an integral part of these financial statements.

## Notes to the Company financial statements

For the year ended 31 December 2018

### 1. Accounting policies

#### 1.1 Basis of preparation

The financial statements of Tyman plc have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'. The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 applicable to companies reporting under FRS 101. The accounting policies have been consistently applied unless otherwise stated. IFRS 9 'Financial Instruments' became applicable in the period. The accounting policy for financial assets was amended to reflect the new classification categories. There was no measurement impact on the Company.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.3 of the Group financial statements.

#### 1.1.1 FRS 101 – reduced disclosure exemptions

The following exemptions from the requirements of IFRSs have been applied in the preparation of these financial statements in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based payments;
- IFRS 7 Financial instruments: disclosures;
- paragraphs 91 to 99 of IFRS 13 Fair value measurement;
- the following paragraphs of IAS 1 Presentation of financial statements:
  - comparative information requirements in respect of paragraph 79(a)(iv);
  - paragraph 10(d), cash flow statements;
  - paragraph 16, statement of compliance with all IFRS;
  - paragraph 38A, minimum of two primary statements, including cash flow statements;
  - paragraphs 38B to 38D, additional comparative information;
  - paragraphs 40A to 40D, requirements for a third statement of financial position;
  - paragraph 111, cash flow statement information;
  - paragraphs 134 to 136, capital management disclosures;
  - paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors;
- IAS 7 Statement of cash flows;
- paragraph 17 of IAS 24 Related party disclosures; and
- the requirements of IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group.

#### 1.2 Foreign currency translation

##### 1.2.1 Functional currency and presentation currency

The financial statements are presented in Sterling, which is also the functional currency.

##### 1.2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### 1.3 Financial instruments

Financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the instrument and are generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

##### 1.3.1 Financial assets at amortised cost (2017: loans and receivables)

The Company classifies financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's financial assets comprise "debtors" (see note 5) and "cash and cash equivalents" in the balance sheet.

##### 1.3.2 Financial liabilities held at amortised cost

Financial liabilities held at amortised cost comprise "creditors" (see note 6).

#### 1.4 Investments in subsidiaries

Investments in subsidiaries are stated at cost less any accumulated impairment losses.

## 1. Accounting policies continued

### 1.5 Borrowings

Interest-bearing loans and overdrafts are recognised initially at fair value, net of transaction costs incurred. Interest-bearing loans are subsequently carried at amortised cost using the effective interest rate method. All borrowing costs are expensed as incurred, on an accruals basis, to the income statement using the effective interest rate method.

### 1.6 Share-based payments

The Company operates an equity-settled share-based compensation plan (Long Term Incentive Plan, "LTIP") for certain employees under which the entity receives services from employees as consideration for equity instruments (share options) of the Company. The fair value of the employee services received in exchange for the grant of options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest, with any changes in estimate recognised in the income statement, with a corresponding adjustment in equity. The fair value of awards granted under LTIP is measured using a probability model to predict EPS levels.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Details of share-based payments are provided in note 22 of the Group financial statements.

## 2. Profit attributable to the shareholders of the Company

The Company is an investment holding company. It receives dividend income from subsidiaries and bank interest. It pays loan interest to a subsidiary. The majority of administrative expenses are paid by the Company's subsidiary, Tyman Management Limited, including the whole amount of relevant auditors' remuneration and operating lease costs.

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the financial year ended 31 December 2018 of £75.9 million (2017: £14.2 million).

## 3. Employees

Other than the Directors, there were no employees of the Company during the year (2017: Nil). Directors' emoluments are set out in the Directors' remuneration report in the Group's Annual Report on pages 80 to 99.

## 4. Investments

	£'000
<b>Cost</b>	
At 1 January 2017	301,125
Additions	14,000
Capital contribution relating to share-based payments	1,502
At 31 December 2017	<b>316,627</b>
Additions	<b>57,828</b>
Disposals	<b>(19,000)</b>
Capital contribution relating to share-based payments	<b>1,347</b>
<b>At 31 December 2018</b>	<b>356,802</b>
<b>Impairment</b>	
At 1 January 2017 and 31 December 2017	<b>(5,596)</b>
Reversal of impairment charge	<b>4,985</b>
<b>At 31 December 2018</b>	<b>(611)</b>
<b>Carrying amount</b>	
At 1 January 2017	295,529
At 31 December 2017	311,031
<b>At 31 December 2018</b>	<b>356,191</b>

All of the above investments are in unlisted shares. The Directors believe that the carrying value of the investments is supported by the recoverable amount of their underlying assets.

