

ANNUAL REPORT AND ACCOUNTS 2018

TRANSFORMING OUR BUSINESS



Low & Bonar (“Low & Bonar” or “the Group”) is an international technical textiles business, with strong positions in attractive niche markets underpinned by leading process technologies.

Our aim is to build sustainable growth through innovation, and deliver reliable returns that reflect our differentiated product and service offering, creating value for all our internal and external stakeholders.

Our vision

Our vision as a business is to become a highly efficient, sustainable, profitable and innovative organisation, which creates, makes and sells technical textile products in such a way that we contribute to a better world.

We shall be strong and competitive. We will build a powerful and clear reputation for service excellence and product innovation. We will be a great business to work for and to do business with.

Our culture

Our culture is developing and will be founded in our values. During the year we have discussed and agreed a new set of values and these are brought to life by our people every day. Our culture and our values will help us to attract and retain talented people who want to be part of a great place to work and who will in turn thrive in our business.

Low & Bonar’s culture is informed by our business vision.



OUR VALUES

Our values guide how we work and what we prioritise. They are embedded throughout Low & Bonar and form the basis of our culture as well as our day-to-day work.

We are customer centric

We listen to our customers and understand their challenges. We develop technologies and products precisely targeted to the problems our customers need to solve.

We are accountable

We set realistic targets, we deliver as agreed and we are clear on what we want and expect. We are accountable for our actions.

We act with integrity and respect

We listen to all our stakeholders and appreciate the diversity of their views. We comply with all relevant laws and regulations, both externally and internally.

We innovate and improve

We are always looking for new opportunities within our markets and technologies. We don't compromise on quality and our innovation programme is integral to our progress.

We collaborate

We work together, share information, resolve problems and focus on output. We are honest and open and encourage constructive feedback.

We empower to perform

We celebrate success and learn from our failings. We trust, develop and guide our employees as they progress, encouraging delegation and responsibility.

UNDERSTANDING OUR BUSINESS

We take Polymers...



Our activities begin with the sourcing of widely available polymers including polypropylene, polyethylene, polyester and nylon.

OUR SUSTAINABLE PROCESS



Use of raw materials

We continue to focus our efforts on the replacement of virgin raw materials with recycled material where possible.



...and convert them
into yarns, fibres
and coated fabrics...



We combine these polymers with special additives and colours, which influence performance, aesthetics, and processing efficiencies.

OUR SUSTAINABLE PROCESS



Manufacturing process

The Group is focused on optimising and reducing emissions in its manufacturing processes. We continue to improve our processes with the use of ongoing improvement techniques.



Using proprietary technology, these polymer mixes are extruded to form a variety of yarns, which are transformed into fabrics using a broad range of technologies.

OUR SUSTAINABLE PROCESS



Waste reduction

Our aim is to minimise material wastage at all stages of the manufacturing process, with particular emphasis on reducing the edge trim and start-up losses.

...from these we produce
a mixture of **woven,**
non-woven and composite
materials...



The fabrics can then be coated or combined with other materials to form composite products, used by our customers to enhance performance in their final product or improve efficiency in their own processes.

OUR SUSTAINABLE PROCESS



Use of our products

Sustainability is a core driver in our innovation processes.



Disposal of our products

We recognise the environmental impact arising from the disposal of our products.

...which we sell into
**many different end
markets and applications**
that affect everyday life.

OUR FIVE TECHNOLOGIES

Our technologies underpin our strategy and help to deliver a unique set of solutions and benefits to our customers.



COLBACK

Colback is the umbrella brand name we give to all our technical fabrics that are used in flooring, automotive, decorative and recreation solutions.



ENKA

Enka technology allows our customers to build with strength, stability, and keep erosive forces in check.



COATED FABRICS

Coated fabrics are tough, durable fabrics with a range of uses for outdoor environments where strength, protection and impermeability are essential.



NEEDLE-PUNCHED NON-WOVENS

Needle-punched non-wovens are a high performance textile with multiple uses. It is an adaptable material which can deliver tailored solutions for our customers' challenges.



CONSTRUCTION FIBRES

Construction fibres are an application of micro and macro fibres which strengthen and protect concrete without the risks and disadvantages of steel reinforcement.

PROPRIETARY TECHNOLOGY CAPABILITIES



Building and Industrial (“B&I”)

Interiors and Transportation (“I&T”)

Technologies

COLBACK

ENKA

COLBACK

Overview

We produce and supply high-quality non-wovens, woven and three-dimensional polymeric mats and composites for niche applications in the building, roofing, drainage, erosion control, air and water filtration markets.

We produce and supply clients with a unique non-woven technical fleece fabric for use in flooring, automotive, decorative and recreation applications.

[+ READ MORE ON PAGES 28 AND 29](#)

[+ READ MORE ON PAGES 32 AND 33](#)

Brands

BonarBuilt, BonarPure, Xeroflor, EnkaSolutions

Colback, Bonar Yarns

Markets



Building and roofing products and industrial applications (e.g. air and water filtration)



Interiors (e.g. carpet tiles and mats), transportation (e.g. moulded car carpets)

Manufacturing locations

Netherlands, Germany, USA and China

Netherlands, USA and China

Revenue

21%

of Group revenue

29%

of Group revenue

We are a quality provider of high-performance materials. We design and develop effective, durable solutions that enable our customers to provide world-leading products and solutions.



Coated Technical Textiles (“CTT”)

COATED FABRICS

We supply a range of technical coated fabrics providing aesthetics and design, performance and protection in products such as tensile architectural structures, awnings, marquees, advertising banners, tarpaulins and vehicle side curtains to the transport, building products, leisure and industrial markets.

[+ READ MORE ON PAGES 30 AND 31](#)

Valmex, Polymar, Airtex, Plastel, Corotex



Building products (e.g. architecture and tent applications), sport & leisure markets, transport and industrial applications

Germany and Czech Republic plus distribution companies across 11 countries

32%

of Group revenue



Civil Engineering (“CE”)

NEEDLE-PUNCHED NON-WOVENS

CONSTRUCTION FIBRES

We supply woven and non-woven geotextiles and construction fibres used in major infrastructure projects including road and rail building, land reclamation and coastal defence.

[+ READ MORE ON PAGES 34 AND 35](#)

Bontec, Tiptex, Adfil



Geosynthetics and construction fibres

Belgium, Hungary, Netherlands, USA and China

18%

of Group revenue



COLBACK

High-tech fabric that leads its field

Spunbond fabric, developed over 40 years, couples great strength with remarkable lightness.

KEY PROPERTIES

- Versatile
- Lightweight
- Adaptable to our customers' needs
- Tough and durable

A versatile fabric used across a range of industries

Products developed with Colback technology have enormous versatility and exceptional strength, each one can be precisely tailored to the application required by our customers. We supply a wide range of industries including flooring, automotive, decorative and recreation markets and in each area help customers create products that stand out in their markets, and lead their field in design, performance and imagination.



Automotive

A portfolio of materials developed in partnership with automotive manufacturers to support interior trim, moulding and carpeting plus filtration and composite-made components.

Giving a legendary sports car the exceptional carpet it deserves

Colback provided the backing for an interior carpet in the Chevrolet Corvette that could match its curves and design reputation.

Flooring

The quality of flooring components, such as the primary backing, determines the quality of textile floor coverings. Customer insight and focused development help us tailor Colback spunbond fabric to meet the demands of the most diverse and challenging applications.

Helping our customer to create smart flooring

Our Colback proprietary fabric helped our customer to create smart flooring. The material transmits LED signage to welcome and guide people through a building, all controlled using an app or building management system.





ENKA

Open, flexible, strong

Innovative 3D structure delivers significant advantages as a spacer/flow channel, with outstanding levels of performance.

KEY PROPERTIES

- Exceptional flow characteristics
- Resilient yet flexible
- Low weight to volume
- Compression resistance

Resourceful technology with unique applications

Enka technology plays an essential part in reinforcing soil, controlling erosion, improving drainage and a range of other applications vital for stable, durable construction. It can help make major projects possible at a lower cost, while speeding completion, reducing maintenance and increasing the life of often critical and high-value infrastructure.

Green roofs

Our extensive green roofs are low-profile, lightweight, low-maintenance systems that are designed to deliver environmental benefits.

A green upgrade for the Empire State Building

Our green roof system helped beautify New York's Empire State Building, while saving energy. As well as enhancing green space, it reduced air conditioning and storm-water runoff.



Civil engineering

Enka technology can be used in a wide range of applications including coastal & waterways infrastructure, environmental infrastructure and transportation infrastructure.

A proven solution for controlling erosion from the banks of waterways

Our protective mats help stop erosion from waterways. They flex to the shape of the soil and let the vegetation grow through, resulting in permanent, low-maintenance protection and a natural appearance.





COATED FABRICS

Strong, protective, diverse

Coated fabrics are a versatile shield against the elements. With a wide range of applications and offering a wealth of varied designs they offer strength, flexibility and resistance.

KEY PROPERTIES

- Lightweight yet resistant
- Protective
- Adaptable
- Flexible and durable

Strong and adaptable fabrics

Our fabrics are adaptable and versatile, being used in applications such as stadium roofs, truck tarpaulins, industrial covers, solar protections, tents, pools, boats and flexible containers. A broad selection of finishes, textures, colours and coatings brings additional design possibilities for architectural and display uses. We combine more than 60 years of experience with continuous development to ensure our product range keeps evolving.

Sports & recreation

Coated fabrics can be used in a range of sports & recreation applications including boats, pools, solar protection, tents and sports mats.

A tough material for the toughest inflatable boat race

Our PVC-coated fabric helped an inflatable boat manufacturer win the world's toughest inflatable boat challenge. The fabric we produced was flexible, airtight and highly resistant to damage, with a fast membrane surface.



Tensile architecture

Encompassing large tents, large umbrellas, pergolas, awnings and marquees, tensile architecture products are lightweight yet can be made fully impervious to air, water and UV, as well as flame-retardant and puncture-resistant.

Reviving an ageing Olympic roof

The inner roof of the Munich Olympic swimming pool needed reviving. Decades of continued use had eroded the roof's strength and support. We provided a tough material that could withstand the damp climate, and flex to the swimming hall's unusual shape.





NEEDLE-PUNCHED NON-WOVENS

Varied, accomplished, premium

Created to the highest market standards. Available in beyond-standard widths and weights, and in problem-solving combinations with our other products.

KEY PROPERTIES

- Adaptable
- Premium quality
- Versatile
- Reliable and high-performing

Transport infrastructure

Transportation infrastructure faces unique challenges as global mobility and trade continues to increase. Our products provide solutions including railway support, edge drainage and soil reinforcement.

Reinforcing railway ballast for an urgent station renovation

Upgrading Budapest's Vác railway station was a priority to keep up with its growing traffic. Our products delivered essential reinforcement and separation beneath railway ballasts during the renovation of the busy station.



KEY PROPERTIES

- Convenient
- Extends durability
- Improves safety
- Eco-friendly



CONSTRUCTION FIBRES

Simple, smart, eco-friendly

Serving the construction industry in over 60 countries, our fibres are used in a wide range of applications including concrete floors, pattern-imprinted concrete, precast concrete products and tunnelling.

Concrete reinforcement

Our fibres reduce the risk of concrete fracturing and exploding under heat and pressure and are highly effective at preventing cracking, giving concrete a longer life while maintaining a superior surface.

How to avoid corrosion in concrete pavements

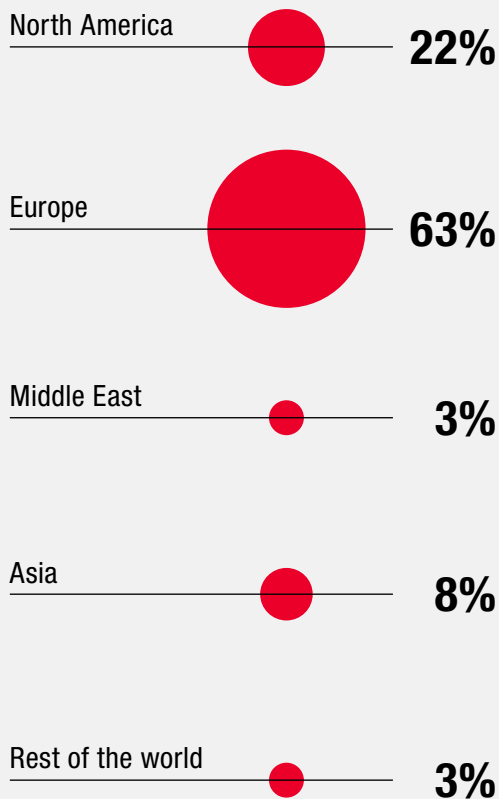
Our polypropylene macro and micro fibres helped a food waste recycling company strengthen their concrete pavements to cope with heavy plant traffic and higher levels of freezing and thawing, while also avoiding corrosion.



WE ARE A GLOBAL BUSINESS

Our high-performance materials sell in more than 60 countries around the world, leading their markets and contributing to a better quality of life.

2018 revenue to customers in:



- Manufacturing facilities
- Sales offices



20 countries worldwide

We operate in 20 countries across all global regions

1,981 employees

A skilled, resourceful, diverse and passionate workforce

13 manufacturing facilities

Bringing our manufacturing and expertise closer to customers

	Manufacturing locations	Country	Technology
North America	Asheville, North Carolina	USA	Colback
	Burlington, Washington	USA	Enka
Europe	Arnhem	Netherlands	Colback
	Dundee	UK	Colback
	Emmen	Netherlands	Colback
	Fulda	Germany	Coated fabrics
	Huckelhoven	Germany	Coated fabrics
	Lomnice	Czech Republic	Coated fabrics
	Obernburg	Germany	Enka
	Tiszaújváros	Hungary	Needle-punched non-wovens
	Zeel	Belgium	Needle-punched non-wovens
APAC	Changzhou	China	Colback
	Yizheng	China	Wovens

- Technologies**
- Colback
 - Coated fabrics
 - Enka
 - Needle-punched non-wovens
 - Construction fibres



CONTENTS

Overview

Understanding our business	01
Highlights	15

Strategic report

Chairman's statement	16
Group Chief Executive Officer's review	18
Market review	20
Our business model	22
Our strategy and KPIs	24
Stakeholder engagement	26
Business review	28
Corporate responsibility	36
Finance review	46
Risk management	50
Principal risks and uncertainties	54

Governance

Chairman's governance statement	58
Board of Directors	60
Leadership	62
Effectiveness	65
Nomination Committee Report	68
Accountability	70
Audit Committee Report	70
Relations with stakeholders	76

Remuneration	77
Remuneration Committee Report	77
Annual report on remuneration	80
Directors' remuneration policy	88
Other disclosures	92

Financial statements

Statement of Directors' responsibilities	95
Independent auditor's report	96
Consolidated Income Statement	102
Consolidated Statement of Comprehensive Income	103
Balance Sheets	104
Consolidated Cash Flow Statement	105
Company Cash Flow Statement	106
Consolidated Statement of Changes in Equity	107
Company Statement of Changes in Equity	108
Significant accounting policies	109
Notes to the accounts	118
Five-year history	158

Additional information

Company information and advisors	159
Financial calendar	160

Highlights

- Performance reflects challenging operating and market conditions despite progress being made on the implementation of strategic initiatives
- Revenue growth of 1.5%, on an adjusted constant currency basis,¹ supported by our expansion in China
- Profit impacted by increased raw material and freight costs, ongoing production consistency issues in CTT and Enka production and supply problems in North America
- Focus on cash generation, with an £18.0m working capital reduction the main contributor to a £9.9m reduction in net debt
- Statutory loss before tax is after £58.9m of non-underlying, mainly non-cash items, including £39.0m impairment of CTT's goodwill
- Organisational structure has been simplified with ongoing cost-saving initiatives expected to deliver savings of £4m on an annualised basis
- Equity raise is announced today, expected to generate net proceeds of c£50m to reduce net debt and support the Group's strategic objectives
- From December 2018, B&I and I&T have been merged to create a new business, Colbond, with a simplified and accountable regional structure, enabling improved customer focus and agility

Financial highlights

Revenue

£431.9m

(2017: £446.5m Actual: (3.3%),
Adjusted constant currency¹: +1.5%)

Statutory operating loss

(£36.4)m

(2017: (£14.9)m)

Statutory loss before tax

(£42.2)m

(2017: (£19.7)m)

Basic EPS

(14.25p)

(2017: (5.86p))

Underlying operating profit^{2,3}

£22.2m

(2017: £35.5m Actual: (37.5%),
Adjusted constant currency¹: (34.3)%)

Underlying operating margin²

5.1%

(2017: 8.0%)

Underlying profit before tax^{2,3}

£16.7m

(2017: £30.7m Actual: (45.6%),
Adjusted constant currency¹: (42.4)%)

Basic underlying EPS^{2,3}

3.56p

(2017: 6.42p Actual: (44.5%),
Adjusted constant currency¹: (41.4)%)

Net debt⁴

£128.5m

(2017: £138.4m)

Dividend per share

1.42p

(2017: 3.05p per share)

¹ Adjusted constant currency is calculated by retranslating comparative period results at current period exchange rates, and adjusted to exclude the impact of the agro-textile business which was sold at the end of 2017 (see Note 38).

² Metrics are provided on an underlying basis and exclude non-underlying items (see Note 1).

³ The numbers are available on the face of the income statement.

⁴ Defined and reconciled in Note 38.

A CLEAR VISION FOR VALUE CREATION

“ It is a privilege to have this opportunity to play a leading role in the transformation of Low & Bonar to create a simpler, customer-focused and successful business ”



Overview

I joined the Board of Low & Bonar and became Chairman on 11 September 2018. During the few months that have followed, I have felt privileged to have this opportunity to play a leading role in the transformation of the Group to create a simpler, customer-focused and successful business. In place was a relatively new Group Chief Executive Officer in Philip de Klerk, who is ambitious and driven to transform Low & Bonar at pace and who, while understanding the lengthy and challenging tasks we face, has a clear vision of the successful business that will emerge. Our visions are well-aligned. It became clear early on that Simon Webb wished to leave for personal reasons and I am delighted that Ian Ashton has joined the Low & Bonar Board as Group Chief Financial Officer with effect from 10 December 2018. The Non-Executive team is highly experienced and committed to supporting and challenging the Executive Directors in the interests of furthering the success of the Group.

2018 was a difficult year for Low & Bonar, despite good progress being made on the improvement actions being initiated at the start of the year. A turnaround of this nature is always complex, lengthy and rarely completely smooth. At the start of the year, the business suffered from weak accountability caused by the Group's structure. Moves began early in 2018 to simplify the structure, with these changes largely completed by the start of 2019. Poor operational and commercial execution over several years led to a loss of market share in some key areas and margin erosion, resulting in unacceptably poor financial performance. Many actions have been initiated to improve operations and reduce costs in the Group's plants, and by the end of 2018 there were clear signs of sustained success, especially in resolving the long-standing production and output issues at CTT.

It is now abundantly clear that some of the strategic, organisational and financial decisions taken in recent years together with the 2018 performance have left Low & Bonar with an over-stretched balance sheet and over-complex portfolio given the scale of the Group. As set out in the Group's trading update of 14 December 2018, the Board has been reviewing the Group's capital structure with the objective of reducing net debt. Having considered the options available, including further disposals and working capital reduction, the Board has concluded that a significant equity raise is necessary to reduce leverage

to acceptable levels and create the financial headroom necessary for the Group to embark on a series of initiatives designed to transform the organisation into one focused on successful execution, customer service and developing excellence in people. As a result, the Group has today announced an equity raise to raise net proceeds of £50m, which if approved by shareholders will, the Board believes, establish a stronger capital structure for the Group. We are grateful for the support of all shareholders at this time.

The announcement of the proposed disposal of the Group's Civil Engineering business was made prior to my appointment to the Board. We are continuing to progress this strategic project, with a clear view of the valuation we expect to achieve. In the meantime, the Civil Engineering business is improving, and we will consider all options as we review possible offers for the business.

The priorities for the Board and executive management in 2019 are to:

- Successfully complete the equity raise to reduce net debt and enable necessary investment
- Progress the Civil Engineering disposal process, whilst ensuring we generate value
- Embed the new Colbond organisation and start the implementation of the Asheville improvement plan
- Resolve CTT's ongoing production consistency issues and begin implementation of a plan to improve CTT's cost base significantly
- Improve profitability and free cashflow

Dividend

Underlying profit before tax of £16.7m or 3.56p earnings per share, together with a limited, but nevertheless welcome reduction in working capital, resulted in net debt at 3.2x underlying adjusted Earnings before Interest, Tax, Depreciation and Amortisation ("adjusted EBITDA") compared to a bank covenant limit of 3.5x, allowing little room for manoeuvre. In light of this, the Board proposes a final dividend for the 2018 year of 0.37p per share, which taking into account the interim dividend already paid of 1.05p per share, amounts to a full year dividend of 1.42p per share or £4.7m which is approximately 40% of underlying profit after tax. Subject to the approval of shareholders at the Group's Annual General Meeting to be held on 5 April 2019, the dividend to Ordinary Shareholders is payable on 10 April 2019 to Ordinary Shareholders

who are on the register of members at 15 February 2019. The dividend will not be paid on new shares issued in the anticipated equity raise. The Board looks forward to implementing a future dividend policy of paying 40% of underlying profit after tax on average, as the performance of the Group recovers, and to maintaining its historical policy of paying 1/3 of the expected annual dividend at the interim stage and proposing a 2/3 final dividend.

Our People

Low & Bonar is its people. Without their commitment, talents and drive, the Group will not succeed. Clearly, strategic, leadership and organisational decisions taken by previous management have not delivered. We will put a framework in place that encourages improvement, rewards performance, creates clear accountability and makes Low & Bonar an exciting and attractive employer. There is much to do and I am delighted that we have begun by recruiting an experienced Human Resources Director to define and lead these activities alongside the Group Chief Executive Officer and Executive Leadership Team.

Sustainability

Ensuring that Low & Bonar takes a responsible and leading stance across all the facets of sustainability is one of the Group's priorities. Today, sustainability is not only the right thing to do, but a necessity. The Group's products help create better sustainability outcomes, being lighter and using fewer natural resources than many competitors', and play crucial roles in minimising the impact of the built environment. We remain committed to minimising waste, energy usage and strive to meet all our social and regulatory commitments.

Development of the Board

2018 has seen considerable change amongst the Board. At the start of the year, Trudy Schoolenberg kindly stepped in as interim Group Chief Executive Officer on the departure of Brett Simpson. Philip de Klerk was then promoted to Group Chief Executive Officer following a very short tenure as Group Chief Financial Officer. Shortly thereafter, Simon Webb was recruited as Group Chief Financial Officer. Simon subsequently expressed a desire to leave for personal reasons on 25 September 2018 and he stepped down from the Board on 17 December 2018. He will leave the Group on 25 February 2019. A comprehensive external search

was carried out and we are delighted to welcome Ian Ashton to the Low & Bonar Board as Group Chief Financial Officer. Martin Flower retired as Chairman on 11 September 2018 after many years as a Non-Executive Director and then as Chairman, and I was appointed a Director and Chairman on the same day.

Peter Bertram joined the Board as a Non-Executive Director on 1 February 2018, and his experience and counsel have been valuable throughout the year. Peter is a member of the Advisory Committee of one of the Group's largest shareholders – Sterling Strategic Value Fund (SSVF). However, from the time of his appointment and in line with the terms of an agreement between the Group and SSVF, Peter has recused himself from any discussion of Low & Bonar with SSVF. Subsequently the Board, excluding Peter, has considered his position and deemed him independent with effect from 20 November 2018.

It remains very early days in my tenure with Low & Bonar, but I am confident that we have a Board with the requisite skills, commitment and experience to transform the performance and future of the Group.

Daniel Dayan Chairman

30 January 2019

My priorities for 2019 as Chairman are to:

- Enable the Board to have focused, relevant, creative and meaningful debates on the key matters that impact Low & Bonar's businesses now and in the future
- Ensure the Board discharges its governance obligations efficiently and faultlessly
- Ensure that Low & Bonar has the best team of directors possible and that the Executive Directors are appropriately managed, assessed and rewarded
- Support the Executive Directors as they implement the transformation of Low & Bonar into a simpler, customer-focused business with the highest standards of accountability, integrity, innovation and people management

BUILDING A STRONGER BUSINESS

“ It has been a tough year for Low & Bonar, but we have recognised and identified the issues within the business and have initiated improvement actions as part of the previously announced transformation programme ”



Overview

Over recent years, not enough was invested in some of the Group's key manufacturing sites, a failed strategy to expand in Civil Engineering was pursued and there was insufficient focus on cost and cash. During 2018 we began implementing focused initiatives to address these issues and establish a stronger platform for the business. This focus will continue into 2019 and we will also pursue further identified actions to maximise the capability of the Group's core businesses to allow us to capitalise on the attractive long-term opportunity for Low & Bonar.