## Notes to the Company financial statements continued

For the year ended 31 December 2018

### 5. Debtors

	Note	2018 £'000	2017 £'000
<b>Amounts receivable after more than one year</b>			
Amounts owed by Group undertakings		122,762	81,576
Deferred tax asset	8	320	614
<b>Debtors</b>		<b>123,082</b>	82,190

The amounts owed by Group undertakings are unsecured, interest free and recoverable on demand but are unlikely to be repaid within one year.

### 6. Creditors

	Note	2018 £'000	2017 £'000
<b>Amounts falling due within one year</b>			
Amounts owed to Group undertakings		–	(16,550)
Corporation tax liability		(287)	(239)
Other creditors		(1,905)	(436)
<b>Creditors due within one year</b>		<b>(2,192)</b>	(17,225)
<b>Amounts falling due after more than one year</b>			
Private placement notes	7	(78,351)	(73,835)
Amounts owed to Group undertakings		(634)	(7,876)
<b>Creditors due after one year</b>		<b>(78,985)</b>	(81,711)

The amounts owed to Group undertakings are interest free, repayable on demand and unsecured.

### 7. Private placement notes

The senior notes relate to the issuance of a private debt placement with US financial institutions totalling US\$100,000,000. Refer to note 17.2.2 of the Group financial statements.

Details of the private placement notes, which are unsecured, are as follows:

	2018 £'000	2017 £'000
Wholly repayable in 2021	(43,186)	(40,763)
Wholly repayable in 2024	(35,334)	(33,352)
Capitalised borrowing costs	169	280
<b>Private placement notes</b>	<b>(78,351)</b>	(73,835)

### 8. Deferred tax asset

	2018 £'000	2017 £'000
At 1 January	614	197
Income statement (charge)/credit	(197)	150
Tax (charge)/credit relating to components of other comprehensive income	(97)	267
<b>At 31 December</b>	<b>320</b>	614

The deferred tax asset relates to share-based payments. There are no unused tax losses or unused tax credits.

## 9. Called up share capital

The share capital of the Company is as set out in note 21 of the Group financial statements.

## 10. Financial commitments

At 31 December 2018 the Company had future annual lease commitments on land and buildings under non-cancellable operating leases as stated below. These commitments were met on the Company's behalf by Tyman Management Limited, a subsidiary.

	2018 £'000	2017 £'000
Not later than one year	190	190
Later than one years but not later than five years	762	952
Later than five years	111	190
<b>Lease commitments</b>	<b>1,063</b>	1,332

## 11. Dividends

The dividends of the Company are set out in note 23 of the Group financial statements.

## 12. Related party transactions

The Company has taken advantage of the exemption in accordance with FRS 101, as a wholly owned subsidiary, not to disclose details of related party transactions in accordance with IAS 24 Related party disclosures required by this standard.

## 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 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.

### 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 <sup>1</sup> £'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)
<b>Constant currency like for like Revenue</b>	<b>522,090</b>	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)
<b>Constant currency like for like Underlying Operating Profit</b>	<b>70,760</b>	74,353

<sup>1</sup> 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 107.

	2018 £'000	2017 £'000
Underlying Operating Profit	83,584	76,817
Revenue	591,542	522,700
<b>Underlying Operating Margin</b>	<b>14.1%</b>	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 £'000	2017 £'000
Underlying Net Debt (at average exchange rate)	202,181	166,947
Adjusted EBITDA	103,250	91,178
<b>Leverage</b>	<b>1.96x</b>	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
<b>ROCE</b>	<b>13.4%</b>	13.6%

## Alternative Performance Measures continued

### 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
<b>ROCCE</b>	<b>44.7%</b>	49.6%

### 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 €'000	Bilco \$'000	Howe Green £'000	Ashland \$'000	Zoo £'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
<b>Annualised ROAI</b>	<b>20.8%</b>	<b>12.8%</b>	<b>19.7%</b>	<b>15.0%</b>	<b>21.1%</b>
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)	(10,958)	(22,869)	(8,475)
Controllable capital employed at reporting date	38,310	12,743	12,743	20,843	9,110
<b>Run rate ROAI</b>	<b>26.7%</b>	<b>17.0%</b>	<b>18.3%</b>	<b>12.0%</b>	<b>13.6%</b>

### 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 9 on page 121.

## 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)	<b>27.68</b>	26.91
Total Dividend Per Share declared (p)	<b>12.00</b>	11.25
<b>Dividend Cover</b>	<b>2.31x</b>	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	<b>72,619</b>	51,888
Income tax paid	<b>12,344</b>	15,078
Exceptional costs	<b>3,224</b>	10,245
Pension contributions	<b>1,110</b>	1,171
Proceeds on disposal of PPE	<b>5,302</b>	3,803
Payments to acquire PPE and intangible assets	<b>(17,334)</b>	(16,429)
<b>Operational Cash Flow</b>	<b>77,265</b>	65,756
Underlying Operating Profit	<b>83,584</b>	76,817
<b>Operating Cash Conversion</b>	<b>92.4%</b>	85.6%

## Other APMs

### Acquisition enterprise value

#### Definition

The gross consideration paid to the seller less cash acquired with the acquired business plus debt acquired with the acquired business plus the expenses of the acquisition, excluding financing expenses, plus any integration costs recorded as exceptional items.

#### Purpose

This measure is used by management to assess the total cost of an acquisition to Tyman, as it includes expenses of completing the acquisition, together with the net indebtedness acquired and the costs of integration.

#### Reconciliation/calculation

	Ashland £'000	Zoo £'000	Reguitti £'000	Profab £'000
IFRS 3 consideration	73,274	17,159	14,174	6,487
Add back net indebtedness/(cash) acquired	105	1,512	593	(1,195)
Acquisition and integration related costs	978	304	186	89
<b>Acquisition enterprise value</b>	<b>74,357</b>	<b>18,975</b>	<b>14,953</b>	<b>5,381</b>

## Alternative Performance Measures continued

**EBITDA and Adjusted EBITDA****Definition****EBITDA**

Underlying Operating Profit with Depreciation, Amortisation of computer software and Share-based payments expenses added back.

**Adjusted EBITDA**

EBITDA plus the pre-acquisition EBITDA of businesses acquired during the year covering the relevant pre-acquisition period less the EBITDA of businesses disposed of during the year.

**Purpose**

EBITDA is commonly used by the user of accounts as a proxy for the cash flow of a business before capital investment. EBITDA is used as the numerator in calculating the interest cover covenant and Adjusted EBITDA is used as the numerator in calculating the leverage covenant under the terms of the Group's revolving credit facility.

**Reconciliation/calculation**

	2018 £'000	2017 £'000
Underlying Operating Profit	83,584	76,817
Depreciation	12,457	11,599
Amortisation of computer software	1,415	1,315
Share-based payments	1,068	1,093
<b>EBITDA</b>	<b>98,524</b>	90,824
Pre-acquisition EBITDA of acquired entities	4,726	354
<b>Adjusted EBITDA</b>	<b>103,250</b>	91,178

**Adjustments to net cash generated from operations****Definition**

The add back of net finance costs, depreciation, amortisation of intangible assets, impairment of PPE, profit on disposal of PPE, write-off of inventory fair value adjustments, pension service costs and expected administrative costs, non-cash provision movements, profit on disposal of business and share-based payments.

**Purpose**

These are non-cash items which are added back to profit to derive cash generated from operations in the cash flow statement.

**Reconciliation/calculation**

See reconciliation in note 26 on page 149.

**Constant Currency or CC****Definition**

Comparison with the comparative period translated at the current year's average or closing exchange rate as applicable.

**Purpose**

This measure is used by management to measure performance of the business removing the effect of changes in foreign exchange rates which are outside of the control of management and which can distort, positively or negatively, the published performance of the Group.