When I started as Group Chief Executive Officer at the beginning of 2018, I outlined the priorities for the year ahead. We delivered on all of them:

1. Improve cash generation and reduce working capital: for the first time in the last six years, we have actively reduced inventories. Working capital improved by £18.0m, which was the main contributor to a reduction in net debt of £9.9m.
2. Optimise operating structure: we removed most of the complex matrix organisation and simplified the organisation, resulting in 55 fewer roles and a reduction of £4m cost, of which £2m was realised in 2018.
3. Review strategic importance of the CE business: we closed one unprofitable site, integrated Enka into the B&I business, improved the underlying performance of the remaining CE businesses and commenced a process for their divestment.
4. Continue to invest in B&I and I&T: invested in both manufacturing sites and innovation, resulting in growth for the core Colbond businesses.
5. Resolve production issues in CTT: we identified root causes and started to address most of them in the year. Some of these were directly linked to lack of investment in both equipment and skilled personnel.

However, the Group's profitability and cash flow were significantly impacted by several factors. In particular, we were not able to pass on in full to customers the significant increase in raw material costs during the year, due to the Group's competitive position and product composition. Part of our products' differentiated performance in areas like strength/weight ratio arises from a composition that requires more

polyamide than in competitor products. As a result of these, we suffered more from an increase in these input costs as it is impractical in many cases to use alternative polymers. We are now working more closely with customers to ensure the benefits from our product mix are fully known and understood so as to strengthen our position to pass through price increases when they arise. This ability to pass on costs was further hindered by customer service issues. We are now focusing on solving production issues, improving reliability and customer service. Being customer centric is now at the core of what we do and how we operate.

Sales growth, on an adjusted constant currency basis, increased by 1.5%, supported by expansion in China. However, profit was significantly impacted by production issues, raw material price volatility and mix. Underlying profit before tax was down from £30.7m to £16.7m, which was disappointing.

Operational

Health, safety and environment (HSE) is very important to us at Low & Bonar. We have long-term programmes in place to ensure that safety considerations override all others and that we endeavour to make continuous improvement in this critical area. The number of Lost Time Accidents (LTA) has improved for a second consecutive year with 11 in 2018 compared to 14 in 2017. We have invested in a Safety Leadership Programme and all senior managers have participated. However, even more can be done in order to achieve the Group's objective of no illness or injury resulting from business activities. We have decided to further integrate HSE with the HR function,

as we believe that behaviour and culture change amongst all employees can make a true difference in safety.

Strategic progress

This year's results demonstrate that investing in sustainable, organic growth in the B&I and I&T businesses is successful and consequently we will continue to invest in the technologies and applications supporting these segments. We have encountered a number of production, planning and customer service issues which have impacted on performance as a result of an overly complex organisational structure, combined with the inability to pass on cost increases. We have therefore decided to merge the B&I and I&T divisions and apply a regional approach for these businesses. This will make us more customer centric, with clearer accountability and more agile decision-making. Global activities such as innovation, marketing and R&D remain global, but with a greater focus on customer-driven innovations.

CTT performed poorly, mainly due to its production issues. The underlying business is competitive with good market positions and a strong brand. Our focus is to improve production, as a higher input of first-grade product is the key driver of improved profitability.

We will progress with the CE disposal process, whilst ensuring we generate value. We are pleased that we have improved the underlying business, which is now profitable.

Transformation and priorities for 2019

While we made progress in the first year of the transformation, it was not enough to strengthen the balance sheet sufficiently and address some of the legacy issues. We are seeking to raise equity in order to address these issues and to allow for a controlled disposal of CE. I will lead the organisation in order to achieve our vision: to become a highly efficient, sustainable, profitable and innovative organisation, which creates, makes and sells technical textile products in such a way that we contribute to a better world. We shall be strong and competitive. We will build a powerful and clear reputation for service excellence and product innovation. We will be a great business to work for and to do business with.

While continuing our progress on reducing cost levels and improving working capital, we have identified six areas of focus for the coming year:

1. Become truly customer centric, improving product quality and service delivery
2. Optimise manufacturing and address the lack of maintenance spend
3. Customer-driven, focused innovation
4. Improve procurement and our ability to pass on input cost
5. Improve reporting, forecasting and manage expectations
6. Improve employee engagement

Philip de Klerk
Group Chief Executive Officer

30 January 2019

A focus on health and safety

We have driven our HSE culture forward by investing in a Safety Leadership Programme for our senior executives down to our supervisors. This year has seen our management team engaged in the programme with a focus on their personal input and how it can make a difference to their working environment. As part of the programme, we are currently working through a safety culture assessment tool which will drive a set of actions that can be implemented locally to improve HSE results and ensure all sites meet the same Group HSE standards. One of our key HSE priorities in 2019 is to continue to roll out the programme across all sites.



DRIVEN BY GLOBAL TRENDS

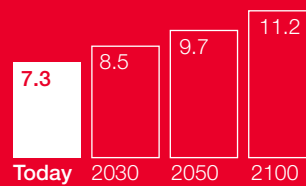
Market drivers



Population growth

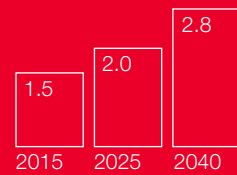
- Rapid urbanisation
- Increased transportation and need for improved infrastructure
- Need for clean air and water

World population (billion)



Source: United Nations Department of Economic and Social Affairs

Number of cars and trucks worldwide (billion)



Source: World Economic Forum



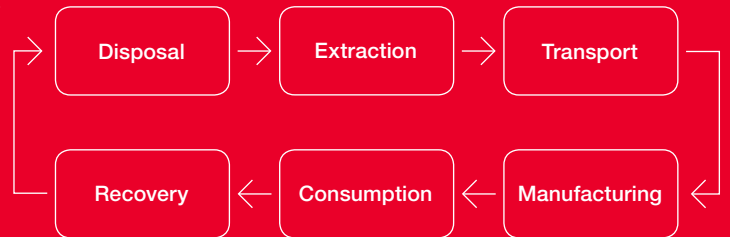
Transformative technologies

- Innovative solutions
- Lower environmental impacts



Limited resources

- Re-use and recycling
- Materials efficiency, productivity and sustainability



Quality of life

- Better quality and safer living and working spaces
- Aesthetically appealing environment

Environmental quality indicators



- Air pollution
- Water quality

Source: OECD Better life index

Our customers are facing growing global challenges. In helping them to meet these challenges our solutions form a key part of the foundations that improve daily life.

The impact

- Population increases lead to requirements for new homes and workplaces created at speed, safely and with environmentally friendly solutions
 - Transport infrastructure has to be enhanced to enable global mobility
 - These trends place a burden on the ecosystem increasing the need for clean water and better air quality management
-
- The market looks to materials providers to deliver innovation and materials efficiency
 - Technology must support the increasing sustainability and environmental requirements
-
- Materials need to support the cradle-to-cradle certification and be both more energy-efficient and recyclable. They need to be used efficiently at all stages of their life cycle
 - Materials need to work harder, in terms of productivity and durability, and provide enhanced performance
-
- End users are demanding to live and work in healthier environments with better air flow in insulated and compact buildings
 - Aesthetically appealing and decorative designs are required that suit changing lifestyles

Low & Bonar response

Our products enable applications across a wide range of industries to help our customers tackle the global trends:

- **Flooring** – Innovative materials that help our customers design distinctive products with creativity, impact and style
- **Building** – Enabling safer, faster and more comfortable buildings to protect and enhance the environment where we live and work
- **Transportation** – Creating cleaner, safer, cheaper ways to move us – keeping cargo secure, building better roads, and improving the comfort of the vehicles we drive
- **Filtration** – We help filter manufacturers build products to ever higher standards, delivering benefits from better air and water to cleaner running engines
- **Civil engineering** – Increasing reliability, saving costs, and accelerating safer construction in the major infrastructure projects reshaping our world
- **Environmental** – Helping our customers deliver cleaner air and water, more sustainable construction and greener buildings solutions
- **Industrial** – Meeting industry’s challenges with higher performance, lower costs, greater efficiency and speedier results

“ Our products enable applications across a wide range of industries to help our customers tackle the challenges arising from global trends ”

CREATING VALUE FOR OUR STAKEHOLDERS

Our inputs

Our technology

Our technologies create fabrics and composites that bring a unique set of properties and benefits to industrial markets.

Our brands

We have leading brands that help our customers perform to their highest ambitions.

Our people

Our people bring a diversity of skills and experiences which we leverage to ensure excellence across all areas of the business.

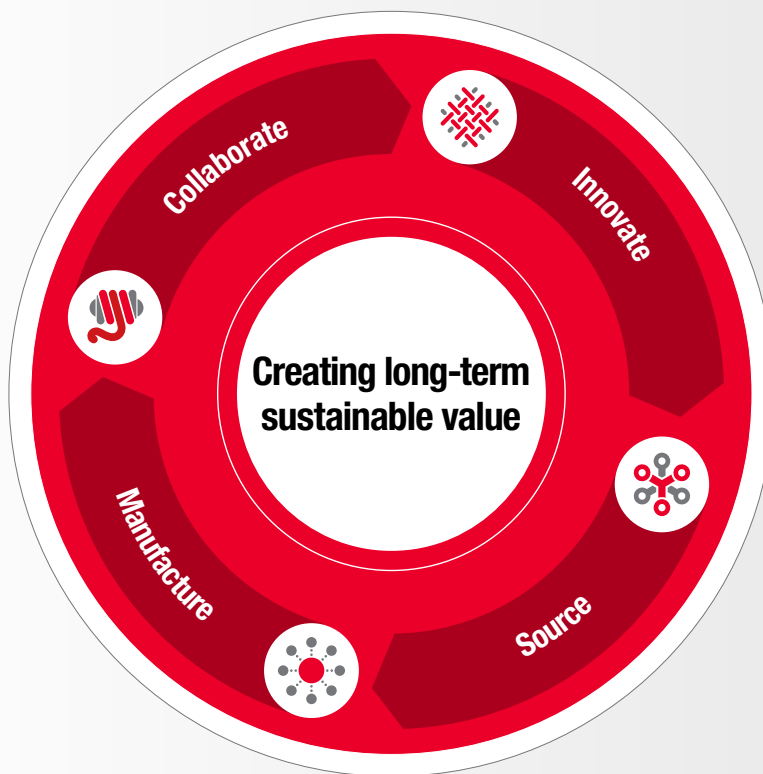
Our international manufacturing

We have direct supply capabilities in major regions, with 13 manufacturing facilities and local technical service support.

What we do

We produce advanced, high-performance materials from polymer-based yarns and fibres. The proprietary technologies we use to weave and create them lead to products with exceptional strength and versatility. They bring unique solutions to a wide range of markets, in applications that touch on and improve all our lives.

We help our customers deliver their own products and projects faster, more easily, more economically and with greater durability, while building a better and more sustainable world.



Enabling performance against our strategy:



CUSTOMERS



PERFORMANCE



INNOVATION



FOCUS

UNDERPINNED BY OUR CULTURE AND VALUES

WE ARE CUSTOMER CENTRIC
WE INNOVATE AND IMPROVE

WE ARE ACCOUNTABLE
WE COLLABORATE

Our technologies, brands, people and global manufacturing capabilities drive what we do and will allow us to deliver competitive advantage and differentiate ourselves in the market. Our aim is to create sustainable long-term value for our stakeholders, ensuring that we deliver benefits to our customers, our people, our shareholders and our communities.

What makes us different

Leading positions in niche markets

Our innovative design and component manufacture enables us to meet the evolving needs of our customers and maintain leadership in our markets.

Customer-differentiated solutions

We aim to work closely with our customers to ensure our new product solutions create value, using collaborative, open innovation partnerships to develop new solutions.

Relevant product innovation

Our innovation team is focused on engineering products for specific applications and identifying transformational growth opportunities.

Our culture

Informed by our values: we are customer centric; we are accountable; we act with integrity and respect; we innovate and improve; we collaborate; and we empower to perform.

Operational excellence and efficiency

We operate Group-wide capability and efficiency enhancement programmes to improve productivity.

Global scale

Our high-performance materials sell around the world, leading their markets and contributing to a better quality of life.

WE ACT WITH INTEGRITY AND RESPECT
WE EMPOWER TO PERFORM

Our outputs

Our customers

+38 NPS

Net promoter score from the I&T customer survey

We have invested in bringing our manufacturing, products, expertise and industry insights to our customers' doorsteps so we can work alongside them to understand their problems.

Our people

1981

employees

Our people are central to our success. We aim to engage, motivate, reward and develop our employees so that they feel fulfilled and enjoy what they do, leading to a productive and focused workforce.

Our shareholders

8.7%

Return on capital employed

By managing our inputs and executing our strategy our ambition is to provide long-term sustainable value for our shareholders.

Our communities

6 sites

Manufacturing sites that donated to the local community

Our local communities are important to us. They can provide much of our workforce, our customers and our service suppliers and we therefore ensure we interact and engage with them in a sustainable and responsible way.

Our strategy

A ROBUST GROWTH STRATEGY

Strategic pillars

Progress in 2018

Associated risks

CUSTOMERS

Our customers are at the heart of what we do and they drive our passion for innovation and performance



We did not live up to our own high expectations during 2018. Our matrix organisational structure, implemented in 2015, led to a loss of accountability and a decline in customer focus and operational agility. Production issues in CTT and in our North American Enka business meant service standards dropped, impacting our production efficiency and customer service.

The reorganisation into regional teams is designed to rebuild and strengthen the working partnerships with our customers that are central to our strategy.

- Global activity
 - Organic growth/competition
- +** [READ MORE ON PAGES 54 TO 57](#)

PERFORMANCE

We continuously strive to improve performance at every level; focused on quality, reducing our environmental impact and cost per unit, and improving product performance



The cost reduction plan announced in January 2018 has reduced headcount by 55 employees, with annualised savings of £4m. The production issues at CTT and, to a lesser extent, at our North American Enka business, have reduced overall efficiency. Good progress has been made in resolving these issues. Notwithstanding the above, our core Colback and Enka businesses have performed reasonably well, although margins have been pressured by higher raw material prices.

- Raw material pricing
 - Operations
 - Business continuity
 - Growth strategy
 - Organic growth/competition
 - Health and safety
- +** [READ MORE ON PAGES 54 TO 57](#)

INNOVATION

Using our unrivalled application knowledge, versatile technologies and through collaboration, we will deliver sustainable solutions that add value to our customers



Our innovation efforts continued to bring sustainable, high-performance products to the market, such as:

Enkair, a range of fully-recyclable cushioning materials for mattresses, wheelchair cushions and furniture

Colback Air, a lightweight and cost-effective primary backing for bitumen-backed carpet tiles.

In CTT our R&D resources were fully directed towards resolving the ongoing production issues so innovation output was limited.

- Growth strategy
 - Employee
- +** [READ MORE ON PAGES 54 TO 57](#)

FOCUS

We are focused on operating our business in a disciplined and strategic manner, delivering what we promise as a trusted partner



The reorganisation into P&L and cash-responsible regional teams for B&I and I&T is designed to improve accountability and commercial agility.

A review of our manufacturing assets highlighted some areas of underinvestment, which we are taking steps to address.

Our Safety Leadership Programme was rolled out to site leadership teams and our LTAs fell from 14 in 2017 to 11 in 2018.

- Treasury
 - Laws and regulations
 - Health and safety
 - Cyber security
 - Funding
 - Employee
 - Business continuity
- +** [READ MORE ON PAGES 54 TO 57](#)

Targets for 2019

- Improve customer service levels and manufacturing output
- Volume growth
- Sustainable revenue growth, annual average of weighted GDP +1-2%
- Standardised 'on time, in full' (OTIF) metric

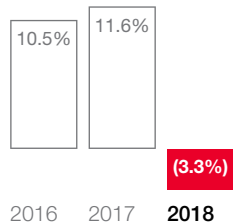
- Improve production output
- Improve margins and pass-through of higher raw material costs

- Focus on customer collaboration to drive our innovation effort
- Strengthen internal cooperation to accelerate delivery of new product pipeline

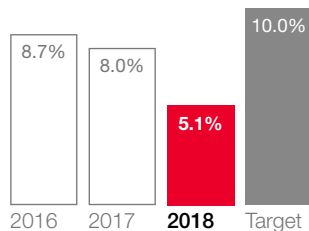
- Implement targeted investments at CTT and North American plants
- Working capital improvement
- Conduct employee engagement survey
- Operating cash flow to EBITDA of >80%

KPIs

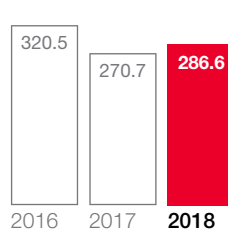
Sales growth¹



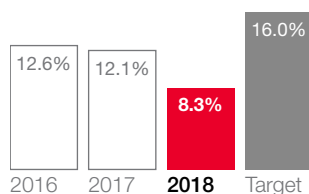
Return on sales²



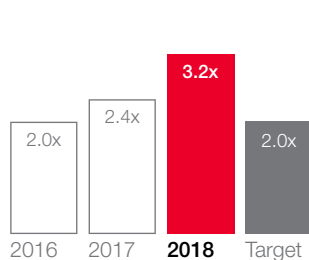
GHG intensity ratio



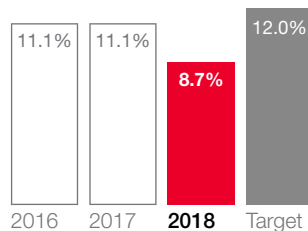
Sales from products launched in the last 3 years



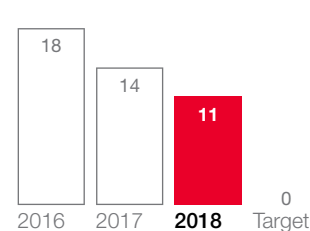
Gearing³



Return on capital employed⁴



Long-term accident statistics



¹ On a reported basis

² Defined as underlying operating profit as a percentage of sales (see note 1)

³ Defined in Note 38

⁴ Defined as underlying operating profit as a percentage of net assets plus net debt (see Note 38)

BUILDING A STRONG DIALOGUE

Customers



Employees



Why

it's important to engage

Our customers have varied and unique challenges that need bespoke and innovative solutions. We need to listen and engage with our customers on a regular basis to ensure that we are understanding their needs and providing solutions that address them.

Our people are at the heart of our business. Effective employee engagement leads to a happier, healthier workforce who are invested in the success of the Group and who are all pulling in the same direction. Engagement with our employees starts from the top and is driven effectively throughout the Group.

How

we engage

- Customer satisfaction surveys to understand our customers' perception of us and how we can improve
- Continual review of feedback and complaints to rectify unsatisfactory service or products

- Leadership conference, where 65 of our key employees discussed and committed to key Group initiatives which were then communicated throughout the Group
- Regular communication from the Group Chief Executive Officer to the whole Group on business performance and strategic developments
- Ongoing discussions with the European Works Council and local works councils

Outcomes

of engagement in 2018

- Customer survey completed in Interiors & Transportation showed a positive net promoter score with customers being generally happy and satisfied when dealing with Low & Bonar. Product quality seems to be the key driver for our customers

- The values of the Group, which underpin our culture and strategy, were discussed and revised at the Leadership conference and cascaded through the Group
- An employee engagement survey will be undertaken in 2019 following employee feedback in 2018

We are accountable to our stakeholders; by engaging with them effectively we can continue to build trust, create partnerships and drive the business forward.

Investors



We maintain and value regular dialogue with investors throughout the year and place great importance on our relationship with them. We aim to provide high levels of transparency and clarity to our results and strategy and to build trust in our future plans.

- Our AGM allows shareholders to directly engage with our Board and to understand the performance of the Group
- Regular trading updates and investor meetings provide up-to-date information on performance and forecasts
- All reports and presentations are available on our website to ensure transparency and understanding
- Trading updates given to the market
- Investor roadshows in London and Edinburgh
- Regular updates with our banks

Communities



We are very close to our local communities, and our relationship with them is very important to us. They provide much of our workforce, are our customers and service providers and they are our neighbours.

- Two-way communication with local businesses and community groups
- Economic contributions in terms of donations and sponsorship
- Gifts to local charities
- Sponsorship of local sports teams
- Volunteering in local institutions

Partners and suppliers



We have a number of key partners and suppliers who we have built strong relationships with and who we strongly value. We need effective engagement to ensure our relationships remain collaborative and forward-focused and to foster our relationships of mutual trust and loyalty.

- Regular face-to-face meetings with our suppliers
- By implementing a global e-procurement solution in 2018, our purchasing process has been streamlined which frees up time for our buyers to focus on supplier relationships and to create added value
- We achieved security of supply for several of our critical raw materials despite tight market conditions. Security of supply is key to supporting the development of our business and the business of our customers

BUILDING & INDUSTRIAL

Revenue

£89.8m

2017: £108.2m (restated)¹

Underlying operating profit²

£6.9m

2017: £13.0m (restated)¹

Underlying operating margin²

7.7%

2017: 12.0% (restated)¹

The B&I Global Business Unit supplies a range of technical textile solutions for niche applications in air and water filtration, building, roofing, drainage and erosion control.

As set out at the start of 2018, the Group announced a series of strategic actions designed to improve the performance of the business. Following the first phase of the review of the Civil Engineering business, the Enka range of products was transferred into Building & Industrial from Civil Engineering in Q2 2018. The 2017 segment results have therefore been restated to ensure comparability.

On a reported basis, revenue in B&I has decreased by 17.0%, due primarily to the disposal of the agro-textile business part-way through 2017. On an adjusted constant currency basis (excluding the prior year sales from the agro-textile business), revenue increased by 0.9%.

Core markets continued to show growth throughout 2018. However, limited sales growth following a reduction in sales from a major customer in North America, the impact of the integration of the lower-margin Enka business, raw material and freight cost increases that we were unable to pass on substantially, all contributed to a fall in underlying operating profit of 40.5%, on an adjusted constant currency, restated basis.

The reduction in sales from a significant customer in North America is disappointing and was caused in part by production and supply issues in Enka which we are in the process of resolving. Despite this set-back, revenue in the Building segment increased by 3.6% on a constant currency basis.

Colback roofing and polymeric membrane reinforcement volumes grew and the recent Colback expansion in Changzhou, along with the enhanced sales and marketing team in the region, drove market penetration and growth in the APAC building, roofing and waterproofing markets.

Industrial sales grew by 6.8% on a constant currency basis, following significant progress to extend our product portfolio with newly developed air filtration media along with new product development in the shock pad and drainage portfolio.

Enka products, whilst displaying strong potential, were hampered by economic difficulties in emerging markets. Delayed projects and intensified competition adversely impacted profitability. Sales fell by 11.4% on a constant currency basis as the drainage and soil consolidation business did not perform in line with expectations, partly due to the impact of the integration process.

The priorities of the business unit are to resolve Enka North America production and supply issues, improve customer service, innovate, and rebound from the market share loss in North America.

¹ Restated for the transfer of the Enka business from Civil Engineering to Building & Industrial (Note 36).

² Underlying operating profit and underlying operating margin are disclosed in Note 1.

³ Adjusted constant currency is defined in Note 38.

The Willem-Alexander Rowing course – erosion control

The Willem-Alexander course in the Netherlands is a unique combination of water storage, recreation and an international rowing course. During high water levels, the area can store 4 million cubic meters of water, acting as a flood plain. To ensure the banks won't erode and fail, due to high wind speeds, water flow and wave attack, 22,080m² of Enkamat A20 has been installed.

Enkamat and Low & Bonar were chosen as not only does our material provide the requisite erosion control for the banks, it also allows vegetation to grow through allowing the banks to maintain a natural and attractive appearance.



Nizhny Novogorod stadium

The Nizhny Novogorod stadium was designed for the 2018 World Cup in Russia and is a circular stadium which provides seating for around 45,000 spectators. Our VALMEX® TF 400 product was selected to create the stadium's façade due to its excellent durability and design characteristics. The architects of the stadium wanted a material which could take on the design theme of water, which is a dominant feature in the city, and also wanted a material that was lightweight and readily available.

Low & Bonar was chosen not only due to the properties of our material matching the brief from the design and construction team, but also due to the strength of the relationships we have built within this market and our strong commercial execution and expertise in this field.



COATED TECHNICAL TEXTILES

The CTT Global Business Unit supplies a range of technical coated fabrics providing aesthetics and design, performance and protection in a number of different markets.

2018 has been a very difficult year for the CTT business. Sales have increased by 0.8% on a constant currency basis, however underlying profitability has reduced significantly from £9.3m to £2.5m on a reported basis. The underperformance being driven principally by ongoing production inconsistencies alongside high levels of raw material cost inflation.

There have been several production issues, some of which we have now discovered have existed for a number of years. These issues have impacted the output of production, both in quantity and quality, which resulted in both a cost increase and a customer service challenge.

The identification of root causes and subsequent resolution of these issues has been the primary focus in 2018. We have directed Operations and R&D resources fully towards these issues and have made good progress in understanding the root cause of these issues and resolving them. However, they are taking longer to resolve than anticipated and there is further work to do in 2019. Some investment may be required to address a lack of maintenance spend in the past.

During the year, we also unfortunately had a fire in the Lomnice coating plant, caused by thermal oil issues. This severely disrupted production and temporarily closed the site. Following the fire, we have accelerated engineering reviews of all thermal oil systems in the Group and are implementing projects to reduce the risks. The coating plant started up successfully at the beginning of January 2019.

We made a structural change to the CTT organisation in May 2018, with full operational and commercial responsibility returning, from the previous matrix structure, to the CTT team. This has removed complexity from the decision-making process, increased flexibility within the organisation and created alignment and focus on the key issues that need to be addressed. It will also improve the availability of stock, resulting in faster delivery capability and fulfilment across our range.

CTT's key markets are still growing and with production being more reliable, we should be able to serve these markets better in 2019; increasing quality and quantity of production, regaining the trust of customers and ensuring adequate availability of products on a global basis, resulting in improved profitability.

However, based on the performance of CTT in 2018 and the slower than expected resolution of key issues, the Board has deemed it appropriate to recognise a non-cash impairment of the outstanding goodwill allocated to CTT of £39.0m, which has been reported as a non-underlying item.

Revenue

£138.8m

2017: £138.3m

Underlying operating profit¹

£2.5m

2017: £9.3m

Underlying operating margin¹

1.8%

2017: 6.7%

¹ Underlying operating profit and underlying operating margin are disclosed in Note 1.

² Constant currency is calculated by retranslating comparative period results at current period exchange rates.

INTERIORS & TRANSPORTATION

Revenue

£125.7m

2017: £120.3m

Underlying operating profit¹

£18.5m

2017: £19.1m

Underlying operating margin¹

14.7%

2017: 15.9%

¹ Underlying operating profit and underlying operating margin are disclosed in Note 1.

² Constant currency is calculated by retranslating comparative period results at current period exchange rates.

The I&T Global Business Unit supplies technical fabrics used in transportation, interior carpeting, resilient flooring and decorative products.

I&T has performed well in 2018 despite challenging market conditions. Sales at constant currency grew by 6.4% and profitability is only slightly reduced on a constant currency basis notwithstanding strong raw material cost inflation and increasing levels of competition in the market. We have continued to strengthen our position in China with volumes growing following the completion of the second Colback manufacturing line in Changzhou and commencement of production in Q1 2018.

Flooring sales have increased by 8.7% on a constant currency basis, with growth in all regions. We have focused on protecting and growing key accounts along with accelerating new primary and secondary carpet backing business with both new and existing customers. This strategy resulted in growth despite significant competitive pressure during the year due to overcapacity in the market and the qualification of some second sources at a number of I&T's largest US customers.

The Automotive market has faced a number of significant headwinds in 2018. Sales in the higher end luxury US car market, predominantly our target market, suffered as the popularity of pick-up trucks and SUVs rose; models which typically don't use tufted carpets. In Europe, car manufacturers also continued to push down cost-saving requirements to their suppliers following the engine emissions scandal of the past few years. Due to these issues, sales in this segment decreased by 5.7% on a constant currency basis.

In Decorative products, the Wall Covering sub-segment in Asia performed strongly and above expectations, which more than compensated for a reduction in sales in Decoration applications in the smaller maturing European market.

We expect to see further growth in most markets in 2019. I&T's priorities include furthering the penetration we have made in 2018 at the key Chinese carpet tile makers and accelerated activity in the US for lower weight products. We will also drive the Group's innovation agenda with new products and will explore new technologies to serve the current customer base as well as adjacent markets.

Providing a replacement moulding for a high-visibility BMW platform

Colback was selected to replace a competitive moulded, tufted substrate material on a high-volume, high-visibility BMW platform. Our customer is a major Tier One supplier of soft trim to automotive OEMs and the material previously used was not moulding consistently, meaning many parts were not acceptable in terms of quality and appearance. This resulted in difficulties in planning production and meeting assembly plant requirements, as well as additional costs for scrapped parts.

By using Colback material for the tufted substrate, moulding was improved and the problem of rejected parts was solved. Colback gave consistent, high-quality moulding while producing parts with a cleaner appearance. As a long-term supplier of moulded substrate to the soft trim automotive market, Low & Bonar's Colback products are well known for performance to trim suppliers.



Rehabilitation of the Curtici- Simeria Frontier railway

The 4th Pan-European rail corridor runs between Germany and Greece, Romania and Turkey. Due to the volume of traffic on this rail line, work needed to be completed to ensure that the long-term stability of the railway ballast bed was maintained and the safe transportation of people and goods was ensured.

Via our long-term distribution partner in Romania, we delivered over 2 million m² of high-performance non-woven geotextiles to the project. Introducing our material as a separation filtration layer between the sub grade and the sub base (the ballast) prevents soil particles from moving into the sub base, thus minimising the risk of instability and so increasing the lifetime of the structure while lowering maintenance costs. The project will run over the period 2018-2020 and we will supply products for the remainder of the project.



CIVIL ENGINEERING

The CE Global Business Unit supplies needle-punched non-woven products and construction fibres used in major infrastructure projects, including road and rail building, land reclamation and coastal defence.

Revenue

£77.6m

2017: £79.7m (restated)¹

Underlying operating profit²

£0.1m

2017: £(0.5)m (restated)¹

Underlying operating margin²

0.1%

2017: (0.6)% (restated)¹

2018 has been a year of significant change for Civil Engineering. The strategic actions set out by the Group at the beginning of 2018 have led to the closure of the loss-making Ivanka site in Slovakia, the transfer of the Enka business into B&I and, following a thorough review of the business, the decision to divest the remaining part of the Civil Engineering business. As part of this review, full operational and commercial responsibility has been returned to the Civil Engineering business with the dismantling of the previous matrix structure. A new management team has also been in place from Q2 and have made good progress in reducing costs and improving performance.

Following the transfer of the Enka range of products to the B&I Global Business Unit, we have restated the 2017 comparatives to ensure comparability.

On a restated basis, sales, at constant currency, have decreased by 3.7%, however underlying profit at constant currency, has increased from a loss of £0.5m to a profit of £0.1m.

The reduction in sales is driven primarily by the closure of the Ivanka site in the year, with a reduction in sales of £3.6m from 2017. Sales in needle-punched non-wovens have increased by 3.8%, maintaining our leading position in the European market in this technology. Construction fibre sales have decreased by 6.9%, with lower volumes driving the decrease in sales.

A reduction in the cost base in both the Zele and Tiszaújváros plants, against a backdrop of sharply rising raw material costs, has driven the £0.6m increase in underlying profit and we expect the full-year benefit of cost-saving actions undertaken in 2018 to be realised in 2019. Cost savings have been achieved through reducing headcount, restructuring and combining roles and re-evaluating the level of support costs needed to run the business in the new structure.

The outlook for 2019 is promising, sales growth is anticipated and with the full benefit of cost savings, we are expecting to see further growth in profitability. As disclosed in July 2018, we have decided to divest the Civil Engineering business and an orderly sales process is in progress. However, as at 30 November 2018, we concluded that there is not sufficient certainty regarding the disposal to treat the business as either "held for sale" or as a discontinued operation under IFRS 5 "Non-current assets held for resale and discontinued operations".

- 1 Restated for the transfer of the Enka business from Civil Engineering to Building & Industrial (Note 36).
- 2 Underlying operating profit and underlying operating margin are disclosed in Note 1.
- 3 Constant currency is calculated by retranslating comparative period revenues at current period exchange rates.

At a glance

We believe that taking corporate responsibility seriously adds value for all our stakeholders in the short, medium and long term, and builds pride in our business for those who work in the Group.

We remain committed to sustainability working hand in hand with our long-term growth strategy. We continue to review all aspects of our corporate responsibility processes and look for opportunities to improve these further.

Our culture

Our culture is informed by our values; which are brought to life by our people every day.

[+ READ MORE ON PAGE 0](#)

Our people

Attracting, developing and retaining the best people is important for our success.

[+ READ MORE ON PAGES 38 AND 39](#)

Our health and safety

Health and safety is everyone's responsibility; we must ensure Low & Bonar is always a safe place to work.

[+ READ MORE ON PAGES 40 TO 45](#)

Our environment

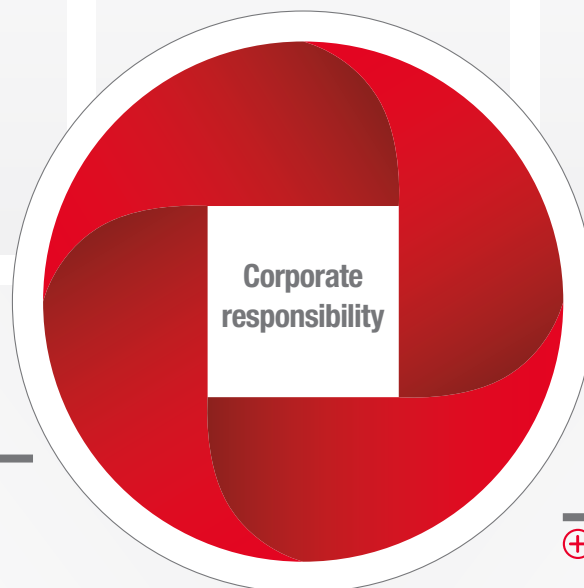
We aim to reduce energy usage and waste generation.

[+ READ MORE ON PAGES 40 TO 45](#)

Our communities

Our relationship with the communities in which we operate is important to both local people and our business.

[+ READ MORE ON PAGE 39](#)



NON-FINANCIAL INFORMATION

Our non-financial information covers the non-financial aspects of our performance, including environmental, social, employee and ethical matters. The information referred to below, in addition to the Principal risks set out on pages 54 to 57,

provides an understanding of the impact of these matters on the Group's performance along with how we manage any adverse or negative impacts arising from these risks.

We are committed to improving our management and reporting of Corporate responsibility matters and are continuously working to improve our KPIs and other indicators.



Environment

Our approach to environmental management is based on compliance with environmental regulation and continuous improvement in energy usage and waste generation; linked to the implementation of certified environmental management systems and their associated metrics and standards.

+ FURTHER INFORMATION CAN BE FOUND ON PAGES 40 TO 45



Human Rights

We are fully mindful of and have mitigation strategies to prevent human rights violations and other risks within our own business and supply chain. We are committed to acting ethically and with integrity in all our business dealings and we are committed to ensuring that there is transparency in our business.

🔍 OUR MODERN SLAVERY POLICY CAN BE FOUND IN FULL ONLINE AT WWW.LOWANDBONAR.COM



Employees

At Low & Bonar we value the diversity of experiences of our people. We look for resourceful and proactive individuals who will bring ideas and initiative to contribute to the growth of our Group.

+ FURTHER INFORMATION CAN BE FOUND ON PAGES 38 AND 39



Anti-corruption and anti-bribery

The Group values its reputation for ethical behaviour and for financial integrity and has a commitment to carry out business fairly, honestly and openly. We will not tolerate bribery in our dealings.

🔍 OUR ANTI-BRIBERY POLICY CAN BE FOUND IN FULL ONLINE AT WWW.LOWANDBONAR.COM



Social and community

Our local communities provide much of our workforce, are frequently end users of our products, are suppliers of services to us and are our neighbours. We are committed to engaging with the local communities in a sustainable and responsible manner.

+ FURTHER INFORMATION CAN BE FOUND ON PAGE 39

Our people



To achieve our vision and purpose, it is our people who will make the real difference. The diversity of our people and their thinking will drive the Group towards its business ambition.

Attracting, developing and retaining the right people is vital for our success. We employ around 2,000 people across the world, active in sales and marketing, innovation, manufacturing, logistics and other support functions.

A job at Low & Bonar can be part of a career, with development opportunities, and a working culture that embraces professionalism and diversity.

Our culture

At Low & Bonar we value the diversity of experiences of our people. We look for resourceful and proactive individuals who will bring ideas and initiative to contribute to the growth of our Group.

Our new core values underpin our culture and set out the type of organisation we want to be. Our values drive us to be customer centric, accountable for our actions, to act with integrity and respect, to innovate and improve, to collaborate and to empower to perform. We expect all of our people to bring these values to life in their day-to-day work, through their interaction with our stakeholders, both internally and externally.

Diversity

The Board is mindful of the benefits of diversity in its management and of the representation of women in senior roles. However, we have not set specific targets for the number of female Directors on the Board and will continue to appoint the best candidate available to us for any role. The Group is conscious that it is possible to discourage inadvertently the candidacy of women and we continue to bear this in mind in all recruitment. Our Board Diversity Policy can be found at www.lowandbonar.com.

The table below sets out the position, as at 30 November 2018, of the Group on a gender basis:

	Number of men	%	Number of women	%
Directors	6	86	1	14
Executive Leadership Team (ELT) ¹	4	100	0	0
Direct reports to ELT	37	88	5	12
Employees ²	1,599	78	459	22

¹ Excluding the Executive Directors.

² Employees of its consolidated subsidiaries, excluding Bonar Natpet LLC.

Two women have recently joined the ELT following their appointment in January 2019. This significantly changes the balance in the ELT which will be composed of 33% women and 67% men going forward.

Talent management

Our performance management programme involves a comprehensive approach to performance assessment and talent management. It enables us to directly link personal contribution to individual recognition and development. We recognise that this can be further enhanced.

Equal opportunities and human rights

In seeking to recruit different genders, backgrounds, ages and nationalities throughout the organisation we ensure that corporate decision-making is informed by the widest possible range of knowledge, skills and experience.

We are committed to acting ethically and with integrity in all our business dealings and we are committed to ensuring that there is transparency in our business. We are fully mindful of and have mitigation strategies to prevent human rights violations and other risks within our own business and supply chain, including labour risks, unsafe workplace conditions, environmental degradation and bribery and corruption.

For further information on our Modern Slavery Act statement and Anti-bribery policy, see our website at www.lowandbonar.com.

Our communities



Our relationship with the communities in which we operate is important to us.

Employee engagement

Our approach to employee engagement is driven by the knowledge that employees who have good-quality jobs and are managed well will not only be happier, healthier and more fulfilled, but are also more likely to be highly productive, innovative and drive better products and services to customers.

In 2018, the Group and its Directors engaged with our employees in a number of ways including regular newsletters, townhalls and communications directly from the Group Chief Executive Officer to update all employees on key business developments and strategic decisions in the Group, a Leadership conference in June 2018 where 65 leaders discussed and committed to key initiatives to drive the business forward, and engagement with the European Works Council and its Select Committee along with interaction with local management and works councils. In all cases, where discussions and agreements have taken place at a senior level, the outcomes of these decisions are communicated and cascaded appropriately throughout the organisation. However, more can be done to engage.

Priority for 2019

The Group is committed to further improving the engagement of its employees and in 2019 will be launching an employee engagement survey, the outcome of which will be used to further improve the engagement of our employees.

Having a good relationship with our communities helps us attract and retain employees, facilitates support from local services and enhances the profile and reputation of Low & Bonar.

We are, in many of our geographic locations, a significant employer in the local community. We have a positive impact on communities across many parts of the world through job creation and stimulating local economic development. The interconnectivity of our business and local communities is something we respect, value and nurture. We actively seek to engage with local government and local emergency service organisations in the communities in which we operate.

We continue to implement our Charitable Giving Policy whereby we only give contributions to organisations with verifiable charitable status.

We do not give any political donations.

Priority for 2019

Going forward we will continue to adhere to our Charitable Giving Policy as well as supporting our local communities through environmental and social initiatives.



How we support our local communities

- In Belgium, we have given charitable donations to local charities and sponsored local sports teams
- In Germany, our apprentices volunteered in local social institutions and we donated materials to a local school for art projects
- In the Netherlands we supported ShelterAid, an organisation which helps the homeless and refugees, by making Enkair available to make their Shelterbags.
- In the US we donated to the local police force and continued our ongoing support of local United Way initiatives

Our health, safety, environment and sustainability (“HSE”) strategy



Towards the end of 2018 we realigned our HSE strategy. Our aim is for HSE to be at the forefront of our people’s minds.

Our strategy is designed to enable us to make informed HSE decisions, to drive the attitude that it is everyone’s responsibility to make Low & Bonar a safe place to work and to ensure that our environmental and sustainability responsibilities are managed appropriately. We are seeing more requests from our customers for product and company sustainability information and environmental performance and therefore our five new strategic pillars have been developed to allow our actions and priorities to align with our customer needs, our stakeholders’ priorities and our people’s ambition, and have been developed with the following challenges in mind:

- **Our people:** we have a duty to our people to provide them the safest workplace possible.
- **Our environment:** our assets and production processes are creating an environmental impact that we need to understand, manage and improve.
- **Our assets:** greater demand on existing assets has cultivated the need for increased outputs and lower costs.
- **Our customers:** we embrace our customers and our products help to enhance their sustainability performance.

Our five strategic HSE pillars are as follows:

LEADERSHIP & CULTURE

LINK TO STRATEGIC
GROUP PILLAR:
FOCUS



Low & Bonar is committed to ensuring that our leadership operates with HSE as the top priority and that the strength of our HSE culture and the quality of our protection systems delivers operations where all Low & Bonar employees and visitors feel, and are, absolutely safe.

RISK MANAGEMENT

LINK TO STRATEGIC
GROUP PILLAR:
PERFORMANCE



Leading and lagging indicators, together with Low & Bonar HSE standards and directives, will enable our organisation to manage and mitigate risks effectively.

LICENCE TO OPERATE

LINK TO STRATEGIC
GROUP PILLAR:
FOCUS



We understand our obligations, are in compliance with local regulations and have a control mechanism in place to validate our compliance situation and respond to changing legislation.

LEARNING & COMPETENCE

LINK TO STRATEGIC
GROUP PILLAR:
FOCUS



In an organisation with multiple business units and technologies, we can only grow and improve our HSE performance when we are able to share our learnings and continuously develop our staff.

TRANSPARENCY

LINK TO STRATEGIC
GROUP PILLAR:
PERFORMANCE



We challenge ourselves to improve our sustainability performance. We are transparent and report on our performance and challenges.

1. LEADERSHIP AND CULTURE

Progress in 2018

Our goal is to create and maintain a proactive and dynamic leadership structure that will engage with employees and customers and listen to the feedback from throughout the Group. This year we have added capacity and capability to our HSE team and we have restructured our team to align with the Group's wider structure, allowing a more focused support to our site leadership teams.

To embed the appropriate safety culture in the organisation, we have rolled out a Safety Leadership Programme to executive senior management and all site leadership teams. From this, site leadership teams have created their own action plans and targets which have been rolled out across each site. Our Safety Leadership Programme has been developed to drive desired behaviours at all levels of the organisation from our senior leadership team to our shift supervisors and to identify safety issues. We are also planning to develop an HSE champion programme in 2019, as well as implementing "listening forums" to understand the concerns of our employees on HSE issues.

To ensure that our HSE culture is instilled throughout the Group, safety and environmental KPIs are reviewed every month in all leadership team meetings and each of those meetings now starts with a safety moment – a sharing of a relevant insight into safety that helps focus our minds on HSE issues.

We are in the process of developing specific sustainability KPIs and have focused initially on GHG emissions and waste for our Colback manufacturing sites. We will continue to develop additional KPIs throughout 2019.

Each year we have an HSE week which highlights the risks arising from HSE to the business along with the work being undertaken by the teams. The focus of the 2018 HSE week was travel safety. Not only on the road to and from work but also internal travel safety, with a special focus on forklifts and the interaction with pedestrians. It was a successful week with multiple activities at all sites, including:

- In our Zele plant we had a forklift simulator to show our people the complexity of driving a forklift
- In our Obernburg, Changzhou and Zele plants, we organised a forklift accuracy contest
- In our Arnhem and Emmen sites, we organised a travel safety quiz for all employees as well as an ideas contest on forklift safety.

2. RISK MANAGEMENT

Progress in 2018

The Board exercises its responsibility for HSE via the Group Chief Executive Officer who the HSE Committee escalates significant risks and HSE needs to. Further risk limitation is achieved through procedures, policies and standards set internally and regular updates by the HSE Committee to the Group Chief Executive Officer based on frequent risk assessments. HSE KPIs are also reported to the Board in every Board meeting.

The HSE committee met eight times during 2018. This committee is an integral part of our approach to risk management. Every other meeting the committee visits one of our manufacturing sites. This allows the committee to obtain a better understanding of the practical reality of some of our HSE concerns, as well as introducing the local site colleagues to the work of the committee and undertaking benchmark comparisons.

This year we have rolled out our crisis communication protocol to all of our sites. We have updated our travel safety policy, our site entry policy and have developed and published technical standards and guidelines in relation to contractor safety, forklift safety and thermal oil engineering.

Supporting our people with effective data and tools is also key to understanding our risk and performance. We are using online tools to report our incidents, to perform our incident investigations, to analyse our trends and to communicate our progress. We will be refining and updating these tools in 2019.

Our health, safety, environment and sustainability (“HSE”) strategy continued



As our sites are using thermal oil to heat and warm our processes and equipment, one of our largest risks is the risk of fires. In 2018, we unfortunately had a fire in our site in Lomnice, Czech Republic, where thermal oil issues played an important role. To better understand and control our thermal oil risks, we have accelerated our engineering reviews of all thermal oil systems in the Group and are implementing projects to reduce the risks.

Small fires are always investigated to make sure that we don't miss any possibilities to improve our systems and reduce risks. In 2018, for all hot work jobs, we have made it mandatory to install a fire watch. This is an extra line of defence to make sure that if all our safety systems fail, we still have a very quick response in case of a small fire.

Our Emmen site is following a list of measures and projects defined in a Fire Safety Masterplan. This plan has been developed in collaboration with the local authorities and regulating bodies and lists all measures necessary to bring our buildings in Emmen into compliance with the building code. We will be implementing the masterplan step by step throughout 2019. This year we have focused on zoning, new lighting, emergency exits and firewalls, while in 2019 we will introduce special detection systems and enhance our rapid response team on site.

3. LICENCE TO OPERATE

Progress in 2018

To execute the Board's aim and requirement to comply with legislation, and to address further risks identified, the Group maintains HSE procedures, policies and standards. Additionally the Group has the objective to certify according to public standards where relevant. The Group has control mechanisms in place to ensure compliance with these objectives and as noted on page 43 we will be rolling out an internal environmental compliance assessment programme in 2019 to manage the environmental risks.

A number of our sites are ISO14001:2015 certified. These are our Civil Engineering sites, Zele and Tiszaújváros. This year our Changzhou, China site received its certification. Other sites are either evaluating the possibility of certification or are planning on certification next year. For 2019 we will continue to work with the sites to assess their readiness for certification including validation and verification through an internal audit programme. All our sites maintain ISO 9001:2015 certification to support our overall management systems.

We are aware of our reporting requirements on energy reduction and carbon emissions and our report on Greenhouse Gas Emissions (“GHG”) can be seen on page 45. With respect to ESOS (Energy Saving Opportunity Scheme) and EED (European Energy Directive), we have planned for further and additional compliance actions in 2019. Also, our German sites have maintained ISO50001:2011 this year. To support this certification, our sites have implemented several energy-saving measures.

Our key environmental risks include compliance with environmental regulations and the risk of soil pollution from our operating activities. We continue to focus significantly on our compliance responsibilities and in 2019 we are rolling out an internal audit compliance programme. Our soil pollution risk is managed through the commissioning of regular environmental studies.

4. LEARNING AND COMPETENCE

Progress in 2018

In an organisation with multiple business units and technologies, we can only grow and improve our HSE performance when we are able to share our learnings and continuously develop our staff. We therefore pay special attention to sharing best practices and learnings from incidents.

All significant incidents are shared with relevant personnel through our monthly HSE report. Incident investigation reports are also shared and discussed during HSE meetings at each of our sites.

As an example, in the year we encountered some issues with our forklifts where the setup boards, used to transport our long rolls with a pin, were broken. We have investigated these issues and have shared the learnings with all sites. A regular check by our maintenance staff of the boards used has been implemented at all sites based on these learnings.

During our annual HSE community week in September, we also recognised the efforts of our sites and our employees to increase safety awareness and awarded our annual HSE awards.

Our Obernburg site received the 2018 site award for its continuous focus on safety culture and risk assessments. One of our maintenance colleagues in Zele received the individual award due to his personal commitment towards safety including the extra work he has done on safety instructions and safety training.

In 2018 we have also developed Low & Bonar specific Environmental Masterclasses around various environmental topics such as energy reduction, waste reduction, storage of chemicals, green transportation etc. These masterclasses have been developed for site management as well as for our operators and are scheduled to be rolled out during 2019.

The purpose of these Environmental Masterclasses is:

- to improve environmental awareness at our sites;
- to improve knowledge about our environmental impact;
- to provide information and training documents;
- to help ensure legal compliance;
- to support ISO14001 certification and implementation; and
- to give practical guidelines and rules for all levels of management.

This should lead to better management of our environmental impact and risks.

5. TRANSPARENCY

Progress in 2018

We want to create an open and transparent culture, where all employees feel free to report near misses or opportunities to improve.

We also want to understand our environmental impact and improve our environmental performance. We have started a project to define sustainability KPIs and targets for our Colback production sites. These KPIs will be reported on a monthly basis and will be part of our corporate responsibility statement next year.

2019 PRIORITIES

Our 2019 priorities for HSE include:

1. Continue to roll out the Safety Leadership Programme across all sites
2. Analyse the risks related to our thermal oil systems and implement risk reduction plans
3. EED/ESOS requirements identified and action plan created
4. Environmental masterclasses to be rolled out at all sites.