**Reconciliation/calculation**

It is not practicable to present a reconciliation of all CC measures used. A table showing the current and comparative period average and closing exchange rates is presented on page 175. A sensitivity analysis showing the impact of fluctuations in exchange rates is also presented on page 137.

**Free Cash Flow****Definition**

Operational Cash Flow after deducting Pension contributions, Income tax paid, Net interest paid and Exceptional cash costs settled in the year.

**Purpose**

This measure is used to evaluate the cash flow generated by the business operations after expenditure incurred on maintaining capital assets and to provide an indication of the cash flow generated by the Group during the year that is available to support the payment of dividends, the Group's M&A programme and paydown of indebtedness.

**Reconciliation/calculation**

See page 34 for reconciliation between Operational Cash Flow and Free Cash Flow.

## Interest Cover

### Definition

EBITDA divided by the net Interest payable on bank loans, private placement notes and overdrafts and Interest income from short term bank deposits. This calculation is the covenant calculation defined in the Group's banking facility and private placement debt documentation.

### Purpose

This measure is used to evaluate the profit available to service the Group's interest costs and to provide users of the accounts with details of whether the Group remains in compliance with its lending covenants.

### Reconciliation/calculation

	2018 £'000	2017 £'000
EBITDA	98,524	90,824
Net interest	10,633	7,980
<b>Interest cover</b>	<b>9.27x</b>	11.38x

## Underlying Administrative Expenses

### Definition

Administrative Expenses before Exceptional items, Amortisation of acquired intangible assets, Impairment of acquired intangible assets and Impairment of acquired goodwill.

### Purpose

This measure is used to evaluate the Underlying Administrative Expenses of the that have been incurred in support of the trading activities of the business.

### Reconciliation/calculation

	2018 £'000	2017 £'000
Administrative expenses	(157,828)	(146,962)
Exceptional items	7,285	9,976
Amortisation of acquired intangible assets	25,849	22,934
<b>Underlying Administrative Expenses</b>	<b>(124,694)</b>	(114,052)

## Underlying Gross Indebtedness and Underlying Net Debt

### Definition

Underlying Gross Indebtedness.

Interest-bearing loans and borrowings, with unamortised borrowing costs added back.

Underlying Net Debt.

Underlying Gross Indebtedness, net of cash.

### Purpose

These give measures of the gross amount owed to lenders, without the deducting unamortised borrowing costs for which cash outflow has already occurred. This gives a more accurate measure of the Group's gross/net indebtedness at a point in time.

### Reconciliation/calculation

	2018 £'000	2017 £'000
Borrowings	(260,705)	(205,417)
Unamortised borrowing costs	(1,839)	(796)
<b>Underlying Gross Indebtedness</b>	<b>(262,544)</b>	(206,213)
Cash	51,871	42,563
<b>Underlying Net Debt</b>	<b>(210,673)</b>	(163,650)

## Alternative Performance Measures continued

### Underlying Profit Before and After Tax

#### Definition

Profit before Amortisation of acquired intangible assets, deferred tax on Amortisation of acquired intangible assets, Impairment 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, Accelerated amortisation of borrowing costs and the associated tax effect.

#### Purpose

This measure is used to evaluate the profit generated by the Group through trading activities. In addition to the items excluded from operating profit above, the Gains and Losses on the fair value of derivative financial instruments, Amortisation of borrowing costs, Accelerated amortisation of borrowing costs and the associated tax effect are excluded. These items are excluded as they are of a non-trading nature.

#### Reconciliation/calculation

	2018 £'000	2017 £'000
Profit before tax	38,861	34,534
Exceptional items	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	25,849	22,934
<b>Underlying profit before taxation</b>	<b>72,658</b>	68,284
Underlying tax charge	(19,681)	(20,586)
<b>Underlying profit after taxation</b>	<b>52,977</b>	47,698

### Underlying Tax Charge and Underlying Effective Tax Rate

#### Definition

Tax charge adjusted for the 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. The Underlying Effective Tax Rate is the Underlying Tax Charge divided by Underlying Profit before Tax, expressed as a percentage.

#### Purpose

These measures are used to evaluate the tax charge arising on the underlying trading activity of the Group.