Driving sustainability in our products

In our ambition to contribute to a more sustainable world, Low & Bonar has developed Colback Gold. This new commercial carpet tile delivers the same properties as Low & Bonar's Colback Proflooring product, allowing manufacturers to produce carpets satisfying the most stringent cradle-to-cradle requirements. The newly launched product is the culmination of two years of development and technical cooperation between Low & Bonar and one of our clients at the manufacturing and R&D facility in Arnhem, Netherlands. Colback Gold is a lightweight, resilient and attractive flooring product which is more sustainable than existing products on the market and it also meets the cradle-to-cradle certification requirements.

Our health, safety, environment and sustainability results



Optimising product ranges

Together with one of our main customers, we have performed a review and optimisation exercise on their product range.

A large part of the exercise focused on the configurations of materials and the way they are put and transported in a truck.

This has led to increases of loading capacities up to 20% for certain products (for full truck loads) resulting in a reduced need for transport and a lower environmental impact per m² material transported.

Our results for 2018

HSE metrics

For the second consecutive year, our Lost Time Accidents (LTAs) fell, from 14 in 2017 to 11 in 2018. Although we are improving, we are still reviewing every LTA during our Executive Leadership Team meetings to make sure that the investigations are thorough and the actions defined are agreed by all parties and are robust.

Our first aid incidence numbers have also continued to fall, by 26% in 2018, continuing trends from previous years. Our reporting of near misses, which we consider to be opportunities to prevent future accidents, are continuously at a high level. We have reported more than 3,100 near misses this year and have challenged all sites to continue this into next year.

Energy

As mentioned previously, our sites in Germany have re-certified for ISO50001:2011 again in 2018 and our other sites are continuously focusing on energy reduction. In Arnhem a new project has started, and will be finalised in 2019, to improve the heating system of the plant by changing the current steam heaters to modern gas-fired heaters. In Emmen the implementation of a new LED lighting system in a large warehouse is due to be finalised in early 2019. Also, in Dundee, fluorescent lights are gradually being replaced by LED lights.

Water

Water usage is not a significant environmental impact for the Group due to the nature of our manufacturing operations. However, water usage is tracked and monitored and water management is regularly reviewed. In our Asheville plant, we have received a fine for our waste-water disposal due to some legacy issues, which have been corrected. We have been able to improve our water usage efficiency and this has also contributed to our energy savings.

Minimising waste

Continuous improvement efforts are active to minimise material wastage at all stages of the manufacturing process, with particular emphasis on reducing the edge trim and start-up losses.

If we cannot eliminate waste then we seek to recycle it. Recycling and re-use of plastics with the Dundee facility continued to increase. During 2018, 508 tonnes were re-processed, an increase of 303 tonnes over 2017. 328 tonnes were re-used within the Dundee processes, equating to over 15% of production.

Progress was made in the re-use of waste materials from within the Group. 2018 saw the successful re-processing and re-use of 56 tonnes of waste originating from the Belgian plant. Trials with Hungary are ongoing and it is planned to re-establish the relationship with Arnhem with a view to re-processing its waste streams.

Reducing energy consumption and spend

In our main offices at Zele, a complete renewal of the heating/cooling system has been completed.

Besides actual lower energy consumption by the new system, an automated system prevents excessive energy spend using intelligent programming.

Next to the heating/cooling, the lighting steering of the offices has equally been digitalised by installing sensors in storage/lavatory rooms and avoiding unnecessary energy consumption.

Environmental

We have had three environmental incidents in 2018 (2017: 4):

- a noise complaint by a neighbour during delivery of raw materials at Fulda. Our production department has been made aware of this complaint and has installed preventive measures.
- an oil spill when we were removing old equipment from Fulda, which spilled onto a public road. Our procedures and contracts with our scrap dealer have been reviewed and updated to prevent this from happening again.
- an oil leak where thermal oil was incidentally spilled from a containment tank at our Asheville site. The spill was cleaned and procedures were updated to inspect our holding tanks regularly. Furthermore engineering measures were implemented to make sure accidental spills cannot recur.

Following these incidents, and as a matter of routine for all significant events, a full root cause analysis was undertaken to ensure learnings were shared across our sites.

Greenhouse gas emissions

We report Scope 1 and 2 emissions defined by the Department for Environment, Food and Rural Affairs ("DEFRA") Environmental Reporting Guidelines 2013 as follows:

- Scope 1 (Direct emissions): combustion of fuel and operation of facilities; and
- Scope 2 (Indirect emissions): consumption of purchased electricity, heat or steam.

For our UK operations, we have used the UK Government's 2018 conversion factors. For non-UK operations we have used the relevant government data where that is available.

Where no local government data was available to us, we have used the best available source.

Total emissions have increased in the year following the completion of the second Colback manufacturing line in Changzhou, China and production starting in Q1 2018.

The disclosures required by law relating to the Group's greenhouse gas emissions are set out in the table below. Data is given for each year to 30 November 2018 and 2017:

Emission type	tCO ₂ e (method)	
	2018	2017
Scope 1:		
Fuel	33,779	33,940
Process & fugitive emissions	143	112
Vehicle use	986	1,014
Total Scope 1 emissions	34,908	35,066
Scope 2: Purchased Energy	88,866	85,819
Total emissions	123,774	120,885

Greenhouse gas emissions intensity ratio

	2018	2017	Year-on-year variance
Total footprint (Scope 1 and Scope 2) – tCO ₂ e	123,774	120,885	2.4%
Turnover (£m)	431.9	446.5	(3.3)%
Intensity ratio – Scope 2 location-based method (tCO ₂ e/£m)	286.6	270.7	5.9%

¹ The diverse and complex nature of the Group's operations means that a metric based on units of production would not provide a consistent picture. Similarly, there is no meaningful relationship between occupied floor area or employee numbers and the carbon intensity of our operations. We will continue to monitor and review the appropriateness of the intensity ratio.

OVERVIEW

The Group had a very clear focus on cash generation and reduction of net debt during 2018, and made some good initial progress. There are opportunities, and a clear need, for continued improvements.



Overview

	2018	2017	Actual	Constant currency ¹	Adjusted constant currency ²
Revenue	£431.9m	£446.5m	(3.3%)	(2.6%)	1.5%
Underlying profit before tax	£16.7m	£30.7m	(45.6%)	(44.7%)	(42.4%)
Statutory loss before tax	(£42.2m)	(£19.7m)			

¹ Constant currency is calculated by retranslating comparative period results at current period exchange rates.

² Adjusted constant currency is calculated by retranslating comparative period results at current period exchange rates and adjusted to exclude the impact of the agro-textile business which was sold at the end of 2017 (see Note 1).

Revenue

On a statutory basis, revenue decreased by 3.3% due primarily to the 2017 disposal of the agro-textile business in Lokeren. On an adjusted constant currency basis (removing Lokeren results from the 2017 comparatives), revenue increased by 1.5%, with revenue growth seen in all business units apart from Civil Engineering.

Profit before tax (all figures are on an underlying basis except where stated)

Profit before tax from continuing operations decreased by 45.6% to £16.7m (2017: £30.7m). Statutory loss before tax was £42.2m (2017: loss of £19.7m), after a net non-underlying charge of £58.9m (2017: £50.4m).

Operating margins reduced to 5.1% against 8.0% last year. All business units faced continuing raw material price headwinds with significant increases in costs throughout the year. Some of these were at least partially offset by price increases, notably in the B&I, I&T and CE businesses, but the net impact on profit was approximately £4.5m. Production consistency issues persisted

in CTT. We have made good progress in understanding the root cause of these issues and resolving them but they are taking longer to resolve than originally anticipated and the resulting impact of these issues led to a £6.8m fall in CTT's operating profit from £9.3m in 2017 to £2.5m in 2018. I&T continued to perform well in challenging market conditions and Civil Engineering showed improved results following the organisational change during the year. However, B&I had a challenging year, with significantly reduced revenue from one large North American customer.

As we present results in Sterling, the Group's reported results are sensitive to the strength of Sterling against the Euro, US Dollar, and Chinese Yuan. A ten percent movement in these rates approximately equates to a £0.4m (against the US Dollar), £0.1m (against the Euro) and £0.4m (against the Chinese Yuan) change in full-year profits. In 2018, the impact of foreign exchange rate changes aided reported profits by £0.5m.

Non-underlying items

There was a net non-underlying charge before tax of £58.9m (2017: £50.4m) in relation to continuing operations. The key items within this include:

Restructuring costs (2018: £4.2m; 2017: £nil)

£4.2m of costs have been incurred in the year in the major Group-wide transformation programme to right-size the organisation and optimise the organisational structure. Costs include the non-underlying costs of headcount reduction, plus certain costs associated with reviewing and optimising the Group's warehouse footprint and other non-underlying consulting costs.

Coated Technical Textiles impairment (2018: £39.0m; 2017: £nil)

As noted above, CTT had a poor year, with profitability falling short of expectations and prior year. At the half year, an impairment review was conducted which resulted in a partial impairment of £13.3m of the goodwill balance. At 30 November 2018, the annual impairment review was conducted which resulted in an additional impairment of £25.7m of the goodwill balance, resulting in a total impairment in the year of £39.0m.

Impairment of Hungary plant and equipment (2018: £2.3m; 2017: £nil) - Civil Engineering

In the current year, Low & Bonar Hungary Kft incurred significant operating losses. An impairment review was conducted which resulted in an impairment of plant and equipment totalling £2.3m.

Impairment of the ERP system (2018: £1.5m; 2017: £nil)

Following changes to the organisational structure in the year and the removal of the matrix structure, a review was undertaken of the benefits expected to be realised from the implementation of the Group-wide ERP system. Based on this review, an impairment of £1.5m has been recorded to write the asset down to its recoverable value.

Provision for customs duties and fees (2018: £1.6m; 2017: £1.7m)

In previous periods, the Group identified irregularities in relation to customs duties. These related to sales arranged through a former overseas sales office, which was closed several years ago. The 2018 non-underlying charge of £1.6m and closing provision of £2.6m represents the Group's best estimate of the liability (both the penalty expected to be incurred and the related professional fees).

Amortisation of acquired intangibles (2018: £2.8m; 2017: £3.7m)

The amortisation of acquired intangibles of £2.8m is excluded from underlying profit in accordance with the Group's accounting policies.

Disposal of the agro-textile business (2018: £1.2m; 2017: £12.7m)

In October 2017, the Group completed the disposal of the Lokeren-based agro-textile business. The disposal generated a loss before tax of £12.7m (£8.4m after tax). In 2018, £1.2m of further costs have been recorded relating to the disposal including the fair value of an unfavourable contract to purchase

woven products from the purchaser of the business (entered into at the time of the sale) and costs incurred relating to claims which have subsequently been received.

GMP equalisation additional liability (2018: £4.0m; 2017: £nil)

An additional £4.0m liability has been recorded in 2018 in respect of the UK pension scheme, relating to a recent court ruling to equalise all GMP benefits. Given the recent nature of the ruling and the high levels of uncertainty and complexity in both the ruling and the Group's UK scheme, we have only been able to make a high-level estimate of the additional liability due. We will continue to revise this estimate going forward as we gain more clarity and understanding of how this ruling will apply to the scheme.

The remaining £2.3m of non-underlying charges before tax primarily includes £0.6m relating to the operating losses incurred following the temporary closure of the Lomnice site, £0.5m of costs relating to the closure of the Ivanka site and £0.6m of acquisition and disposal costs.

Discontinued operations (2018: £0.7m; 2017: £1.0m)

The Group recorded a loss of £0.7m in respect of discontinued operations. This relates to the increase in the provision held by the Group for costs expected to be incurred on the exit of the Bonar Natpet joint venture. The provision at 30 November 2018 is £2.2m (2017: £1.4m) and is presented as a liability directly associated with assets held for sale. The exit from the joint venture is expected to be completed in the first quarter of 2019.

Taxation

The overall tax charge on continuing profit before tax was £3.5m (2017: credit of £2.1m), a tax rate of (8.3)% . The underlying tax charge from continuing operations was £4.4m (2017: £8.9m), an underlying effective rate of 26.5% (2017: 29.0%). The decrease in the effective rate relates primarily to the impact of prior year tax adjustments. The reduction in the US federal tax rate from 35% to 21% from 1 January 2018 generated a one-off benefit of approximately £2.1m on the revaluation of deferred tax liabilities in 2018, this is presented within non-underlying tax items.

Proposed disposal of the Civil Engineering business

In July 2018, it was announced that the Group planned to divest the Civil Engineering business, following the initial steps taken with the closure of the Ivanka site and the internal transfer of the Enka business. The business is currently being actively marketed and an orderly sale process is underway. However, as at 30 November 2018, we concluded that there is insufficient certainty regarding the disposal to treat the business as either "held for sale" or as a discontinued operation under IFRS 5 "Non-current assets held for resale and discontinued operations".

Net debt

As at 30 November 2018, net debt was £128.5m (2017: £138.4m). The Group had a very clear focus on cash generation and reducing net debt over 2018, and more can now be done to embed this in a sustainable way. We will continue to improve working capital management and discipline around capital expenditure. Average month-end net debt was £159.4m in 2018 compared to £160.9m in 2017.

Cash inflow from operations was £51.3m (2017: £36.6m) helped significantly by a reduction in working capital of £18.0m (2017: increase of £19.6m). During the year, the Group spent £15.2m (2017: £28.7m) on property, plant and equipment and £3.4m (2017: £5.7m) on intangible assets. Significant capital outflows included £3.4m (2017: £16.2m) spent on expanding the Colback manufacturing facility in Changzhou and £1.7m (2017: £1.5m) on the refurbishment of one of the manufacturing lines in Emmen.

Following focused activity on working capital reduction, trade working capital as a percentage of revenue at year end decreased to 21% (2017: 24%), reflecting the decrease in trade working capital to £90.1m (2017: £105.4m).

The analysis of the Group's net debt is as follows:

	2018	2017
Cash and cash equivalents	£47.8m	£38.2m
Total interest-bearing loans and borrowings	£(176.3)m	£(176.6)m
Net debt	£(128.5)m	£(138.4)m

During 2018, the Group successfully refinanced the five-year €165m revolving credit facility ("RCF"). The Group's available debt facilities total £216.5m/€244m (2017: £215m/€244m) and comprise the RCF of €165m, maturing in May 2023, a private placement of €60m scheduled for repayment between September 2022 and September 2026 in equal tranches, and loan facilities of RMB150m available through to June 2020.

The gearing ratio of total net debt to adjusted EBITDA increased from 2.4x in 2017 to 3.2x, which was within the renegotiated 3.5x covenant level specified in the new RCF agreement. From 30 November 2019 this covenant level reduces to 3.0x. The Group is seeking to reduce leverage to 2.0x in the medium term, driven by the continued focus on working capital discipline, as well as business growth and improved profitability.

We seek to mitigate the impact of foreign exchange rate fluctuations on banking covenants by drawing debt in the same currencies, and in the same broad mix, as the currencies that Group profits are generated in. Covenants are calculated with debt and adjusted EBITDA translated into Sterling at average exchange rates to reduce the impact of rate volatility. At 30 November 2018, 41% (2017: 38%) of the Group's net debt was held on a fixed interest rate basis; and the Group keeps this under regular review to maintain a reasonable average cost of borrowing while protecting against medium-term exposure to interest rate changes.

As described in the Chairman's statement, in addition to delivering important operational improvements, the Board is seeking the support of investors in an equity raise. This capital will be deployed to put the Group on a more stable footing, in order

to: reduce its net indebtedness, enable the Group to continue to focus on delivering its improvement initiatives, support ongoing growth and remedial investment, allow a successful divestment of CE from a position of strength and provide working capital flexibility across the Group.

Return on capital employed

Return on capital employed reduced to 8.7% from 11.1% in 2017, the reduction driven principally by the decrease in profitability in the year. Excluding asset write-offs, return on capital employed reduced to 7.3% from 10.1% in 2017.

Earnings per share

Basic underlying earnings per share was 3.56p, a decrease of 44.5% from 6.42p in 2017. On a statutory basis, basic earnings per share from continuing operations decreased from a loss per share of 5.56p in 2017 to a loss per share of 14.04p in 2018.

Dividends

The Board considers dividends to be the primary method of returning capital to shareholders. In determining the level of capital to be returned by way of dividend, the Board considers a number of factors, including:

- the level of distributable reserves held by the parent company, and the availability of dividends from subsidiary companies from which the parent company derives its distributable reserves;
- projections of future cash flows, including the impact of dividends on compliance with loan covenants; and
- the risks to future cash flows and distributable reserves, which are set out in the Principal risks and uncertainties section on pages 54 to 57.

The Board reviews the availability of distributable reserves prior to the recommendation of any dividend. As at 30 November 2018, the parent company had distributable reserves of £94.6m (2017: £111.2m), equal to its retained earnings less foreign exchange within reserves.

For the financial year ended 30 November 2018, the Board has proposed a final dividend of 0.37 pence per share which will absorb an estimated £1.2m of shareholders' funds. This has not been provided for in these accounts because the dividend was proposed after the year end. If it is approved by shareholders at the Annual General Meeting of the Group to be held on 5 April 2019, it will be paid on 10 April 2019 to Ordinary Shareholders who are on the register of members at 15 February 2019. The dividend will not be payable on the new shares issued in the anticipated equity raise. The Company's distributable reserves at November 2018 provide around 20 years' cover for dividend payments at the current rate.

Pensions

The Group has a number of defined benefit schemes in place which are accounted for in accordance with the requirements of IAS 19 Employee Benefits (revised). At 30 November 2018, the UK scheme showed a surplus of £11.0m (2017: surplus of £10.0m). The increase in the surplus was driven by net actuarial gains of £1.9m (principally from changes in key financial assumptions) and contributions paid of £3.0m, partially offset by the £4.0m additional liability which has arisen following the recent court ruling to equalise all GMP benefits (see Note 4 for further details). The Group has received legal advice that supports the recognition of this surplus as an asset on the balance sheet.

The net deficit in the Group's overseas schemes in Belgium, Germany and the USA decreased to £10.7m (2017: £12.2m) mainly as a result of favourable changes to financial and demographic assumptions.

Brexit

We continue to monitor the potential impact of the UK's vote to leave the European Union. The UK represents a small percentage of the Group's sales (around 5%, 50% of which originate from UK-based entities), and we have one relatively small UK manufacturing facility. As you would expect, we are working diligently with customers and suppliers to minimise any potential disruption to our supply chain and to our customers.

Additionally, the fluctuations in exchange rates arising from the uncertainty caused by Brexit may have an impact on the Group's Sterling results. The sensitivity of the Group's profit to changes in exchange rates can be seen in Note 20.

Ian Ashton

Group Chief Financial Officer

30 January 2019

EFFECTIVE RISK MANAGEMENT

RISK MANAGEMENT STRUCTURE

The Group faces a variety of risks which, were they to materialise, could affect the delivery of its strategic objectives or the safe and efficient running of its operations. The Group has an established risk management framework which is designed to identify, evaluate and mitigate the risks and uncertainties facing the Group and to embed effective risk management into the culture and behaviour of its employees. Within this framework, we classify risks into four distinct categories according to their potential impact on the Group: strategic, operational, financial and compliance.

Risk oversight

The Group's principal risks and uncertainties, as set out on pages 54 to 57, are evaluated by the Board of Directors, Audit Committee and Risk Oversight Committee. Principal risks are allocated to the relevant Board or Committee based on the probability of the risk occurring and the impact it would have on the Group.

The risks managed by the Risk Oversight Committee are reported by the Audit Committee to the Board, in addition to the work undertaken by the Board.

Delegation of risks

Group risks are delegated as follows:

Board of Directors

Responsible for the oversight of risk management as a whole, with specific responsibility for political risks, take-over risks, funding and capital, acquisitions, regulatory and compliance issues and investor relations. The Board in turn delegates responsibility for addressing individual risk issues to the Audit Committee, Risk Oversight Committee and Health, Safety and Environment Committee.

Audit Committee

The Audit Committee has delegated authority from the Board for the control of funding and capital, financial controls, valuation and reporting in respect of treasury matters.

Risk Oversight Committee

The Risk Oversight Committee is responsible for risks in the areas of information security, major physical or operational incidents, raw materials, product failure, new product development, competition, customers, employees and regulatory and compliance issues.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee is responsible for risks in the areas of health and safety and the environment.

Internal audit function

The internal audit function is outsourced to PwC. As a result of this PwC are invited to present at Audit Committee meetings and are in regular contact with the Group Chief Financial Officer and Group finance function.

Internal financial control framework

In addition to the risk review process and the internal audit work, the Group operates within an established internal financial control framework, which can be described under three headings:

- 1. Financial reporting:** a comprehensive budgeting system with an annual budget approved by the Board. Monthly actual results are reported against budget together with revised forecasts for the year (as necessary);
- 2. Operating unit controls:** financial controls and procedures including information system controls are detailed in our Group Policies. All Global Business Unit directors are invited to Risk Oversight Committee meetings to offer insights into their area of the business and to contribute their views on the wider Group risk register; and
- 3. Investment appraisal:** the Group's Investment Board considers the allocation of capital across the Group, manages the ongoing capex budget and allowances and instigates post-investment reviews where appropriate.

Risk identification

Risk registers are held by each Global Business Unit, at each manufacturing site and also for the Group. The Global Business Unit risk registers are assessed, discussed and updated at Global Business Leadership Team meetings. The registers document existing and emerging risks and assess their potential significance and likelihood of occurrence. The Group risk register collates the risks identified in Global Business Units and manufacturing sites together with certain strategic risks managed at Group level. The Group risk register is reviewed by the Board annually.

Risk mitigation

The risk registers ensure that each key risk has a mitigation process developed for it and set out:

- the probability and impact of the risk identified;
- the Group's risk mitigation strategy;
- who is accountable for the mitigation;
- which committee or board will monitor the ongoing mitigation step(s); and
- the frequency of review of the mitigating steps.

Legal risk compliance

The Group values its reputation for ethical behaviour and for financial integrity and commits to carrying out business fairly, honestly and openly. We do not tolerate bribery in our dealings; it is illegal and harmful for business. Any involvement with improper inducements in order to secure business or gain any advantage for a Group company or our employees reflects adversely on our image, reputation and undermines the confidence of our customers and other business partners in us.

Anti-bribery compliance

We seek to eliminate bribery in our business dealings by:

- setting out a clear Anti-Bribery Policy;
- training all of our employees so that they can recognise and avoid the use of bribery by themselves and others;
- encouraging our employees to be vigilant and to report any suspicion of bribery through suitable channels of communication; and ensuring sensitive information is treated appropriately;
- rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution; and
- taking firm and vigorous action against any individual(s) involved in bribery.

Competition compliance

The Company is committed to ensuring that all employees comply with all competition legislation. To ensure that relevant employees are aware of the issues and receive the appropriate level of training and information, the Group has a personalised online competition compliance training programme which all relevant personnel within the Group are required to complete on a regular basis.

Criminal Finances Act 2017

The Company has conducted a risk assessment regarding failure to prevent the criminal facilitation of tax evasion and has implemented a Group policy and mitigation processes.

The role of the Risk Oversight Committee

The Committee's roles and responsibilities are set out in its terms of reference, which are reviewed annually and approved by the Audit Committee.

Membership and attendees at meetings

The Risk Oversight Committee meets at least three times a year.

The Group Chief Financial Officer is the Committee Chairman and members include the Group Chief Executive Officer, members of the Executive Leadership Team as determined by the Group Chief Executive Officer from time to time, the Director of HSE and the Director of IT. Other senior managers are invited to present at meetings as and when appropriate.

During the year, the Committee had a change of Chairman following Philip de Klerk's appointment as Group Chief Executive Officer and the appointment of Simon Webb in April 2018. From December 2018 the role of Chairman passed to Ian Ashton following his appointment as Group Chief Financial Officer and the resignation of Simon Webb.

Reporting to the Board

The work of the Committee is discussed at each Audit Committee meeting. The Audit Committee Chairman then updates the Board on the work of the Audit and Risk Oversight Committees as appropriate.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed annually. This review includes an assessment of its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness. Any changes it considers necessary are recommended to the Audit Committee for approval.

VIABILITY STATEMENT

The Directors have assessed the viability of the Group over a three-year period, taking into account the Group's position at 30 November 2018 and the potential impacts of the principal risks over the review period. These risks are set out on pages 54 to 57. Whilst previously a period of five years was chosen, in the light of the recent volatility in the Group's results, and recognising the reduction in reliability of forecasts the further out they extend, the Directors have determined that a three-year period is an appropriate period over which to assess viability.

The assessment of viability has been conducted by modelling a severe, but plausible, downside financial case. To determine the downside case, management considered the principal risks of the Group, and adjusted the Group's base case financial model to reflect a severe, but plausible, impact arising from these risks.

The base case forecasts which underpin this assessment are based on the approved 2019 budget, and reflect an assumed growth in sales volumes of B&I and I&T, an increase in profitability of Civil Engineering, following the operational improvement actions undertaken by management, and an improvement in profitability of CTT reflecting the progress made during 2018 to resolve the production consistency issues that have been experienced. The benefit of the planned disposal of Civil Engineering has not been included, and represents upside to the projections. The forecasts reflect an increase in raw material prices from 2018, and also reflect the net debt benefit of the working capital management actions taken each six months, at levels broadly similar to the amounts delivered in 2018.