#### Reconciliation/calculation

	2018 £'000	2017 £'000
Tax charge	(12,514)	(3,334)
US Federal tax rate change adjustment	–	(6,907)
Tax effect of underlying profit adjustments	(7,167)	(10,345)
<b>Underlying tax charge</b>	<b>(19,681)</b>	(20,586)
Underlying profit before tax	72,658	68,284
<b>Underlying effective tax rate</b>	<b>27.1%</b>	30.1%

## Definitions and glossary of terms

<b>APM</b>	Alternative Performance Measure
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>Ashland or Ashland Hardware</b>	Ashland Hardware Holdings Inc, acquired by AmesburyTruth on 15 March 2018
<b>Bilco</b>	The Bilco Company acquired by AmesburyTruth on 1 July 2016
<b>bps</b>	Basis points
<b>CAGR</b>	Cumulative Annual Growth Rate
<b>CGU</b>	Cash Generating Unit
<b>CMA</b>	Competition and Markets Authority Statutory Audit Services Order
<b>CMM</b>	Coordinate Measuring Machine
<b>DSBP</b>	Deferred Share Bonus Plan
<b>DSE</b>	Display Screen Equipment
<b>DTR</b>	Disclosure Rules and Transparency Rules of the UK Listing Authority
<b>EB Trust</b>	The Tyman Employees' Benefit Trust
<b>EBITDA</b>	Earnings before Interest, Taxation, Depreciation and Amortisation
<b>EMEA1</b>	Europe, Middle East and Africa and India region
<b>EPS</b>	Earnings per share
<b>ESSP</b>	Employee Sharesave Plan
<b>EU</b>	European Union
<b>FRC</b>	Financial Reporting Council
<b>FRS 101</b>	Financial Reporting Standard 101, 'Reduced Disclosure Framework'
<b>FVPL</b>	Fair Value Through Profit or Loss
<b>FY</b>	Full year
<b>GDPR</b>	General Data Protection Regulations
<b>GHG</b>	Green House Gas
<b>GHG Protocol</b>	World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol. A Corporate Accounting and Reporting Standard
<b>Giese</b>	Giese Group acquired by the Group's SchlegelGiese Division on 7 March 2016
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>Howe Green</b>	Howe Green Limited acquired by the Group on 3 March 2017
<b>ICSA</b>	Institute of Chartered Secretaries and Administrators
<b>IFRIC</b>	IFRS Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards, including IFRIC Interpretations
<b>ITGC</b>	IT General Controls
<b>JCHS</b>	Joint Centre for Housing Studies of Harvard University
<b>KPI</b>	Key performance indicator
<b>LIRA</b>	Leading Indicator for Remodelling Activity published quarterly by JCHS
<b>Listing Rules</b>	Financial Conduct Authority UK Listing Rules
<b>Lost time injuries</b>	The absolute number of lost time injuries over the last 12 months
<b>Lost time injury rate</b>	The number of lost time incidents per 100,000 hours worked
<b>LTIP</b>	Long Term Incentive Plan
<b>LTM</b>	Last 12 months
<b>M&amp;A</b>	Mergers and Acquisitions
<b>Maquiladora</b>	A factory in Mexico run by a foreign company and exporting its products to that company's country of origin
<b>NAHB</b>	The National Association of Home Builders
<b>NBS</b>	New Bridge Street
<b>NPD</b>	New Product Development
<b>NVQ</b>	National Vocational Qualifications
<b>OCI</b>	Other Comprehensive Income
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OEM</b>	Original equipment manufacturer
<b>OGSM</b>	Objectives, goals, strategies and measures
<b>OTIF</b>	On time in full
<b>PBTA</b>	Profit Before Taxation and Amortisation
<b>PPE</b>	Property, plant and equipment
<b>Profab or Profab Access</b>	Profab Access Solutions Limited acquired by ERA on 31 July 2018
<b>Reguitti</b>	Reguitti S.P.A acquired by SchlegelGiese on 31 August 2018
<b>Response or Response Electronics</b>	Response Electronics Limited, acquired by ERA on 3 March 2016