Under the Group's base case projections, the Group has headroom over its financial covenants and sufficient access to liquidity to pay its debts as and when they fall due.

In stress-testing the Group's financial viability, the following key risks were reflected:

- A slowdown in the markets and segments in which the Group operates was considered, resulting in revenue growth of only 1% in 2019 and 2% in the years thereafter
- A substantial increase in raw material prices and a reduced ability to recover these price increases from the Group's customers
- A deterioration in terms from key suppliers, leading to increased working capital at covenant test dates.

The risks modelled resulted in a significant decline in the Group's profitability from the poor result seen in 2018.

The Directors considered mitigating actions that could be employed when reviewing these scenarios, and applied these to the scenario modelled. These mitigating actions available mainly include further overhead and fixed manufacturing cost reductions, reductions in capital expenditure to the minimum levels required to ensure safe and reliable operation of the assets, reduction in dividend payments, and a reduction in production, leading to inventory consumption to service customer demand. These mitigating actions were consistent with the steps taken by the Group during the last economic downturn in 2008-2010.






Notwithstanding the actions available, the Directors concluded that the receipt of proceeds from the anticipated equity raise are required to ensure compliance with the net debt to adjusted EBITDA leverage ratio contained in its key loan facilities. The equity raise is subject to a shareholder vote, and the underwriting agreement is subject to the customary conditions, which are outside the control of the Company. The Directors have also considered the risks attached to the equity raise not taking place, including appetite in the market as a result of Brexit. These represent a material uncertainty on the completion of the equity raise, and may cast doubt over the Group's ability to continue as a viable concern.

However, the Directors are confident that the equity raise will be approved by shareholders, and the net proceeds will be received, and have therefore taken these net proceeds into account in its assessment of viability.

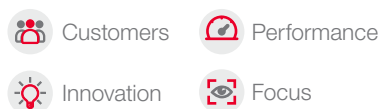
Based on this assessment, including the results of the enhanced stress-testing and associated mitigating actions, the Directors confirm:

1. 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 and liquidity; and
2. 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 November 2021.

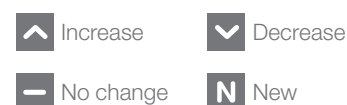
Our principal risks and uncertainties

	Risk	Risk change	Mitigating strategy	Strategic pillars
Strategic	<p>Global activity</p> <p>The Group may be adversely affected by global economic conditions, particularly in its principal markets in mainland Europe and North America. The volatility of international markets could result in reduced levels of demand for the Group's products, a greater risk of customers defaulting on payment terms, supply chain risk and a higher risk of inventory obsolescence.</p> <p>Changes in international trade regulations or tariffs could potentially disrupt the Group's supply chains. While the UK represents only a small part of the Group's sales, Brexit may impact the Group through the creation of uncertainty leading to potential diminished customer confidence and restrictions on capital. Volatile exchange rates could also have an impact on the translation of the Group's reported results.</p>		<p><i>Global Business Units monitor their own markets and are empowered to respond to changing conditions. Production costs may be flexed to balance production with demand, including the use of short-time working arrangements where available. Further actions, such as reducing the Group's cost base and cancelling or delaying capital investment plans, are available to allow continued profitability and cash generation in the face of a sustained reduction in volumes.</i></p> <p><i>The Group also has a broad base of customers. Group policies endeavour to ensure that customers are given an appropriate level of credit based on their trading history and financial status, and a prudent approach is adopted towards credit control. Credit insurance is used where available and considered appropriate.</i></p> <p><i>Procurement managers endeavour to mitigate supply chain risk by identifying and qualifying alternative sources of key raw materials.</i></p> <p><i>Potential changes to international trade regulations are monitored to try and anticipate and mitigate their impact.</i></p> <p><i>We are working with customers and suppliers to minimise any potential disruption to our own supply chain and to customers following the UK's withdrawal from the EU.</i></p>	
Strategic	<p>Organic growth/competition</p> <p>The markets in which the Group operates are competitive with respect to price, geographic distinction, functionality, brand recognition, marketing and customer service.</p>		<p><i>The Group has chosen to operate in niche markets within the technical textile industry, using proprietary technology to manufacture products which are important determinants of the performance and/or efficiency of our customers' final products or processes.</i></p> <p><i>Significant resources are dedicated to developing and maintaining strong relationships with our customers, and to developing new and innovative products which meet their precise needs.</i></p> <p><i>Innovation pipelines are Global Business Unit-led and managed through a stage-gate process.</i></p>	 

Impact on strategy






Risk key



	Risk	Risk change	Mitigating strategy	Strategic pillars
Strategic	Cyber security Disruption to or penetration of our information technology platforms could have a significant adverse effect on the Group.	—	<p>The Group's information technology resources are continuously monitored and maintained, and safeguards are in place to provide security for our networks and data. Training programmes are also in place and undertaken by relevant members of staff.</p> <p>The Group's IT Code of Conduct and Information Security Policy endeavour to ensure that employees are aware of any threats and the processes in place to mitigate these risks.</p>	
Strategic	Growth strategy The Board believes that organic growth is an important consideration for the Group. The Board reviews growth opportunities as they arise. The Board's acquisition strategy is based on appropriate acquisition targets being available. Following any acquisition it is intended that any company is integrated as quickly as possible.	—	<p>When considering growth, the Board is focused on profitable, cash-generative organic growth, supplemented by acquisitions where appropriate. Enhanced market segmentation combined with innovation supports our organic growth ambition.</p> <p>Acquisitions are considered based on clearly defined criteria in existing or adjacent segments where products and technologies are understood. Acquisitions are only considered following full pre-acquisition due diligence checks.</p>	
Operational	Business continuity The occurrence of major operational problems could have a material adverse effect on the Group. These could include risks of fire or major environmental damage such as hurricanes.	—	<p>The Group has process controls and maintenance programmes designed to mitigate the risk of problems arising. These are supported by regular site audits. Crisis response procedures are in place to minimise the impact of any disruption to operations. Where appropriate, we insure against any financial risk impact.</p>	
Operational	Employee The Group is reliant on its ability to attract, develop and retain talented leaders, professionals and specialists throughout the organisation. Changes in our ways of working and initiatives could potentially cause disruption/confusion to employees leading to loss of key staff.	^	<p>Employees are recruited and regularly appraised through a performance management system. This is directly linked to both rewards and developmental outcomes. HR policies are in place covering aspects of employment across the Group. We are committed to effective communication and regularly engage with employees.</p> <p>The Group has a communication process in place whereby changes to the Company's ways of working or initiatives are cascaded down the organisation in a timely way.</p>	

Principal risks and uncertainties continued

	Risk	Risk change	Mitigating strategy	Strategic pillars
Operational	<p>Operations</p> <p>The Group, like many other companies, can be affected by actual, possible or perceived defects, failures or quality issues associated with its products which could lead to product litigation, including product liability claims, or negative publicity.</p>	N	<p><i>The Group manages its risk by insuring, where possible, its exposure to product liability claims.</i></p> <p><i>The Group also attempts to reduce the risk of exposure by its design and quality control processes and through its terms and conditions of business.</i></p> <p><i>A significant product liability claim, whether or not it results in any liability to the Group, as well as a decline in the number of orders could have a material adverse effect on the Group's business, financial condition, prospects and operations.</i></p>	
Operational	<p>Raw material pricing</p> <p>The Group's profitability can be affected by the purchase price of its key raw materials and its ability to reflect any changes through its selling prices. The Group's main raw materials are polypropylene, polyester, nylon, polyethylene and PVC. The prices of these raw materials are volatile and they are influenced ultimately by oil prices, as well as the balance of supply and demand for each polymer.</p>	↗	<p><i>The Group has a procurement team with expertise in polymer purchasing and who seek to use a number of suppliers where possible, to ensure a balance between competitive pricing and continuity of supply.</i></p> <p><i>The Group's focus on operating efficiencies and the strength of its product propositions enables some of the effect of raw material cost fluctuations to be successfully managed.</i></p> <p><i>Innovation, technology differentiation and customer focus will partially offset increased price competition in certain markets.</i></p>	
Financial	<p>Treasury</p> <p>Foreign exchange is the most significant treasury risk for the Group.</p> <p>The reported value of profits earned by the Group's overseas entities is sensitive to the strength of Sterling, particularly against the Euro and the US Dollar. The Group is exposed, to a lesser extent, to other treasury risks such as interest rate risk and counterparty credit risk.</p>	—	<p><i>Group policy aims to naturally hedge transactional foreign exchange risks by buying and selling in the same currency. Policy in relation to residual risk ensures treasury activities are focused on the management of risk with high-quality counterparties; no speculative transactions are undertaken.</i></p>	

Impact on strategy



Customers



Performance



Innovation



Focus

Risk key



Increase



Decrease



No change



New

	Risk	Risk change	Mitigating strategy	Strategic pillars
Financial	<p>Funding</p> <p>The Group, like many other companies, is dependent on its ability both to service its existing debts and to access sufficient funding to refinance its liabilities when they fall due and provide sufficient capital to finance its growth strategy.</p>		<p>The Group manages its capital to safeguard its ability to continue as a going concern, to provide sufficient liquidity to support its operations and the Board's strategic plans and to optimise its capital structure. The Group's borrowing requirements are regularly reforecast with the objective to ensure adequate funding is in place to support its operations and growth plans. Compliance with the covenants associated with these facilities is closely monitored.</p> <p>In light of recent trading, and the increased risk, the Board have an increased focus on this risk mitigation.</p>	
Compliance	<p>Laws and regulations</p> <p>The Group's operations are subject to a wide range of laws and regulations, including tax, employment, environmental and health and safety legislation, along with product liability and contractual terms.</p> <p>Non-compliance with these laws and regulations could result in compromising our ability to conduct business in certain jurisdictions and exposing the Group to potential reputational damage and financial penalties.</p>		<p>The Group's policies endeavour to ensure that all applicable legal and regulatory requirements are met or exceeded in all territories in which it operates, and ongoing programmes and systems monitor compliance and provide training for relevant employees.</p> <p>The Code of Conduct is disseminated throughout the Group and compliance is reviewed on a regular basis. Our legal team manages our legal and regulatory compliance.</p> <p>Product liability risks are managed through quality control procedures covering a review of goods on receipt and prior to dispatch as well as our manufacturing processes. Insurance cover, judged appropriate for the nature of the Group's business and its size, is maintained. The Group also seeks to minimise risks through its terms and conditions of trading.</p>	
Compliance	<p>Health and safety</p> <p>The nature of the Group's operations presents risks to the health and safety of employees, contractors and visitors. Furthermore, inadequate health and safety practices could lead to business disruption, financial penalties or loss of reputation.</p>		<p>The Group's health and safety strategy aims to embed a strong and proactive health and safety culture across all aspects of our business. Health and safety matters are discussed by the Board of Directors and at Global Business Unit meetings. The Health, Safety and Environment Committee meets regularly to develop and implement Group health and safety standards and global improvement programmes, investigate incidents and near misses and share best practice through site audits and training programmes.</p>	

ENSURING HIGH STANDARDS OF CORPORATE GOVERNANCE

“ The success of our business is dependent on the Board taking decisions for the benefit of its members as a whole and in doing so having regard for all its stakeholders ”



Governance in 2018

- Many Director changes including the appointment of a permanent Group Chief Executive Officer in March 2018, the appointment of a new Chairman in September 2018 and the appointment of a new Group Chief Financial Officer in December 2018.
- Annual strategy meeting in September 2018 with the Executive Leadership Team (“ELT”)
- Board visit to Zele, Belgium in May 2018.

The Board has a wide range of responsibilities and my primary objectives are to ensure that we have the necessary skills and experience to leverage the opportunities and overcome the challenges that the Company faces, and that the Board works effectively to identify, prioritise, communicate and review the delivery of our goals. With the skills and experience in place, my specific roles are to ensure that there is the right mix of challenge and support to the Executive Directors from the Non-Executives and that the Board functions in the context of a culture that reflects strong levels of corporate governance.

Board highlights of the year

In September 2018 the Board held its annual strategy meeting and for the first time invited the full Executive Leadership Team to participate in discussions. In the year the Board visited our manufacturing site in Zele, Belgium. From this visit the Board gained a better insight into one of our Civil Engineering sites and the environment in which it operates. It is my current intention to recommend that the Board visit two sites in 2019: Arnhem, The Netherlands and Asheville, USA. During the year, the Board was responsible for the Chairman succession and to ensure a smooth transition whilst continuing to deliver against our strategy.

Culture and governance

We are committed to maintaining high standards of corporate governance and to applying the principles of good governance as set out in the 2016 UK Corporate Governance Code (the “Code”) published by the Financial Reporting Council. Following the publication of the 2018 UK Corporate Governance Code in July 2018 (“2018 Code”) the Board is reviewing the required changes to our governance structures with the aim to comply when the 2018 Code applies to the Company from the financial year commencing on 1 December 2019.

I am pleased to confirm compliance throughout the year with the Code except in respect of provision D.2.2 which requires that the Remuneration Committee has responsibility for setting the remuneration of the Chairman. At Low & Bonar, the remuneration of the Chairman is determined by the Board, excluding the Chairman, based on the recommendation of the Remuneration Committee. We feel this aids transparency as it enables the views of the Executive Directors to be taken into account in determining the Chairman’s remuneration.

The success of our business is dependent on the Board taking decisions for the benefit of its members as a whole and in doing so having regard for all its stakeholders: employees, suppliers, customers, the wider community and the environment as required by s.172 of the Companies Act 2006.

Board changes

In 2018 there were a large number of changes to the Board. As noted in the 2017 Annual Report and Accounts, on 19 December 2017 Brett Simpson resigned from the Board and as Group Chief Executive Officer but remained an employee until 30 April 2018. The Board subsequently appointed Trudy Schoolenberg, previously a Non-Executive Director of the Company, as Interim Group Chief Executive Officer with effect from 19 December 2017 until 1 March 2018 when Philip de Klerk took over the role. We also welcomed to the Board Peter Bertram as Non-Executive Director on 1 February 2018 and Simon Webb, as Group Chief Financial Officer, on 30 April 2018.

On 11 September 2018 I joined the Board as Low & Bonar's Chairman succeeding Martin Flower. Further, Ian Ashton was appointed to the Board as Group Chief Financial Officer on 10 December 2018 and Simon Webb stepped down from the Board and his position as Group Chief Financial Officer on 17 December 2018 but will remain an employee until 25 February 2019.

For further details of the current Directors see their biographies on pages 60 and 61.

Listening to our stakeholders

Effective communication with our shareholders is important to the Board. We seek to communicate our strategy and activities clearly to all our shareholders and welcome their active engagement. Details of our approach to stakeholder engagement can be found on page 76.

Objectives for the year ahead

The Board remains committed to ensuring high standards of corporate governance across the Group in all aspects of the delivery of our strategy.

Daniel Dayan

Non-Executive Chairman

30 January 2019

Alignment with the UK Corporate Governance Code 2016

Leadership

The Board and its committees have clearly defined responsibilities and are collectively responsible for the long-term success of Low & Bonar PLC.

[+ READ MORE ON PAGES 62 TO 64](#)

Effectiveness

We evaluate the balance of experience, skills, knowledge and independence of the Board to ensure we are effective.

[+ READ MORE ON PAGES 65 TO 69](#)

Accountability

We present a fair, balanced and understandable assessment of Low & Bonar's position and prospects. Our decisions are discussed within the context of the risks involved.

[+ READ MORE ON PAGES 70 TO 75](#)

Relations with stakeholders

Strong relationships with our stakeholders are crucial for the successful execution of our strategy.

[+ READ MORE ON PAGE 76](#)

Remuneration

Director remuneration is set to promote the long-term success of Low & Bonar PLC.

[+ READ MORE ON PAGES 77 TO 91](#)

The Board of Directors

Audit Committee A

Integrity of financial reporting and audit process; maintenance of internal control and risk systems.

[+ READ MORE ON PAGES 70 TO 75](#)

Nomination Committee N

Board composition; succession; Director and senior executive appointments.

[+ READ MORE ON PAGES 68 AND 69](#)

Remuneration Committee R

Executive Directors' remuneration policy; oversight of senior executive remuneration.

[+ READ MORE ON PAGES 77 TO 91](#)

A BREADTH OF EXPERIENCE AND PERSPECTIVES



Daniel Dayan

Chairman



Appointed to the Board:
September 2018

Experience: Group Chief Executive Officer of Klöckner Pentaplast Group until December 2018 and Chairman and Chief Executive Officer of LINPAC Packaging from 2015 until its acquisition by KP in June 2017. Non-executive Chairman of the Nonwovens Innovation and Research Institute Ltd from 2014-2016 and from 2005-2013 was Chief Executive Officer of global non-woven fibre producer, Fiberweb PLC. Daniel holds a degree in mechanical engineering from Cambridge University.

Board contribution: Daniel has held board positions for over ten years and brings international experience in strategy, operations and streamlining. As Chairman, Daniel is responsible for leading the Board, ensuring it operates in an effective manner and promoting constructive relations with shareholders. As Chairman of the Nomination Committee, he is responsible for reviewing and making recommendations on the Group's leadership needs.

External appointments:
Director of Dayson Enterprises Limited



Philip de Klerk

Group Chief Executive Officer



Appointed to the Board:
October 2017 as Group Chief Financial Officer then appointed Group Chief Executive Officer in March 2018

Experience: Previously Chief Financial Officer of Flybe from 2014 to 2017. Has held a number of other senior financial positions including Global Head of Financial Planning and Analysis at SABMiller and Chief Financial Officer of INEOS Olefins & Polymers Europe. Philip spent 16 years at Unilever in a range of finance roles, working in a number of countries including Benelux, United Kingdom and Switzerland. Philip has Masters degrees in Business Economics (Rotterdam) and Law (Heerlen).

Board contribution: Philip has held board positions for five years in UK listed companies and brings international and blue-chip experience. Philip is responsible for the executive management of the Group and ensuring the implementation of Board strategy and policy.

External appointments: None



Ian Ashton

Group Chief Financial Officer

Appointed to the Board:
December 2018

Experience: Chief Financial Officer of Labviva LLC, a US-based technology company. Ian worked for twenty years at Smith & Nephew plc until December 2017, undertaking various financial roles of increasing seniority in the UK, US and China. His last role was Chief Financial Officer, Global Operations and prior to that Ian served as Chief Financial Officer of their Advance Surgical Devices division. Ian is qualified as a chartered accountant and began his career at Ernst & Young.

Board contribution: Ian will be responsible, together with the Board, for overseeing the financial operations of the Group and setting its financial strategy.

External appointments: None



Trudy Schoolenberg

Senior Independent Non-Executive Director



Appointed to the Board:
May 2013 (as Non-Executive Director). Appointed Interim Group Chief Executive Officer from 20 December 2017 until 1 March 2018, returning to her Non-Executive Director role on 30 April 2018.

Experience: Director of Integrated Supply Chain and RD&I for AKZO Nobel's Paints Division until 2016. Former Vice-president of Global Research and Development at Wärtsilä Oy, having previously worked for 21 years for Royal Dutch Shell plc in roles in Strategy, Operations and R&D, mostly in its Downstream and Chemicals Businesses.

Board contribution: Trudy has over 25 years' experience in strategic and operations positions. She has been a Non-Executive Director for various manufacturing companies over the past 7 years. As Senior Independent Non-Executive Director, a position Trudy has held since November 2017, her contribution is fundamental to the successful operation of the Board.

External appointments:
Non-Executive Director and Senior Independent Director of Accsys Technologies PLC and Non-Executive Director of Spirax-Sarco Engineering Plc. Non-Executive Director of COVA.

Our Board's focus is on strategy, performance, development, risk management and corporate governance. The Board members have a wide range of skills, experience and expertise enabling them to constructively challenge our businesses and executive team.



Peter Bertram

Independent
Non-Executive Director

Appointed to the Board:
February 2018

Experience: Former Senior Independent Director and Chairman of the Audit Committee at Microgen plc and Non-Executive Chairman of Phoenix IT Group plc having previously worked in a variety of Non-Executive Director, CEO and senior finance roles. Peter is a Fellow of the Institute of Chartered Accountants in England and Wales.

Board contribution: Peter brings more than 30 years' experience in PLC Director roles in multinational companies, predominantly in the IT and technology, media and financial sectors.

External appointments: Non-Executive Chairman of Zinc Media Group plc, Hobs Group Limited and Manolete Partners PLC. He is also a member of the Advisory Committee of Sterling Strategic Value Fund (SSVF), a shareholder in Low & Bonar PLC, but in line with an agreement with Low & Bonar is not involved in any decisions at SSVF concerning the Company.



Kevin Matthews

Independent
Non-Executive Director

A N R

Appointed to the Board:
April 2015

Experience: Former Executive Chairman of Itaconix plc (2018) and previously CEO from 2014. Chief Executive Officer of Isogenica Limited (2009-2014), non-executive director of Elementis PLC (2005-2014), and Chief Executive Officer of Oxonica plc (2001-2009). His earlier experience was in Rhodia SA, Albright & Wilson plc and ICI plc. He has a doctorate in Chemistry from Oxford University and was awarded the Financial Times Non-Executive Director Diploma in 2013.

Board contribution: Kevin has over 13 years' experience in Non-Executive Director roles predominantly in the technology and manufacturing sectors. In parallel, Kevin has had a successful career as CEO in a variety of high-growth technology businesses in performance materials and biotechnology. Kevin became Chairman of the Remuneration Committee on 1 April 2016, and as such he is responsible for reviewing and making recommendations on the Remuneration Policy and overseeing its implementation.

External appointments: None



Mike Powell

Independent Non-Executive
Director

A N R

Appointed to the Board:
December 2016

Experience: Former Group Finance Director of BBA Aviation plc, Chief Financial Officer of AZ Electronic Materials plc and Group Finance Director of Nippon Sheet Glass Co. Limited, having previously worked for 15 years in a variety of senior finance roles for Pilkington plc. Mike is a member of the Chartered Institute of Management Accountants.

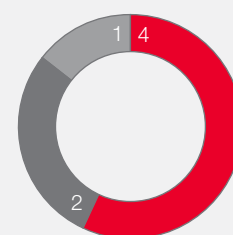
Board contribution: Mike has significant experience from working in various senior finance roles, predominantly in the buildings, aviation, chemicals and manufacturing sectors. Mike became Chairman of the Audit Committee on 12 April 2017, and, as such, is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

External appointments:
Group Chief Financial Officer of Ferguson plc.

Key to Committees

- A** Audit
- N** Nomination
- R** Remuneration
- Committee Chair

Tenure of Non-Executive Directors as at 30 November 2018



0-1 years	57%
2-5 years	29%
5+ years	14%

Post-year-end changes

With effect from 10 December 2018, Ian Ashton joined the Board as Group Chief Financial Officer and on 17 December 2018 Simon Webb stepped down from the Board and his position as Group Chief Financial Officer.

With effect from 17 January 2019, Peter Bertram was appointed as a member of the Audit, Nomination and Remuneration Committees.

Governance structure

Board of Directors

Chairman	Senior Independent Director	Non-Executive Directors	Group Chief Executive Officer	Group Chief Financial Officer
<p>Leads the Board, sets the agenda and promotes a culture of open debate between Executive and Non-Executive Directors</p> <p>Regularly meets with the Group Chief Executive Officer and other senior leaders to stay informed</p> <p>Ensures effective communication with shareholders</p>	<p>Provides a sounding board for the Chairman and appraises his performance</p> <p>Acts as an intermediary for other Directors if needed</p> <p>Available to respond to shareholder concerns when contacted through the normal channels is inappropriate</p>	<p>Contribute to developing strategy</p> <p>Scrutinise and constructively challenge the performance of management in the execution of our strategy</p>	<p>Leads the business, implements strategy, proposes and chairs the Executive Leadership Team meetings and is responsible for overall performance delivery.</p>	<p>Responsible for the preparation and integrity of financial reporting</p>

Board committees

Market Disclosure Committee	Audit Committee	Nomination Committee	Remuneration Committee
<p>Role: Disclosure of information procedures required by UK accounting, statutory or listing requirements.</p> <p>+ MORE DETAILS ON PAGE 63</p>	<p>Role: Integrity of financial reporting and audit process; maintenance of internal controls and risk systems.</p> <p>+ MORE DETAILS ON PAGES 70 TO 75</p>	<p>Role: Board composition; succession; Director and senior executive appointments.</p> <p>+ MORE DETAILS ON PAGES 68 AND 69</p>	<p>Role: Executive Directors' Remuneration Policy; oversight of senior executive remuneration.</p> <p>+ MORE DETAILS ON PAGES 77 TO 91</p>

Management committees

Risk Oversight Committee	Executive Leadership Team (ELT)	Investment Board	HSE Committee
<p>Role: Group risk management strategy and policies</p> <p>+ MORE DETAILS ON PAGES 52 AND 63</p>	<p>Role: Responsible under the leadership of the Group Chief Executive Officer for the performance of the business.</p> <p>+ MORE DETAILS ON PAGE 63</p>	<p>Role: Group allocation of capital; capex budget and allowances; post-investment reviews.</p> <p>+ MORE DETAILS ON PAGE 63</p>	<p>Role: Group HSE standards and policies; risk management of health, safety and environmental matters.</p> <p>+ MORE DETAILS ON PAGE 41</p>

+ FOR BOARD BIOGRAPHIES SEE PAGES 60 AND 61

+ FOR MATTERS RESERVED OF THE BOARD AND OUR COMMITTEE TERMS OF REFERENCE SEE OUR WEBSITE AT: [INVESTORS.LOWANDBONAR.COM/CORPORATE-GOVERNANCE](http://investors.lowandbonar.com/corporate-governance)

The Group's governance structure supports our culture, values and our commitment to good corporate governance.