## Definitions and glossary of terms continued

<b>Revenue</b>	The gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of the Group
<b>RMI</b>	Renovation, maintenance and improvement
<b>ROCE</b>	Return on Capital Employed
<b>ROCCE</b>	Return on Controllable Capital Employed
<b>SKU</b>	Stock Keeping Unit
<b>£ or Sterling</b>	The lawful currency of the United Kingdom
<b>TFR</b>	Trattamento di fine Rapporto
<b>The Act</b>	The Companies Act 2006
<b>The Code</b>	The UK Corporate Governance Code 2016
<b>TMC</b>	Tyman Management Committee
<b>TSA</b>	Tyman Sourcing Asia
<b>TSR</b>	Total shareholder return
<b>UK</b>	United Kingdom
<b>UK ESSP</b>	Tyman Sharesave Plan
<b>UK GAAP</b>	UK Generally Accepted Accounting Practice
<b>US</b>	United States of America
<b>US\$</b>	The lawful currency of the United States of America
<b>Zoo or Zoo Hardware</b>	Zoo Hardware Limited acquired by ERA on 10 May 2018

## Roundings and exchange rates

### 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.

### Exchange rates

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

<b>Closing rates</b>	<b>2018</b>	2017
US Dollar	<b>1.2736</b>	1.3493
Euro	<b>1.1128</b>	1.1263
Australian Dollar	<b>1.8055</b>	1.7285
Canadian Dollar	<b>1.7360</b>	1.6936
Brazilian Real	<b>4.9410</b>	4.4695
<b>Average rates</b>	<b>2018</b>	2017
US Dollar	<b>1.3350</b>	1.2887
Euro	<b>1.1302</b>	1.1414
Australian Dollar	<b>1.7862</b>	1.6811
Canadian Dollar	<b>1.7293</b>	1.6717
Brazilian Real	<b>4.8643</b>	4.1154

## Five-year summary

### Statutory measures

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	<b>591,542</b>	522,700	457,644	353,425	350,899
Net finance costs	<b>(11,589)</b>	(9,373)	(7,814)	(6,923)	(7,033)
Profit before taxation	<b>38,861</b>	34,534	29,376	15,576	11,904
Taxation	<b>(12,514)</b>	(3,334)	(8,641)	(7,885)	(2,573)
Profit for the year	<b>26,347</b>	31,200	20,735	7,691	9,331
Basic earnings per share	<b>13.76p</b>	17.61p	11.98p	4.57p	5.56p
Total number of shares in issue ('000)	<b>196,762</b>	178,582	178,582	170,104	170,104
Average monthly number of employees	<b>4,299</b>	3,904	3,568	2,947	2,897

### APMs

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Underlying operating profit <sup>1</sup>	<b>83,584</b>	76,817	69,803	51,425	46,077
Underlying profit before taxation <sup>1</sup>	<b>72,658</b>	68,284	62,079	45,106	41,629
Underlying net debt <sup>1</sup>	<b>(210,763)</b>	(163,650)	(176,749)	(83,179)	(90,678)
Underlying diluted earnings per share <sup>1</sup>	<b>27.47p</b>	26.73p	25.31p	19.24p	18.40p

### KPIs

	2018	2017	2016	2015	2014
Constant currency like for like revenue growth	<b>2.7%</b>	1.7%	0.9%	0.4%	7.4%
Underlying basic earnings per share <sup>1</sup>	<b>27.68p</b>	26.91p	25.41p	19.33p	18.61p
Underlying operating margin	<b>14.1%</b>	14.7%	15.3%	14.6%	13.1%
Dividends per share declared	<b>12.00p</b>	11.25p	10.50p	8.75p	8.00p
Return on capital employed <sup>1</sup>	<b>13.4%</b>	13.6%	13.8%	12.5%	11.4%
Return on controllable capital employed <sup>1</sup>	<b>44.7%</b>	49.6%	50.2%	53.1%	53.4%
Operating cash conversion <sup>1</sup>	<b>92.4%</b>	85.6%	105.9%	84.9%	71.8%
Leverage <sup>1</sup>	<b>1.96x</b>	1.83x	1.89x	1.35x	1.56x

<sup>1</sup> See Alternative Performance Measures on pages 166 to 172.



Tyman plc is committed to the environmental issues reflected in this Annual Report.

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