The role of the Board

To provide entrepreneurial leadership of the Group and be responsible for its long-term success. To set the Group's values and standards and ensure its obligations to its shareholders and stakeholders are understood and met. To create value for shareholders, to set the Group's strategic objectives, to ensure that the necessary financial and human resources are made available to enable it to meet those objectives and to review executive management performance; all within a framework of prudent and effective controls which enable risk to be assessed and managed.

Matters reserved for the Board

The Board maintains a schedule of matters reserved for its approval on a range of key issues. This schedule is available on the Company's website (investors.lowandbonar.com/corporate-governance) and is regularly reviewed and updated.

Board committees

To assist the Board in discharging its responsibilities it has established three Committees (Audit, Nomination and Remuneration) with delegated authority. Each of the Board Committees' terms of reference are available on our website (investors.lowandbonar.com/corporate-governance) and reports from each of the Committees for 2018 are included in this Annual Report and Accounts.

The Board has also established a Market Disclosure Committee, a sub-committee of the Board, to ensure compliance with all requirements relating to the disclosure of information required by UK accounting, statutory and listing requirements.

Management committees

Management committees also form an important part of our overall governance framework. Our most senior management committee is the ELT which is responsible under the leadership of the Group Chief Executive Officer for the performance of the business. Its members include the Business Unit Directors and key heads of functions. The Group Chief Executive Officer and ELT are supported in capital investment matters by the Investment Board which reviews the Group allocation of capital, manages the capex budget and allowances and carries out post-investment reviews. The HSE Committee also supports the Group Chief Executive Officer and the ELT by determining the Group's HSE standards and policies and driving the risk management of health, safety and environmental matters.

The Audit Committee is supported in the discharging of its duties by the Risk Oversight Committee. The Risk Oversight Committee supports and drives the Group's risk management strategy and policies. Further details on the Risk Oversight Committee are given on page 52.

GOVERNANCE IN ACTION

Board meeting in Belgium

In May 2018 the Board went to Zele, Belgium which gave the Directors the opportunity to visit our Belgian manufacturing site and meet our Belgian management team. The visit provided the Directors with a better insight into our Belgian business and the environment in which it operates.

Board meetings

The Board held nine scheduled meetings and 11 ad hoc meetings during the year with full Director attendance at all meetings. For further information see the table below.

In 2018 all members of the ELT attended the Board's strategy meeting to present on the proposed five-year strategy for the business and confirm performance forecasts for their business or function. Additionally, from time to time members of the ELT attend Board meetings to update the Board on their business or function's current performance and key projects. Following the joint Board/ELT strategy meeting, in September 2018 a separate session for the Board was held to consider and approve the strategy for the Group. It was agreed that this should be discussed separately from Board meetings so that adequate time could be given to this vital aspect of its role away from normal business.

Board attendance

The attendance of the Directors at Board meetings held between 1 December 2017 and 30 November 2018 was as follows:

Director	Meetings attended
Daniel Dayan	2/2*
Philip de Klerk	9/9
Simon Webb	6/6*
Trudy Schoolenberg	9/9
Peter Bertram	7/7*
Kevin Matthews	9/9
Mike Powell	9/9

* Director attendance at scheduled Board meetings was dependent on their appointment date. Ian Ashton joined the Board on 10 December 2018 and as such is not included in this table.

2018 Board activities

Area of focus	Activity
Leadership	<ul style="list-style-type: none"> ■ Externally facilitated Board and committee evaluation ■ Visit to the Zele, Belgium manufacturing site ■ At every meeting received updates from the committee chairmen
Focus and growth	<ul style="list-style-type: none"> ■ Investment approvals ■ M&A agenda including proposed disposal of Civil Engineering Global Business Unit
People and culture	<ul style="list-style-type: none"> ■ Agree revised Company values ■ Agree the Board Diversity Policy ■ Succession planning for Non-Executive and Executive Directors ■ Approve the Low & Bonar Group Code of Conduct ■ At every Board meeting received the health and safety report ■ Endorse organisational structure changes
Strategy and performance	<ul style="list-style-type: none"> ■ Presentations from the Executive Leadership Team on: <ul style="list-style-type: none"> ■ Coated Technical Textiles ■ Interiors & Transportation ■ Civil Engineering ■ Review Post-Implementation Reviews for major investments ■ At every Board meeting receive the Group Chief Executive Officer's and Group Chief Financial Officer's reports ■ Agree the Group's annual budget and five year strategic plan
Governance	<ul style="list-style-type: none"> ■ Annual review of Directors and Officers Insurance ■ Discussed the Group's approach to the General Data Protection Regulations ■ Update the Company's Articles of Association ■ Review and approve updated delegation of authority policy ■ Approve the revised Low & Bonar Whistleblowing Policy ■ Presentation on the Company's Modern Slavery Act Statement 2018 ■ At every Board meeting receive a Company Secretarial and Governance update ■ Full and half year preliminary results approvals ■ At each meeting review current litigation matters
Risk and regulatory	<ul style="list-style-type: none"> ■ Group Risk Register ■ Update on the Group's principal risks
Investor relations	<ul style="list-style-type: none"> ■ Review shareholder engagement ■ Agree the Dividend Policy and propose final and approve interim dividends ■ Approve the Annual Report and Accounts and Notice of AGM

Independence of Non-Executive Directors

The Board reviews the independence of its Non-Executive Directors annually as part of its Board evaluation and also on the appointment of and change in circumstances of any Non-Executive Director. The Board considers that all the Non-Executive Directors bring strong independent oversight and demonstrate independent thought and judgement. Biographical details for both the Executive and Non-Executive Directors are set out on pages 60 and 61.

Peter Bertram, who joined the Board in February 2018, was initially determined by the Board to be non-independent given his involvement and role as a member of the Advisory Committee of Sterling Strategic Value Fund (SSVF), a significant shareholder of the Company. Following Peter Bertram's annual independence review in November 2018 the Board determined that he could now be deemed independent. This determination was based on the following factors: the Board does not believe that the circumstances around his appointment to the Advisory Committee are likely to affect or could appear to affect his judgement, the Advisory Committee only meets a maximum of four times a year, the Committee has no ability to make investment decisions for SSVF, Peter Bertram has never had another role with SSVF, ongoing feedback has been voluntarily provided by SSVF confirming that he recuses himself from discussions about the Company at Advisory Committee meetings, and likewise he does not participate in any Company discussion on SSVF.

Trudy Schoolenberg joined the Board in 2013 and was appointed Senior Independent Director in 2017. Following Trudy Schoolenberg's ten-week appointment as Interim Group Chief Executive Officer the Board felt it prudent to carry out an independence review to ensure it was appropriate that she returned to her Senior Independent Director role. The Board determined that she remained independent based on the following factors: she did not receive any incentives for her Interim Group Chief Executive Officer appointment nor any other benefits an employee would be entitled to i.e. pension or share plan participation and her length of tenure in the role was very brief.

In September 2018 Martin Flower retired from his position as Chairman of the Board after a tenure of 11 years. Daniel Dayan succeeded him and was determined independent on appointment. In order to strengthen the independence of the Non-Executive Directors, scheduled Non-Executive Director only meetings are planned into the Board timetable, and ad hoc meetings take place as necessary. At every Audit Committee meeting there is also time scheduled for the Non-Executive Directors to meet with the internal and external auditors without the Executive Directors present.

Board evaluation, induction and training

The Board recognises that it continually needs to monitor and improve its performance. This is achieved through an evaluation of its own performance, that of its main committees and also annual director appraisals, full induction of new Board members and ongoing Board development. Appraisals are conducted by the Chairman for the Group Chief Executive Officer and, following discussions with the other Non-Executive Directors, by the Senior Independent Director for the Chairman. Following this formal evaluation, it is confirmed that the performance of each of the Directors continues to be effective and each continues to demonstrate commitment to the role.

2018 Board and Committee evaluation

The Board usually completes internal evaluations annually in line with best practice as the Company is not a constituent of the FTSE350 and therefore an external Board evaluation is not compulsory. As reported last year, in 2018 the Board determined that it would be beneficial to conduct an external Board and committee evaluation. As such Clare Chalmers Limited, an external facilitator with no connection to the Company, was engaged to lead our 2018 review.

2018 external Board and committee evaluation process:

Stage 1:	Stage 2:	Stage 3:	Stage 4:	Stage 5:
Observations	Interviews	Results collated, reported and evaluated	Discussion with the Chairmen and Board	Action plan agreed
Two individuals from Clare Chalmers Limited observed meetings of the Board and each of the three main committees.	The Board agreed the topics for the evaluation following consideration of the desired outcomes and the FRC's guidelines. Each Director together with the Company Secretary, Group General Counsel and Group M&A and Strategy Director were invited to one-to-one interviews with the external facilitator. Agendas for these meetings were circulated in advance to enable interviewees to consider the topics for discussion.	A report was compiled by Clare Chalmers Limited on the basis of the observations and the information and views supplied by the interviewees. All points were unattributed.	Draft conclusions are discussed with each of the Board Chairmen individually and then with the Board as a whole.	Clare Chalmers Limited facilitated the Board's evaluation action planning meeting and gave clarity on its report as required. The Board identified a long-list of actions and thereafter the Group Chief Executive Officer, Group Chief Financial Officer and Company Secretary were requested to consider the list and agree the actions to be progressed in 2018.

Board action plan from the 2018 Board and Committee evaluation

The conclusions of the 2018 review were generally positive and, with a number of areas for improvement. On the whole the Board and its committees operate effectively, and each Director contributes to the overall effectiveness and success of the Board.

Set out below are the Board recommendations following the evaluation together with details of the actions taken:

Board and Committee papers

Recommendations were made on improving the quality of Board papers further by: including additional financial information and progress against KPIs; imposing tighter deadlines for the submission of papers; and creating a standard Board paper template to ensure all salient points are captured. These points were actioned through revisions to the CFO Report to the Board, increased Executive Director support for the need to produce papers early to enable a full review by the Company Secretary, and the creation and dissemination of a number of Board paper templates.

ELT interaction with the Board

Recommendations were made for the inclusion of the ELT in the 2018 Board strategy meeting, an increase in the frequency of ELT presentations to the Board and an improvement in the quality of the pre-read papers. It was also recommended that the ELT are involved in the Group's risk management to ensure ELT and Board alignment. In September 2018 the Board held its first joint ELT and Board strategy day. The quality of submissions from the ELT has raised the standard of papers and the ELT are now full members of the Risk Oversight Committee with its quarterly meetings aligned to the timing of ELT meetings.

Company culture

Recommendations were made on enhancements to our Company culture including conducting an employee survey with feedback given to the Board and a review of the Company's values and behaviours. In June 2018 the Leadership Conference, a conference of the top 65 senior managers within the Company, debated and agreed upon an updated set of values and behaviours which were rolled out across the Group in July 2018.

Board development

The Chairman is responsible for ensuring that all Directors receive ongoing training and development and alongside this our Non-Executive Directors are conscious of the need to remain informed on current issues.

At each Board meeting the Company Secretary provides an update on current legal and governance matters. Alongside this all Directors have access to the Company Secretary and can, at the Company's expense, seek independent professional advice where they judge it necessary to discharge their responsibilities. No independent advice was sought in the 2018 financial year.

The Company Secretary also:

- assists the Chairman in organising induction and training programmes and ensuring all the Directors have full and timely access to all relevant information;
- ensures that the correct Board procedures are followed; and
- advises the Board on corporate governance matters.

The removal of the Company Secretary is a matter for the Board as a whole.

Board induction

All Directors, on joining the Board, receive a tailored induction covering their duties and responsibilities as Directors. In the year inductions were arranged for Daniel Dayan, Simon Webb, Peter Bertram and Ian Ashton. Ian Ashton, and Simon Webb before him, met with the Group Chief Executive Officer, Executive Leadership Team and other senior management as well as spending time visiting Group manufacturing sites and receiving an induction pack of key business and governance papers. Peter Bertram received a full briefing document on all areas of the Group's business, key policies and governance matters. All new Directors may request further information as they consider necessary as part of their induction and on an ongoing basis thereafter to enable them to carry out their duties.

Nomination Committee report



COMMITTEE MEMBERSHIP AND ATTENDANCE

Member	Meetings attended
Daniel Dayan, Committee Chairman	N/A*
Philip de Klerk	1/1*
Trudy Schoolenberg	2/2
Kevin Matthews	2/2
Mike Powell	2/2

* Director attendance at scheduled Committee meetings was dependent on appointment dates.

As well as the 2 scheduled meetings, the Committee held 7 ad-hoc meetings during the year at which all required Committee members were present.

Key duties and role of the Committee

Key objectives and summary of responsibilities

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board, advising on succession planning and making appropriate recommendations to ensure the Board retains an appropriate mix of skills, experience, knowledge and backgrounds. The Committee is also responsible for reviewing the Group's senior executive needs.

The Committee's role and responsibilities are set out in its Terms of Reference (ToR), which are reviewed annually and approved by the Board. The Committee's ToR are available to view on our website at investors.lowandbonar.com/corporate-governance.

Membership and meetings

All members have the experience and expertise necessary to discharge the Committee's responsibilities and all but the Group Chief Executive Officer and the Chairman are independent Non-Executive Directors. When the Committee considers matters relating to the Chairman's position the Senior Independent Director acts as Chairman of the Committee.

Reporting to the Board

The Committee makes recommendations to the Board for all Director appointments and the Board is updated on matters discussed at meetings by way of updates from the Chairman of the Committee at the following Board meeting.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by the Board Chairman, and was also reviewed as part of the external evaluation process that was conducted by Clare Chalmers of Clare Chalmers Limited in early 2018 (see page 66).

Focus areas and activities

Board and Committee composition and appointments

To ensure the Board has an appropriate mix of skills, experience, knowledge and backgrounds, the Committee keeps under review the tenure and qualifications of the Non-Executive Directors and the composition of the Board. In the year the Committee reviewed Non-Executive Director time commitment and concluded that sufficient time was being made available to the Company by the Non-Executive Directors to discharge their responsibilities effectively.

As noted earlier, Peter Bertram was appointed to the Board in February 2018 whilst in September 2018 Martin Flower retired from his position as Chairman of the Board after a tenure of 11 years. I succeeded Martin Flower on 11 September 2018 to become the Group's Chairman. Simon Webb was appointed Group Chief Financial Officer with effect from 30 April 2018; however he resigned from his position as Group Chief Financial Officer on 25 September 2018 and stepped down from the Board on 17 December 2018. He remains an employee until 25 February 2019. Ian Ashton joined the Board as Group Chief Financial Officer on 10 December 2018.

As set out in our 2017 Annual Report and Accounts, Philip de Klerk was appointed to the position of Group Chief Executive Officer with effect from 1 March 2018, having been appointed Group Chief Financial Officer in October 2017.

Diversity

The Company recognises that diversity in its broadest sense is important to the Group's long-term success, and while all appointments to the Board are based on merit, experience and performance, the Board and Committees are mindful of the benefits of diversity of its management when recommending appointments to the Board. The Board's Diversity Policy is available on our website at investors.lowandbonar.com/corporate-governance.

Appointment process

When considering the recruitment of new Directors the Committee adopts a formal and transparent procedure with due regard to the skills, knowledge and level of experience required, as well as diversity. In the year, Low & Bonar appointed a new Board Chairman, Non-Executive Director, Group Chief Executive Officer and Group Chief Financial Officer. In 2018 the Company used Odgers Berndtson and Korn Ferry to support its appointment processes and/or to provide benchmarking ahead of the Committee taking its decision. The stages of the appointment process followed in each case are set out below:

Step 1

Engage each firm and agree search specification then either engage the firm to carry out the search or provide candidate benchmarking

Step 2

Agree the short-list of candidates (as appropriate)

Step 3

Interview process with Committee members and the Group Chief Executive Officer

Step 4

Recommendation to the Board from the Committee on the chosen candidate

Step 5

Draft appointment terms and agree with the selected candidate

Development and succession planning

The Committee is responsible for the succession planning for both the Board and senior executives across the Group. At each Committee meeting the Group Chief Executive Officer gives an update on the Executive Leadership Team and other senior executives.

The Board receive legal and regulatory updates from the Company Secretary at each Board meeting and annually the Committee reviews the training and development needs of each Director. The Directors also attend seminars and briefings organised by our advisers. In the year the Board received update training on the Market Abuse Regulation from our brokers Peel Hunt and our lawyers Freshfields.

The Committee is satisfied that it has in place appropriate development plans to ensure that the Company continues to maintain strong leadership and that the Board has the appropriate mix of skills, experience, knowledge and backgrounds.

Daniel Dayan

Chairman, Nomination Committee

30 January 2019

Audit Committee report



COMMITTEE MEMBERSHIP AND ATTENDANCE

Member	Meetings attended
Mike Powell, Committee Chairman	3/3
Kevin Matthews	3/3
Trudy Schoolenberg ¹	2/2*

¹ Ceased to be a member of the Committee on 19 December 2017 following her appointment as Interim Group Chief Executive Officer. Was subsequently reappointed on 30 April 2018 following her return to her Non-Executive Director role.

* The Committee held an additional 2 ad-hoc meetings during the year at which all required Committee members were present.

2018 has been a challenging year for the Group, as profitability has deteriorated and leverage increased. This has led to increased risk in respect of asset recoverability, and of course, going concern and liquidity.

This report sets out how the Committee has dealt with the significant risks and areas of judgement in the Group's financial statements, together with a description of the role and responsibilities of the Committee, and how it discharged these throughout the course of the year.

The Group has seen significant change in the position of Group Chief Financial Officer during the year. Simon Webb joined the Board on 30 April 2018; however for personal reasons stepped down from the role in December 2018. It is disappointing to see yet another change in this role as frequent changes in this role do not aid the Committee in discharging its duties optimally. I am therefore delighted that Ian Ashton joined the Group as Group Chief Financial Officer from 10 December 2018. I look forward to working with him to achieve the 2019 objectives of the Committee.

Role and composition of the Committee

Summary of the Committee's role

The Committee is appointed by the Board, and its primary function is to assist the Board of Directors in fulfilling its oversight responsibilities in monitoring the integrity of the Group's financial reporting, overseeing and reviewing the Group's internal control and risk management processes, monitoring the effectiveness of internal audit, and overseeing the relationship with the Group's external auditors.

Membership and meetings

Details of the members of the Committee as at 30 November 2018 are set out on the left.

Collectively, the Committee members have a wide range of financial and commercial skills and experience to help them discharge their duties, and I meet the requirement of recent and relevant financial experience, holding the position of Group Chief Financial Officer of Ferguson PLC and having held senior financial positions in several other companies.

The Chairman, Group Chief Executive Officer, Group Chief Financial Officer and others as required attend at least part of Committee meetings by invitation. Representatives from the Group's internal and external auditors also attend each meeting, and meet privately with myself, and with the Committee members collectively, on a regular basis.

The Committee meets at least three times a year, timed to coincide with key dates in the financial reporting and audit cycle, but as Chairman I may also call a meeting at the request of any member, the Company Secretary, or the Group's internal or external auditor.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by myself as Chairman. In addition, as I highlighted in last year's report, an in-depth external evaluation process was conducted by Clare Chalmers of Clare Chalmers Limited during the year, please refer to page 66 for the conclusions of this review.

Key responsibilities

The Committee's main duties are set out in its terms of reference and are available on the Company's website: www.lowandbonar.com.

Financial reporting

- monitoring the integrity of the Group's financial statements, including its annual and half-year results, trading statements and any other announcements containing financial information;
- reviewing significant financial reporting issues and judgements and the application of key accounting policies and compliance with accounting standards;
- reviewing the Annual Report to ensure it is fair, balanced and understandable, by ensuring appropriate weight is given to both positive and negative developments in the year, and recommending its approval to the Board; and
- reviewing the process undertaken to approve the Group viability statement and the going concern statement.

Internal control and risk management

- monitoring the effectiveness of the internal financial controls and processes;
- monitoring compliance with the UK Corporate Governance Code;
- monitoring the processes in place to detect fraud and to enable employees to raise concerns in confidence; and
- reviewing the processes by which risks are identified, managed and mitigated.

Internal audit

- reviewing, monitoring and assessing the role and effectiveness of internal audit including the scope of its audit plans and its work;

- regularly reviewing reports and issues identified in internal audit reports and management's responses to internal audit findings; and
- ensuring internal audit is adequately resourced and has appropriate authority and access to the organisation.

External audit

- managing the relationship with the external auditor;
- monitoring and reviewing the independence of the external auditor and formally evaluating their effectiveness;
- agreeing the terms of engagement, the scope of the audit and the external auditor's fee;
- reviewing the policy on non-audit services provided by the external auditor;
- making recommendations to the Board for the appointment or reappointment of the external auditor; and
- leading an audit tender process at least every ten years.

Viability and going concern statements

The Committee reviewed and challenged the assumptions within the work completed by management to assess whether the Group had access to sufficient resources to continue as a going concern for the foreseeable future, and in conducting a robust assessment of those risks that would threaten the Group's future performance or liquidity, including its resilience to the threats to viability posed by certain of those risks in severe but plausible scenarios.

Further detail on how the Committee discharged its responsibilities in respect of this area is outlined on page 73. The outcome of these assessments is shown in the going concern statement on page 109 and the Group's viability statement on page 53.

Internal audit effectiveness

During the year the Committee reviewed the results of audits undertaken by internal audit and management responses, including the implementation of any recommendations made. This work included:

- remediation of findings raised in the prior year, where it was noted that good progress had been made in remediating many of the control findings raised; however there remains more work to do during 2019 in the light of the Group's recent reorganisation;

Audit Committee report continued

- a review of inventory and production management controls and financial controls at Arnhem, which found these controls to be satisfactory;
- a post-investment review of Ivanka following the decision to close the site earlier this year; and
- a global procurement effectiveness review was commenced during the year, and will be completed shortly.

The Committee performed an annual assessment of PwC's effectiveness over the year, which found their work to be satisfactory, and approved the 2019 internal audit programme.

External auditor

As set out last year, given the duration of KPMG's tenure as auditor (over 40 years), the external audit was put out to tender during 2018. The tenure of the current lead partner, Anthony Hambleton, dates from 2015. As a result of this tender, the Committee recommended the appointment of Ernst & Young, led by UK audit partner Colin Brown, as the Group's auditor with effect from 2019. This recommendation will be put before shareholders at the Annual General Meeting in April 2019.

The performance and effectiveness of the current external auditor, KPMG LLP, was not formally reviewed by the Committee, given the change in tenure; however following discussion with Executive Directors and senior management, the Committee does not have any factors to disclose in relation to their performance in 2018.

Matters considered during the year

The Committee met three times during 2018, and has a rolling programme of agenda items to ensure that relevant matters are properly considered. The list below summarises the key items considered by the Committee during the year. The Board receives copies of the minutes of the Committee meetings and key issues covered are also reported to the subsequent Board meeting.

Financial reporting	<ul style="list-style-type: none"> ■ reviewed the Group's 2018 Annual Report and financial statements and half-year results statement and associated announcements, as well as the trading statements issued in April, September and December 2018; ■ considered the key issues and judgements made in relation to the 2018 financial statements; ■ received reports from the external auditor on their audit of the 2018 financial statements; and ■ reviewed the process and stress-testing undertaken to support the Group's going concern and viability statements.
Internal control & risk management	<ul style="list-style-type: none"> ■ reviewed an annual report on the effectiveness of the Group's internal control processes; ■ reviewed regular reports outlining the Group's progress on remediating internal control findings identified by the Group's internal auditor; ■ reviewed reports from the Risk Oversight Committee on the key risks facing the Group and the processes in place to avoid or mitigate them; ■ received reports from the provider of the Group's confidential whistleblowing service; and ■ received reports on the implementation of the Group's new enterprise resource planning ('ERP') system and the continued integrity of internal controls.
Internal audit	<ul style="list-style-type: none"> ■ reviewed the performance of internal audit and approved the 2018 work plan; ■ received internal audit reports and reviewed the implementation status of audit recommendations; and ■ reviewed and approved the 2019 internal audit plan.
External audit	<ul style="list-style-type: none"> ■ reviewed the auditor's plan for the 2018 audit, including areas of extended scope work, key risks and confirmations of auditor independence; ■ reviewed the performance of the external auditor; and ■ reviewed and approved the 2018 audit fee and reviewed non-audit fees payable to the external auditor in accordance with the Committee's policy.

Area of judgement	Response of the Audit Committee
<p>Going concern and viability</p> <p>The ability of the Group to continue as a going concern, and to maintain financial viability over a longer period, depends upon continued access to sufficient financing facilities including the completion of the equity raise. The viability statement time period has reduced from five years to three years to reflect the recent volatility in the Group's results.</p> <p>The process to assess the appropriateness of the going concern assumption, and the viability statement, are set out on pages 109 and 53.</p>	<p>The Committee assessed the forecast level of net debt, headroom on existing borrowing facilities and compliance with debt covenants. This analysis covered a range of downside sensitivities including higher raw material prices and lower demand for the Group's products.</p> <p>The Committee reviewed the time period over which the assessment of viability is made, along with the scenarios that are analysed, the potential financial consequences and the assumptions made in the preparation of the viability statement and conclusion as to the appropriateness of the going concern assumption.</p> <p>The Committee concluded that the scenarios analysed were sufficiently severe but plausible, that the equity raise has been appropriately considered in the going concern assessment and that the three-year time period of the viability statement was appropriate. The Committee was also satisfied that the disclosures in the basis of preparation note, relating to the going concern assessment of the Group, were appropriately clear and transparent.</p>
<p>Impairment of goodwill, intangible assets and fixed assets</p> <p>The Group has £28.2m of goodwill, and £160.4m of other non-current assets allocated across its four segments (being the GBUs).</p> <p>The recoverability of these balances and impairment is always an area of focus given the inherent subjectivity in impairment testing. The most significant judgements are in setting the assumptions for the calculation of the value in use of the groups of cash generating units ('CGUs'), in particular the achievability of long-term financial forecasts and macroeconomic assumptions. Details of the assumptions used are provided in Note 11 to the Group financial statements on pages 130 and 131.</p> <p>A goodwill impairment charge of £39.0m was recorded in the year to 30 November 2018 in respect of CTT goodwill and a further £3.8m in respect of the Group's ERP system and impairment of plant and equipment in Hungary.</p>	<p>Cash flow projections for each segmental grouping of CGUs were derived from the most recent budgets approved by the Board, which take into account current market conditions and the long-term average growth for each of the key markets served by the GBUs. A sensitivity analysis was performed on the base case for each GBU by varying key assumptions whilst holding the other variables constant along with a range of downside sensitivities being applied to the projections in line with the going concern assessment noted above to further stress-test the recoverable values of the CGUs. With the exception of Coated Technical Textiles, where an impairment of goodwill of £39.0m was recorded and Civil Engineering, where goodwill and intangible assets were fully written down in 2017, the recoverable amounts of the other two GBUs show headroom compared to their carrying value when reasonably likely changes are made to key assumptions.</p> <p>The Coated Technical Textiles business unit has continued to suffer from ongoing production consistency issues, and their resolution has taken longer than expected. This has resulted in a deterioration in margins, particularly in the second half of 2018. This created a high degree of uncertainty over financial forecast assumptions, particularly around future pricing, margins and cash flows, and created a wide range of potential outcomes which the Committee considered when assessing management's view of future CGU performance for impairment testing purposes at both May and November 2018.</p> <p>The Civil Engineering goodwill balance was impaired in full during 2017, and the business unit has, as a whole, performed in line with expectations since that point. However, when looking at an individual site level (as is required once goodwill has been impaired), indicators of impairment existed at the Hungary site following operating losses in the year. This has led to an impairment of £2.3m of plant and equipment being recorded.</p> <p>Additionally, following a decision to not implement the Group's ERP system into the Civil Engineering and CTT business units, a review of the expected benefits from the ERP system was conducted. As some of the benefits from the ERP system were to be obtained from its implementation into these two business units, the decision to not implement has triggered an impairment of the ERP system of £1.5m.</p> <p>The Committee discussed the assumptions underlying the cash flow projections with both management and KPMG LLP, and also considered the appropriateness of the discount rates used. Following discussions on headroom and sensitivity, the Committee was satisfied with both the impairments recognised, and their related disclosures provided in Note 11 to the Group financial statements on pages 130 and 131.</p>

Audit Committee report continued

Area of judgement	Response of the Audit Committee
<p>Recoverability of the parent company's investments in subsidiaries and loans receivable</p> <p>At 30 November 2018, the parent company has investments in subsidiaries totalling £174.8m and amounts due from subsidiaries totalling £157.6m.</p> <p>Given the downturn in results from CTT and the Group generally, the recoverability of these investments and loans receivable was considered. This resulted in an £6.2m impairment to investments and a £5.3m impairment to loans receivable. The judgements made in assessing recoverability are similar to those made in testing goodwill for impairment (refer above).</p>	<p>The Committee considered the recoverability of the parent company's investments in, and the amounts due from, subsidiaries. The assessment of recoverability was underpinned by the cash flow projections and value in use calculations used for goodwill impairment tests.</p> <p>Following the work in respect of goodwill impairment testing and discussions with KPMG, the Committee was satisfied as to the assessment of the recoverability of the parent company's investment in subsidiaries and loans receivable.</p>
<p>Non-underlying items</p> <p>The Group's criteria for recognising an item as non-underlying involves the application of judgement in determining whether an item, due to its size or nature, should be separately disclosed in the income statement. Items classified as non-underlying are excluded from the calculation of adjusted EBITDA used in the banking covenants.</p>	<p>The Committee is conscious of the significant level of non-underlying items recognised during 2018, the judgement involved in determining what items are appropriate to be classified as non-underlying, and the impact that classifying items as non-underlying has on the Group's banking covenants.</p> <p>The Committee received a report from management on the items classified as non-underlying, and challenged management on the appropriateness of their classification as such.</p> <p>The Committee also took note of KPMG's views on their appropriateness.</p> <p>The Committee concluded that the classification of these items as non-underlying was appropriate, as it enhanced users' understanding of the performance of the Company. The Committee also considered the appropriateness of the disclosures in respect of these items, and insisted on non-underlying items being included as a key judgement in the Group's accounting policies.</p>
<p>The impact of uncertainties due to the UK exiting the European Union</p> <p>The UK represents a small percentage of the Group's sales (around 5%, 50% of which originate from UK-based entities), and we have one relatively small UK manufacturing facility. However we recognise that the UK's decision to withdraw from the EU has created political, social and macro-economic uncertainty for the UK and Europe and could lead to diminished customer confidence, restrictions on the movement of capital and the mobility of personnel. Additionally, the fluctuations in exchange rates arising from this uncertainty may have an impact on the Group's Sterling results.</p>	<p>The Committee continues to monitor the potential impact of the UK's vote to leave the European Union. Although the UK is a small part of the Group's sales and manufacturing base, the inherent uncertainty arising from the UK's exit is a risk to the Group, in particular the impact of foreign exchange fluctuations on the Group's reported Sterling results.</p> <p>The Committee is satisfied that the relevant risks have been taken into consideration in the forecast cash flows supporting the going concern assessment, viability statement and recoverability of assets and have been sensitised appropriately.</p> <p>The Committee has also reviewed the disclosures in relation to Brexit, being the Principal risks and uncertainties section on page 54, the Finance review on page 49 and the basis of preparation on page 109 and conclude that there is appropriate transparency of the risks and the Group's response to these risks.</p>

Area of judgement	Response of the Audit Committee
<p>Provision and contingent liabilities relating to customs duty irregularities</p> <p>In previous periods, the Group identified irregularities in relation to customs duties which relate to sales arranged from a former overseas sales office which was closed several years ago. In 2018, the Group recognised a non-underlying charge of £1.6m and closing provision of £2.6m, which represents the Group's best estimate of the liability (both the penalty to be incurred and the related professional fees).</p>	<p>The Committee has challenged the key assessments and assumptions within the model prepared by management as well as understanding the process by which management have satisfied themselves that the £2.6m provision at 30 November 2018 is their best estimate of the likely outflow.</p> <p>The Committee has also reviewed the disclosures relating to the provision in 'Sources of estimation uncertainty' on page 115 and in Note 23 'Provisions'.</p> <p>Following this work, the Committee is satisfied that £2.6m represents managements best estimate of the provision at this time and that the key assessments and assumptions that have been considered in the model along with the impact of any reasonably possible changes to these assessments and assumptions are appropriately disclosed.</p>

Other areas of judgement

The table above covers the significant areas of judgement within 2018. The Committee notes that on pages 114 to 116 of the financial statements, taxation and retirement benefit schemes are also disclosed as critical accounting judgements and key sources of estimation uncertainty. The key judgements and sources of uncertainty in these areas relates to the valuation of uncertain tax positions, the key assumptions used in the valuation of the UK defined benefit scheme and the uncertainty prevalent in the calculation of the additional liability relating to the recent GMP equalisation ruling. The Committee has reviewed and challenged the assumptions and judgements within management's assessment of these balances and concludes that the judgements made are appropriate.

Non-audit fees

The Committee has developed a policy on the supply of non-audit services by the external auditor to ensure their independence and objectivity, which prohibits certain activities from being undertaken by the external auditor and places pre-approved limits on audit related services, above which specific approval by the Committee is required. €5,000 of non-audit fees were incurred in 2018 relating to other assurance services in the Netherlands. The Committee formally approved these services in line with their policy on the supply of non-audit services and were satisfied that the provision of services by KPMG would not impair their independence or objectivity.

It is noted that in the first quarter of the year to 30 November 2019, KPMG was appointed as Reporting Accountant in respect of the Group's equity raise. The Committee notes that this role is commonly performed by the external auditors, and is not considered an independence threat.

Performance against 2018 objectives

Objective	Response of the Audit Committee
To assist in finding and inducting a new Group Chief Financial Officer into the Group	As already disclosed on page 59, Simon Webb was recruited and joined the Board in April 2018. He subsequently stepped down from his position in December 2018 for personal reasons but we are delighted that Ian Ashton has joined the Board on 10 December 2018.
To successfully re-tender the audit	A thorough audit re-tender process was completed and concluded upon in 2018 and, as a result of this tender, the Committee recommended the appointment of Ernst & Young led by UK audit partner Colin Brown as the Group's auditor with effect from 2019.
To review and monitor the implementation of the internal control improvements noted as part of the internal audit programme	We have reviewed regular reports outlining the Group's progress on remediating internal control findings identified by the Group's internal auditor. Good progress has been made and we will continue to review regular reports throughout 2019 until all findings are remediated.
To monitor the implementation of the ERP system	During 2018, the Committee received reports on the implementation of the Group's new ERP system and the continued integrity of internal controls. As noted in Note 12, we have made an impairment of £1.5m to the Group's ERP system following a change in the expected benefits from the system. Notwithstanding this, the implementation of the elements of the ERP system that occurred in 2018 were completed to a satisfactory level.

Key objectives for next year

The Committee's key objectives for next year are:

- assisting with the induction of the new Group Chief Financial Officer and improving the quality and depth of resources across the Finance team;
- aligning the control environment with the revised organisational structure and continuing to oversee the implementation of internal control improvements, including recommendations from PwC's financial and tax controls review received in the year; and

- overseeing the relationship with the new external auditors, Ernst & Young, as we go through the transition of the audit from KPMG and into the 2019 audit.

Mike Powell

Chairman, Audit Committee

30 January 2019

Relations with stakeholders

We are committed to maintaining good communications with our stakeholders.

Shareholders

Investor roadshows

Each year we have a planned programme of investor relations activities including roadshows in London and Scotland.

Registrar helpline

Our registrar, Equiniti, have a team of people to answer shareholder queries in relation to technical aspects of their holdings such as dividend payments and shareholding balances.

Institutional investor meetings

We hold meetings with major institutional investors and financial analysts to discuss business performance and strategy. Institutional investor meetings are usually attended by the Group Chief Executive Officer and Group Chief Financial Officer together with other senior leaders as appropriate. Institutional investors also meet with the Non-Executive Chairman to discuss matters of governance. In 2018 the Group Chief Executive Officer and/or Board Chairman met regularly with significant shareholders.

AGM

Our AGM is attended by the Board and all shareholders are invited and encouraged to attend. At the AGM a summary presentation of our financial results is given by the Group Chief Executive Officer before the Non-Executive Chairman deals with the formal business of the meeting. All shareholders present are invited to ask questions of the Board during the meeting. The Board and representatives from the Company are available after the meeting to answer any additional questions shareholders may wish to ask in a more informal setting.

Annual report and accounts

We publish our full Annual Report and Accounts annually which contains a strategic report, governance section, financial statements and additional information providing information on the Company to all our stakeholders.

Results announcements

We provide half-year and full-year announcements to the London Stock Exchange updating the market on progress against strategy, Company performance and financials. Our presentation slides are also made available on our website.

Website

Our website (www.lowandbonar.com) provides a range of information on the Company. There is a section dedicated to investors which includes amongst other areas the Company's financial calendar, financial results, presentations, London Stock Exchange announcements, analyst estimates and contract information.

Board investor updates

At each meeting the Board is presented with a shareholder register analysis for discussion as appropriate, and following financial results presentations shareholder feedback is considered. The Board also receives updates on institutional investor, shareholder and financial analyst meetings and correspondence that has taken place since the last meeting. Analyst reports and media coverage are also circulated to the Board upon receipt.

Employees

Works council

The Company is required to have works councils in a number of its locations and these councils are attended by a member of the HR function and feedback is given to the Board on these meetings through the Group Chief Executive Officer.

Feedback from the Board

The Group Chief Executive Officer updates employees on key decisions of the Board through an all-employee email which is then translated and made available on site noticeboards and through our employee intranet. The Group Chief Executive Officer also regularly visits all Company sites to update employees on key messages and to seek views and feedback from employees. More details are on pages 38 and 39.

Customers

The Group Chief Executive Officer gives updates to the Board on customer relationships, customer service together with a summary of discussions following face-to-face meetings with customers.

Suppliers

The Board receives updates at each meeting on suppliers and relationship management through the CEO Report to the Board.

Remuneration Committee report



COMMITTEE MEMBERSHIP AND ATTENDANCE

Member	Meetings attended
Kevin Matthews, Committee Chairman	3/3
Daniel Dayan	1/1
Trudy Schoolenberg ¹	2/2
Mike Powell	3/3

¹ Ceased to be a member of the Committee from 19 December 2017 to 1 March 2018 during her appointment as Interim Group Chief Executive Officer.

* As well as the 3 scheduled Committee meetings, a further 5 ad-hoc meetings were held with full Director attendance.

⊕ ANNUAL REPORT ON REMUNERATION SEE PAGES 80 TO 87.

⊕ REMUNERATION POLICY (FOR REFERENCE) SEE PAGES 88 TO 91.

Annual statement by the Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 November 2018.

Remuneration Policy

Our Remuneration Policy was last put to shareholders at the AGM in 2017 and will be put to shareholders again at the AGM in 2020. Major shareholders will be consulted on any proposed policy revisions in the second half of 2019.

The Annual Report on Remuneration (set out on pages 80 to 87), describes how the policy has been implemented in 2018. On pages 88 to 91 we have set out those aspects of the policy that we consider shareholders will find most useful. The full policy as approved at, and effective from, the Annual General Meeting on 12 April 2017, is set out on pages 53 to 60 of the Company's 2016 Annual Report and Accounts which is available on the Company's website at investors.lowandbonar.com/reports-and-presentations/yr-2016.

2018 overview

2018 saw the promotion of Philip de Klerk to Group Chief Executive Officer (effective 1 March 2018) and the appointment of Simon Webb as Group Chief Financial Officer (30 April 2018). As such no inflationary increases were made to the Executive Directors' salaries. As advised in the Company's 2017 Annual Report and Accounts, Brett Simpson resigned from the Board on 19 December 2017 and Trudy Schoolenberg was appointed Interim Group Chief Executive Officer on 20 December 2017 following Brett Simpson's resignation, and held this position until 1 March 2018 when Philip de Klerk was appointed Group Chief Executive Officer (as announced on 31 January 2018). Trudy continued for a period of six weeks, following the end of her Interim Group Chief Executive Officer role, in an advisory capacity of £30,000 per month until she resumed her role as a Non-Executive Director on 15 April 2018. For details of Trudy Schoolenberg's Non-Executive Director fees see page 85.

The Group target underpin was not achieved and, therefore, no bonus is payable to the Executive Directors for 2018. Following the publication of the 2017 Annual Report and Accounts it was agreed with Trudy Schoolenberg that she would not be eligible to receive the previously confirmed (maximum £30,000) performance-related bonus, to avoid compromising her independence when returning to her Non-Executive Director role.

Remuneration Committee report continued

It was confirmed in the Company's 2017 Annual Report and Accounts that the EPS performance conditions were not met for the 2015 LTIP grant. The TSR performance period had not, at that time, concluded. A formulaic application of the TSR performance condition based on TSR averaged over a three-month period to the end of the performance period, as per the Plan Rules, would have resulted in a 50% vesting of the TSR element of the award (25% of the overall 2015 LTIP award). The Remuneration Committee considered the financial underpin, as it is entitled to do under the Plan Rules, and exercised its discretion to reduce the level of award for the 2015 LTIP to nil and as such no shares vested in respect of those awards. The Remuneration Committee believes that the application of discretion in this instance was appropriate considering the overall performance of the business and is consistent with the new Corporate Governance Guidelines that came into force on 1 January 2019.

The Remuneration Committee has for some time been keen to align Executive Directors' pension benefits with those of the senior management team and as such over the past two years pension contribution rates for the Executive Directors have been reduced from 25% to 15% of base salary.

No Executive Director who held office in the 2018 financial year held LTIP awards granted in 2016; however it is confirmed that these awards were subject to targets based on EPS, over the three-year period ended 30 November 2018, and relative TSR, over the three-year period ending 3 February 2019. The threshold level of EPS growth was not achieved, and no shares will vest in respect of that portion of the awards. The vesting of the TSR portion of the award will be assessed following the end of the TSR performance period.

In summary, the main elements of Philip de Klerk's remuneration package as Group Chief Executive Officer were:

Service agreement	12-month notice period*
Salary	£400,000
Pension	15% of salary. Although the policy approved by shareholders in 2017 permits contributions at the level of up to 25% of salary, we have set a contribution level of 15% of salary for Philip, which is comparable with the level provided to other senior employees.
Bonus	Up to 100% of salary
LTIP	Up to 125% of salary

* 6 month notice period from the Director

In summary, the main elements of Simon Webb's remuneration package as Group Chief Financial Officer are:

Service agreement	6-month notice period
Salary	£300,000
Pension	15% of salary. Although the policy approved by shareholders in 2017 permits contributions at the level of up to 25% of salary, we have set a contribution level of 15% of salary for Simon, which is comparable with the level provided to other senior employees.
Bonus	Up to 100% of salary
LTIP	Up to 125% of salary

As announced on 25 September 2018 Simon Webb notified the Company that he wished to leave the Company for personal reasons. Details of Simon Webb's leaving arrangements are set out on page 82 of this Annual Report and Accounts.

In the year the Committee also considered and approved the remuneration packages of members of the ELT in line with its terms of reference and the Committee Chairman conducted exit interviews for departing ELT members as required.

Following the year end, the Board was pleased to announce the appointment of Ian Ashton as Group Chief Financial Officer, starting on 10 December 2018. In summary, the main elements of Ian Ashton's remuneration package are:

Service agreement	12-month notice period*
Salary	£300,000
Pension	15% of salary. Although the policy approved by shareholders in 2017 permits contributions at the level of up to 25% of salary, we have set a contribution level of 15% of salary for Ian, which is comparable with the level provided to other senior employees.
Relocation Allowance	As Ian currently resides in the USA a relocation package has been provided to cover various costs related to relocation and accommodation for a period in London. The maximum reimbursement has been capped and the 2019 Remuneration Report will report on the actual costs incurred.
Bonus	Up to 100% of salary
LTIP	Up to 125% of salary

* 6 month notice period from the Director

Implementation of policy in 2019

For 2019, Philip de Klerk will be entitled to a 2.5% salary increase consistent with the average UK employee increase within the Group. Simon Webb was appointed Group Chief Financial Officer on 30 April 2018 with an annual salary of £300,000, but subsequently resigned. Ian Ashton joined the Board as Chief Financial Officer on 10 December 2018.

Low & Bonar has set out its key objectives for 2019: portfolio optimisation, profit improvement, reduction in working capital and net debt, improvement in operational efficiency and improved customer focus, strengthening the senior team and increased employee engagement. The bonus metrics for 2019 have been specifically designed to align with these key objectives. Philip de Klerk and Ian Ashton will be eligible for a bonus in 2019 with the maximum remaining at 100% of salary.

In 2018 the Remuneration Committee reviewed the Group's bonus structure as it was no longer seen as an incentive tool and as such no longer fit for purpose. Following this review the Remuneration Committee agreed to change the performance conditions and associated weightings for the 2019 bonus. The new performance conditions will comprise of profit targets, working capital targets and personal targets of strategic relevance to the Group with performance testing taking place at half-year and full-year with any payment to the Executive Directors being made after each financial year-end. The Remuneration Committee can choose to adjust the size of any bonus award as it deems necessary in accordance with the scheme rules. These targets were selected as it was felt that these will help drive performance against our strategy and KPIs, which in turn increase shareholder value. 20% of the bonus opportunity will be based on an EBITA target for the first half of 2019 and 30% will be based on an EBITA target for the second half of 2019. 12% of the bonus opportunity will be based on a working capital target for the first half of 2019 and 18% will be based on a working capital target for the second half of 2019. 20% of the bonus opportunity will relate to personal objectives. Due to Simon Webb's resignation he will not be entitled to a bonus in 2019.

As already notified to the shareholders, the Board is reviewing the Group's capital structure and exploring options to reduce net debt, including a potential equity raise. As a result, the Remuneration Committee will defer any decisions regarding the grant of LTIP awards and associated targets until this review is concluded.

As announced on 8 August 2018, Daniel Dayan joined the Board as Non-Executive Chairman, succeeding Martin Flower, on 11 September 2018 on a base fee of £150,000. As part of the appointment process the Committee reviewed the base fee of the Chairman in light of Daniel Dayan's skills and experience coupled with the fact the Committee had not increased the Chairman fees for 8 years and approved this increase in fees from those paid to Martin Flower (£136,000). Peter Bertram also joined the Board as a Non-Executive Director on 1 February 2018, as announced on 31 January 2018.

The base fee for all Non-Executive Directors was increased to £42,500 with effect from 1 June 2018 and as such there will be no increase in 2019. A supplementary fee for holding the office of Senior Independent Director was introduced in 2018 at £7,000. The supplementary fee for chairing the Audit Committee or Remuneration Committee remains unchanged at £7,000.

As noted in the Chairman's governance statement in this Annual Report and Accounts the Board are reviewing the required changes to our governance structures including remuneration. The aim is to comply with the 2018 UK Corporate Governance Code when it applies to the Company from the financial year commencing on 1 December 2019. In the meantime, the Remuneration Committee continues to align its policies and reporting and action has been taken to: reduce the Executive Directors' pension benefits; include a single figure CEO pay ratio and details of advisor costs in the Remuneration report for the second year in a row; and explain the Remuneration Committee's use of discretion in the year concerning the 2015 LTIP vesting.

The Committee looks forward to your continuing support at the 2019 Annual General Meeting.

Kevin Matthews

Chairman, Remuneration Committee

30 January 2019

Annual report on remuneration

The Annual Report on Remuneration sets out the implementation of the Remuneration Policy and discloses the amounts earned relating to the year ended 30 November 2018. The Annual Report on Remuneration will be put to an advisory shareholder vote at the forthcoming Annual General Meeting on 5 April 2019. Those items marked with an asterisk are audited information.

This part of the report has been prepared in accordance with The Large and Medium Sized Companies & Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and Rule 9.8.6R of the Listing Rules.

Executive Directors: single figure remuneration table*

The table below shows the remuneration of the Executive Directors for the year ended 30 November 2018 and the comparative figures for the year ended 30 November 2017.

	Salary		Taxable benefits ¹		Annual bonus ²		LTIP awards ³		SAYE awards ⁴		Pension ⁵		Total	
	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
Brett Simpson ^a	19	379	18	42	–	–	–	–	–	–	5	95	42	516
Trudy Schoolenberg ^{b 6}	71	n/a	11	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	82	n/a
Philip de Klerk ^c	377	52	24	9	–	–	n/a	n/a	–	–	57	8	458	69
Simon Webb ^d	176	n/a	4	n/a	n/a	n/a	n/a	n/a	–	–	26	n/a	206	n/a
Total	643	431	57	51	–	–	–	–	–	–	88	103	788	585

a Brett Simpson resigned as a Director on 19 December 2017 and remained an employee until 30 April 2018. Details of payments made to him in connection with his leaving the business are set out on page 66 of the Company's 2017 Annual Report and Accounts.

b Trudy Schoolenberg was appointed Interim Group Chief Executive Officer on 20 December 2017, following Brett Simpson's resignation, and held this position until 1 March 2018 when Philip de Klerk was appointed Group Chief Executive Officer (as announced on 31 January 2018). Trudy continued for a period of six weeks, following the end of her Interim Group Chief Executive Officer role, in a supply chain advisory capacity at £30,000 per month until she resumed her role as a Non-Executive Director on 15 April 2018. For details of Trudy Schoolenberg's Non-Executive Director fees see page 85.

c Philip de Klerk joined the Company as Group Chief Financial Officer on 2 October 2017 and on 1 March 2018 was appointed Group Chief Executive Officer.

d Simon Webb was appointed Group Chief Financial Officer on 30 April 2018 and it has since been announced on 3 December 2018 that he will step down from the Board on 17 December 2018 but will remain an employee until 25 February 2019.

1 Taxable benefits – Executive Directors receive private health insurance and death-in-service cover (excluding Trudy Schoolenberg) and, where appropriate, travel and subsistence payments. Only Philip de Klerk received a car allowance.

2 Annual bonus – The Executive Directors' annual bonus opportunity for 2018 was based on underlying profit before tax (PBTA) at budgeted exchange rates (70%) and working capital reduction (30%, subject to threshold PBTA being achieved). The threshold levels were not achieved, and as a result no bonuses were earned.

	Working capital reduction			Group profit		
	Threshold	Mid	Upper	Threshold	Target	Upper
Target	£10.0m	£16.0m	£22.0m	£30.7m	£32.0m	£34.0m
% salary earned	10%	20%	30%	20%	45%	70%
2018 actual (at budgeted exchange rates)	£10.6m			£17.5m		

3 LTIP awards – The values included for the LTIP are the value of the shares vesting in respect of a performance period ending in the relevant year.

2017: No LTIP awards vested in respect of the performance period ending in 2017. Whilst it was confirmed in the Company's 2017 Annual Report and Accounts that the EPS performance conditions were not met for the 2015 LTIP grant the TSR performance period had not, at that time, concluded. Whilst a formulaic application of the TSR performance condition based on TSR averaged over a three-month period to the end of the performance period, as per the Plan Rules, would have resulted in vesting of part of the TSR element of the award, the Remuneration Committee considered the financial underpin, as it is entitled to do under the Plan Rules, and exercised its discretion to reduce the level of award for the 2015 LTIP to nil and as such no shares vested in respect of those awards.

2018: No LTIP awards vested in respect of the performance period ending in 2018. The performance period for the EPS portion of the LTIP awards granted in 2016 ended, but no shares vested as performance was below threshold (3.73p actual v 6.98p minimum threshold). The performance period for the TSR portion of the LTIP awards granted in 2016 ends in 2019 and vesting will be assessed then and reported in the 2019 Directors' Remuneration Report.

4 SAYE awards – As employees of the Company the Executive Directors were entitled to participate in the SAYE scheme if they so choose and can decide on their monthly contribution level of between £5 and £500 per month. The grant value of SAYE awards is used to calculate the values set out in the table.

5 Pension – In addition to their salaries, the Executive Directors are entitled to a percentage of their basic salary to enable them to make retirement benefit arrangements and/or a contribution to a defined contribution pension plan. Payments made under this arrangement during the year were on the basis of: Brett Simpson 25% of salary; Philip de Klerk 15% of salary; and Simon Webb 15% of salary.

6 Trudy Schoolenberg was not entitled to annual bonus, LTIP awards or pension benefits due to the interim nature of her role.

Executive Directors' remuneration for 2019

1. Base salary

Philip de Klerk's salary has been increased by 2.5% for 2019, in line with the UK-wide salary increase for 2019.

Simon Webb was appointed Group Chief Financial Officer on 30 April 2018 with an annual salary of £300,000. Ian Ashton joined the Board as Group Chief Financial Officer on 10 December 2018 with a salary of £300,000.

2. Annual bonus

The specific targets relating to the annual bonus for the year ending 30 November 2019 are considered to be commercially sensitive and will not therefore be disclosed in advance. They will be disclosed in next year's Annual Remuneration Report, along with disclosure of performance against them and the payments resulting. However, an overview of the bonus structure that is intended to operate in the current financial year is set out below.

Philip de Klerk and Ian Ashton will be eligible to receive a performance-related bonus of up to 100% of salary. Due to Simon Webb's resignation he will not be entitled to a bonus in 2019. The metrics and opportunities will be composed as follows, where the maximum bonus requires performance ahead of the Company's targets.

3. LTIP awards

As already notified to shareholders the Board is reviewing the Group's capital structure and exploring options to reduce net debt, including a potential equity raise. As a result, the Remuneration Committee will defer any decisions regarding the grant of LTIP awards and associated targets until this review is concluded. Due to Simon Webb's resignation no LTIP award will be made to him in 2019.

Long-term Incentive Plan – Awards granted during the year*

Awards of nil-cost options were made to each of Philip de Klerk and Simon Webb in 2018 on the following basis. No awards were made to Brett Simpson in 2018:

	Basis of award granted	Share price at date of grant ²	Number of shares awarded	Face value of award	% of face value which vests at threshold
Executive Directors					
Philip de Klerk (Granted: 22 March 2018)	125% of salary	62.20p	803,859	£500,000	20%
Simon Webb ¹ (Granted: 16 May 2018)	125% of salary	62.20p	602,894	£375,000	20%

¹ Simon Webb's LTIP award will lapse on 25 February 2019 following his resignation.

² For Simon Webb, the Remuneration Committee applied the share price used to calculate the Group's 2018 LTIP award (including Philip de Klerk's award) so as to align the Executive Directors and negate the dip in share price seen in April/May 2018 that would have otherwise disproportionately increased the quantum of LTIP award made to Simon Webb.

Details of the performance conditions attaching to these awards are set out beneath the table on page 80.

Metric	Weighting ¹		Bonus earned for threshold performance (% of maximum)	Bonus earned for maximum performance (% of maximum)
	H1 2019	H2 2019		
EBITA ²	20%	30%	14.3%	50%
Working capital % of sales ³	12%	18%	10.0%	30%
Personal ⁴	8%	12%	5.0%	20%

¹ Performance metrics will be assessed at half year and full year with payment of bonuses for the Executive Directors only being made annually after the end of the financial year. The Remuneration Committee can choose to adjust the size of any bonus award as it deems necessary in accordance with the Scheme rules.

² EBITA at budgeted exchange rates on a constant basis throughout the year.

³ Working capital as a percentage of sales measured on a like-for-like basis at the beginning and end of the financial year. Working capital is defined as trade debtors plus inventories.

⁴ Personal targets are set with relevance to the Group's strategic targets.

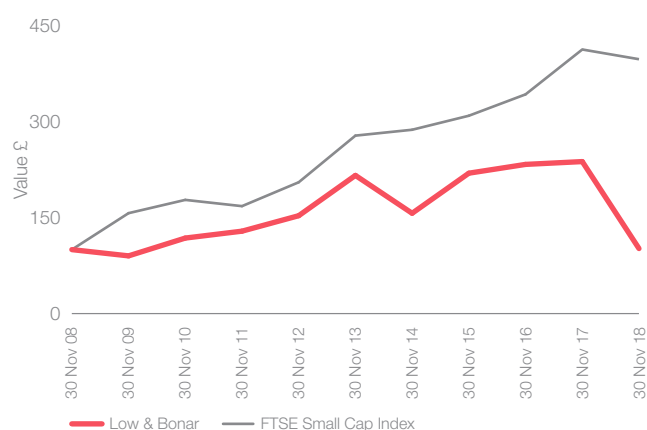
Following the publication of the 2017 Annual Report and Accounts it was agreed with Trudy Schoolenberg that she would not be eligible to receive the previously confirmed (maximum £30,000) performance-related bonus to avoid compromising her independence when returning to her Non-Executive Director role.

Bonus payments are subject to recovery and withholding provisions as set out in the Directors' Remuneration Policy approved at the 2017 Annual General Meeting.

Annual report on remuneration continued

The graph to the right shows Low & Bonar PLC's total shareholder return (TSR) for the ten years to 30 November 2018, which assumes that £100 was invested in Low & Bonar PLC on 30 November 2008. The company chose the FTSE Small Cap Index as an appropriate comparator for this graph, as Low & Bonar PLC has been a constituent of that index throughout the period.

Share price graph – total shareholder return



SAYE Plan – Awards granted during the year*

Executive Directors are also eligible to participate in the SAYE Plan on the same terms as any other eligible employee. Details of the SAYE awards granted to Executive Directors in the year are shown on page 84.

Payments to past Directors and loss of office*

Simon Webb resigned as a Director on 17 December 2018 but remained an employee until 25 February 2019. Remuneration earned by Mr Webb in the period to 17 December 2018 is included in the single figure remuneration table on page 80.

- In the period 17 December 2018 to 25 February 2019, Mr Webb will receive his salary, benefits and cash allowance in lieu of pension contributions of £64,577 in aggregate.
- Following the cessation of employment, Simon Webb will not receive any further remuneration payments or benefits.
- Simon Webb's 2018 LTIP award will lapse in full (in accordance with the Plan Rules) on his resignation date, 25 February 2019.
- Simon Webb will not receive an LTIP award for the financial year ended 30 November 2019.
- Simon Webb did not receive a bonus in respect of the financial year ended 30 November 2018 or 30 November 2019.

Martin Flower retired as Chairman of the Board on 11 September 2018 but continued to be remunerated for the outstanding duration of his six-month notice period which will expire on 9 March 2019. From 12 September 2018 to 30 November 2018 Martin Flower received £29,414 paid in equal monthly instalments. For the period from 1 December 2018 to 9 March 2019 Martin Flower will receive £37,072 paid in equal monthly instalments. For the duration of his notice period Martin Flower continues to receive no other benefits.

Outside appointments for Executive Directors

Subject to the rules governing conflicts of interest and the prior approval of the Board, the Group is supportive of its Executive Directors holding external non-executive positions. However in the year no Executive Directors held such positions.

Group Chief Executive Officer's pay for performance over the last ten years

Financial year ending 30 November of each year	2018 ¹	2018 ²	2018 ³	2017	2016	2015	2014 ⁴
Group Chief Executive Officer	Philip de Klerk	Trudy Schoolenberg	Brett Simpson	Brett Simpson	Brett Simpson	Brett Simpson	Brett Simpson
Total remuneration (single figure) (£)	457,917	82,156	41,549	515,729	465,654	668,727	120,220
Annual bonus (%)	0%	n/a	0%	0%	0%	60%	0%
LTIP vesting (%) ⁸	0%	n/a	0%	0%	0%	0%	0%

Financial year ending 30 November of each year	2014 ⁵	2013	2012	2011	2010	2009 ⁶	2009 ⁷
Group Chief Executive Officer	Steve Good	Steve Good	Steve Good	Steve Good	Steve Good	Steve Good	Paul Forman
Total remuneration (single figure) (£)	503,366	1,064,510	1,308,727	803,309	710,067	97,122	382,800
Annual bonus (%)	0%	0%	79.3%	81%	100%	0%	0%
LTIP vesting (%) ⁸	40%	72%	98.7%	50%	0%	0%	0%

¹ From 1 March 2018 (the date on which his Group Chief Executive Officer role commenced with the Company) to the end of that financial year.

² From 20 December 2017 (the date on which her Interim Group Chief Executive Officer role commenced with the Company) to 28 February 2018.

³ From 1 December 2017 to 19 December 2017 (the date on which he ceased to be a Director).

⁴ From 26 August 2014 (the date on which his employment with the Company started) to the end of that financial year.

⁵ Until 30 September 2014 (the date on which he ceased to be a Director).

⁶ From 3 September 2009 (the date on which his employment with the Company started) to the end of that financial year.

⁷ Until 31 October 2009 (the date on which he ceased to be a Director).

⁸ The LTIP award for 2018 is stated as 0% reflecting the lapse of the 50% of the 2016 award based on EPS over the three-year period ended 30 November 2018; the vesting of the TSR portion of the award will be assessed following the end of the TSR performance period.

Change in the remuneration of the Group Chief Executive Officer

The table to the right shows the percentage change in the Group Chief Executive Officer's salary, benefits and annual bonus between 2017 and 2018 compared with the average percentage change of each of those components from all full-time employees based in the UK.

The UK employee workforce was chosen as a suitable comparator group as the Group Chief Executive Officer is based in the UK (albeit with a global role and responsibilities) and pay changes across Low & Bonar PLC vary widely depending on local market conditions.

Pay ratio

We recognise the requirement arising from the 2018 UK Corporate Governance Code for the reporting of CEO to UK employee pay ratios including comparisons with certain quantities. As a step towards full compliance with these requirements in 2019 we have summarised the single figure CEO remuneration vs the average employee single figure remuneration for 2018.

	2018	2017	% change
Group Chief Executive Officer (£)			
– salary	400,000	379,250	5.5%
– benefits	23,947	41,666	(42.5)%
– bonus	–	–	–
Average per employee (£)			
– salary	64,425	51,487	25.1%
– benefits	1,370	1,341	2.2%
– bonus	–	1,826	(100)%

Relative importance of spend on pay

£m	2018	2017	% change
Overall expenditure on pay	97.3	104.6	(7.0)%
Dividends declared in respect of the year	10.1	10.0	1.0%

Further details can be found in Note 3 of the financial statements.

Single figure Group Chief Executive Officer ratio vs average single figure UK employee

Group Chief Executive Officer	£581,622
Average employee	£65,795
Pay ratio	8.8 times

Annual report on remuneration continued

Executive Directors' shareholdings and share interests*

Executive Directors are required to build a significant shareholding in the Company. Unvested awards are not included when assessing holding requirements. Vested awards are included in assessing holdings, but are adjusted to take into account the tax liability arising on exercise. During the financial year ending 30 November 2018 options and awards over shares were issued under the Low & Bonar PLC 2013 LTIP scheme rules and Low & Bonar 2018 Sharesave scheme ("SAYE").

The table below sets out the beneficial interests of the Executive Directors in the Ordinary Shares of the Company and a summary of the outstanding share awards as at 30 November 2018. Calculations are based on a share price of 26.5 pence (being the closing share price of a Low & Bonar PLC share on 30 November 2018). There have been no changes to these interests between 1 December 2018 and 30 January 2019.

	Shares held		Unvested share scheme awards		Shareholding requirement (% of base salary)	Actual beneficial share ownership (% of base salary)
	30 November 2018	30 November 2017	Unvested LTIP awards	Unexercised SAYE options		
Executive Directors						
Philip de Klerk	100,000	–	1,357,430	40,035	100%	6.6%
Simon Webb	16,198	–	602,894	40,035	100%	1.4%

Executive Directors' LTIP and SAYE interests*

The LTIP awards are subject to performance conditions, details of which are set out in the Remuneration Policy on page 89 and in the notes accompanying the table. Awards under the SAYE Plan are not subject to any performance conditions other than continued employment as at the vesting date.

The table below sets out the Executive Directors' interests in these plans. There were no changes to the interests listed below between 1 December 2018 and 30 January 2019.

	Award date	Awards held at 1 December 2017	Granted during year	Exercised/ vested during year	Lapsed/ forfeited during year	Awards held at 30 November 2018	Exercise price (pence)	Normal vesting/ exercise date
Philip de Klerk								
LTIP	19/10/2017	553,571	–	–	–	553,571	–	19/10/2020
LTIP	22/03/2018	–	803,859	–	–	803,859	–	22/03/2021
Total		553,571	803,859			1,357,430		
SAYE	11/05/2018	–	40,035	–	–	40,035	44.96	01/06/2021
Simon Webb								
LTIP	16/05/2018	–	602,894	–	–	602,894 ¹	–	16/05/2021
Total			602,894			602,894		
SAYE	11/05/2018	–	40,035	–	–	40,035 ¹	44.96	01/06/2021
Brett Simpson								
LTIP	06/02/2015	398,230	–	–	398,230 ²	–	–	06/02/2018
LTIP	04/02/2016	731,225	–	–	731,225 ³	–	–	04/02/2019
LTIP	24/03/2017	677,232	–	–	677,232 ³	–	–	24/03/2020
Total		1,806,687			1,806,687			
SAYE	09/04/2015	36,885	–	–	36,885 ³	–	48.8	01/06/2018

¹ This award will lapse on 25 February 2019.

² Whilst it was confirmed in the Company's 2017 Annual Report and Accounts that the EPS performance conditions were not met for the 2015 LTIP grant the TSR performance period had not, at that time, concluded. Whilst a formulaic application of the TSR performance condition based on TSR averaged over a three-month period to the end of the performance period, as per the Plan Rules, would have resulted in vesting of part of the TSR element of the award, the Remuneration Committee considered the financial underpin, as it is entitled to do under the Plan Rules, and exercised its discretion to reduce the level of award for the 2015 LTIP to nil and as such no shares vested in respect of those awards.

³ These awards lapsed on termination of his employment as discussed on page 82.

Fifty percent of the LTIP shares are subject to an EPS growth target and 50% to a relative TSR target measured against the constituents of the FTSE Small Cap Index. Under the TSR target, 20% of shares vest for median performance, rising on a straight-line basis to full vesting for upper-quartile performance. Under the EPS target, 20% of shares vest at the minimum target with full vesting at the maximum target and the percentage of shares vesting for performance between the minimum and maximum target rising on a straight-line basis. The measurement periods for both performance criteria and the EPS targets in respect of the awards above are as follows:

Date of grant	EPS		TSR	
	Measurement period ended	Minimum/maximum	Measurement period ended	Minimum/maximum
06/02/2015	30/11/2017	6.85p / 8.52p	05/02/2018	Median/Upper quartile
04/02/2016	30/11/2018	6.98p / 8.23p	03/02/2019	Median/Upper quartile
24/03/2017	30/11/2019	7.37p / 8.70p	23/03/2020	Median/Upper quartile
19/10/2017	30/11/2019	7.37p / 8.70p	23/03/2020	Median/Upper quartile
22/03/2018	30/11/2020	7.93p / 9.36p	22/03/2021	Median/Upper quartile
16/05/2018	30/11/2020	7.93p / 9.36p	16/05/2021	Median/Upper quartile

The closing share price of a share on 30 November 2018 was 26.5 pence and the range during the year to 30 November 2018 was 25 pence to 70 pence.

Single total figure of remuneration for the Non-Executive Directors

Fees and taxable benefits payable to Non-Executive Directors

The table below sets out the remuneration of each Non-Executive Director during the financial year ended 30 November 2018 and the comparative figure for the year ended 30 November 2017. Non-Executive Directors are not eligible to participate in short or long-term incentive plans or to receive any pension from the Group, however, relevant travel expenses are reimbursed.

	Additional responsibilities	Committee membership ¹	Fees £'000		Taxable benefits ⁸ £'000	
			2018	2017	2018	2017
Non-Executive Directors						
Daniel Dayan	Chairman, Chairman of the Nomination Committee	R, N	33.1 ⁶	–	–	–
Trudy Schoolenberg ²	Senior Independent Director ⁵	A, R, N	33.0 ⁷	40.6	–	4.6
Peter Bertram ³	N/A	–	34.6 ⁷	–	0.4	–
Kevin Matthews ²	Chairman of the Remuneration Committee	A, R, N	48.3 ⁷	47.0	1.4	3.6
Mike Powell ²	Chairman of the Audit Committee	A, R, N	48.3 ⁷	44.2	1.3	3.8
Past Non-Executive Directors						
Martin Flower ⁴	Past Chairman, Chairman of the Nomination Committee	R, N	136.0	136.0	1.3	2.3

¹ Indicates which Committees the Director served on during the year: Audit Committee = A; Remuneration Committee = R; Nomination Committee = N.

² Kevin Matthews, Mike Powell and Trudy Schoolenberg all receive an additional fee of £7,000 per annum for their roles as Chairman of the Remuneration Committee, Chairman of the Audit Committee and for holding the office of Senior Independent Director respectively (which is included in the numbers in the table). The decision to introduce an uplift in fees for the Senior Independent Director was made by the Board in June 2018.

³ Peter Bertram joined the Board on 1 February 2018 on an annual fee of £40,000.

⁴ Martin Flower retired from the Board with effect from 11 September 2018 but continued to be remunerated for the outstanding duration of his six-month notice period which will expire on 9 March 2019. His fees for 2018 are stated to 11 September 2018.

⁵ From 20 December 2017 to 1 March 2018 Trudy Schoolenberg was appointed Interim Group Chief Executive Officer. Her remuneration details for her time as Interim Group Chief Executive Officer are detailed on page 80 and are not included in this table. Trudy also held a supply chain consulting role following the end of her Interim Group Chief Executive role; this remuneration is set out on page 80.

⁶ Daniel Dayan joined the Board on 11 September 2018 on an annual fee of £150,000.

⁷ It was agreed to increase the annual Non-Executive Director fee from £40,000 to £42,500 from 1 June 2018.

⁸ Non-Executive Director benefits include travel and subsistence whilst on Company business.

Annual report on remuneration continued

Base fees payable to Non-Executive Directors in 2018

The annual base fees payable to the Chairman and Non-Executive Directors for 2018 and 2019 are shown below. These figures have not been pro-rated for time in role; for this information see the table on the previous page.

	2018	2019
Chairman	150.0 ¹	150.0
Non-Executive Director fee	42.5 ²	42.5
Senior Independent Director	7.0	7.0
Chairman of the Audit Committee	7.0	7.0
Chairman of the Remuneration	7.0	7.0

¹ This reflects Daniel Dayan's joining the Company on 12 September 2018.

² This fee increase only took effect from 1 June 2018. Accordingly, the aggregate base fee in 2018 was £41,250.

Non-Executive Directors' shareholdings*

The table below sets out the current shareholdings of the Non-Executive Directors (including beneficial interests) as at 30 November 2018 (or earlier, on stepping down from the Board). The Company does not operate a share ownership policy for Non-Executive Directors, but encourages Non-Executive Directors to acquire shares on their own account.

	Number of shares held outright as at 30 November 2018 ¹	Number of shares held outright as at 30 November 2017
Non-Executive Directors		
Daniel Dayan	368,000	n/a
Trudy Schoolenberg	72,462	72,462
Peter Bertram	75,150	n/a
Kevin Matthews	34,537	24,389
Mike Powell	39,000	39,000
Past Non-Executive Director		
Martin Flower ²	556,912	556,912

¹ There have been no changes in beneficial interests of the Non-Executive Directors between 1 December 2018 and 30 January 2019.

² Shareholding is as at stepping down from the Board on 11 September 2018.

Service contracts/letters of appointment

All Directors are subject to annual (re)appointment at the 2019 Annual General Meeting on 5 April 2019.

	Date of service contract/letter of appointment	Length of service at 30 November 2018
Daniel Dayan	11 September 2018	2 months
Philip de Klerk	2 October 2017	1 year 2 months
Ian Ashton ¹	10 December 2018	N/A
Trudy Schoolenberg ²	1 May 2013	5 years 7 months
Peter Bertram	1 February 2018	10 months
Kevin Matthews	1 April 2015	3 years 8 months
Mike Powell	1 December 2016	2 years

¹ Following the resignation of Simon Webb, Ian Ashton was appointed Group Chief Financial Officer.

² Following the resignation of Brett Simpson as a Director and Group Chief Executive Officer on 19 December 2017, Trudy Schoolenberg was then appointed as Interim Group Chief Executive Officer on 20 December 2017 on a three-month fixed term contract until 1 March 2018.

The Remuneration Committee

The Committee has delegated authority from the Board over the Company's remuneration framework and policy. The Committee's terms of reference are available on the Company's website (investors.lowandbonar.com/corporate-governance) and are regularly reviewed and updated.

Under its terms of reference the Committee is responsible for:

- recommending to the Board the framework or broad policy for the remuneration of the Company's Group Chief Executive Officer, Chairman, Executive Directors, Company Secretary and such other members of the executive management as it is designated to consider;
- following a remuneration policy which shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance;
- reviewing the ongoing appropriateness and relevance of the Remuneration Policy;
- approving the design of targets for any performance-related pay schemes operated by the Company and the total annual payments made under the Remuneration Policy;
- recommending the design of all executive share incentive plans for approval by the Board and shareholders, and overseeing any associated awards and the performance targets to be used;
- approving policy for and scope of pension arrangements for each Executive Director and other senior executives;

- approving the total individual remuneration package of each Executive Director and other senior executives;
- ensuring that all provisions regarding disclosure of remuneration, including pensions, are fulfilled;
- appointing any remuneration consultants who advise the Committee and review trends across the Group;
- overseeing any major changes in employee benefits structures throughout the Group;
- agreeing the policy for authorising claims for expenses from the Group Chief Executive Officer and Chairman of the Board; and
- reviewing its own performance, constitution and terms of reference.

The Committee Chairman reports to the Board on the Committee's activities at the Board meeting immediately following each Remuneration Committee meeting.

Committee composition

The Committee membership currently comprises all the Non-Executive Directors listed on page 77. The attendance of each Committee member at meetings during the year is shown on page 77. The Group Chief Executive Officer and a representative from the human resources function were regular attendees at Committee meetings held during the year. No individual was present when their own remuneration or benefits were discussed.

All of the Committee members, with the exception of Mr Dayan, are considered by the Board to be independent. Mr Dayan became a member of the Committee on 12 September 2018

Voting at the Annual General Meeting (AGM)

At the AGM on 13 April 2018, the Annual Report on Remuneration was put to an advisory vote and the Low & Bonar PLC 2018 Sharesave Scheme was subject to shareholder approval. At the AGM on 12 April 2017, the Directors' Remuneration Policy was put to a binding vote. The results were as follows:

Resolution	Votes for (and % of votes cast), including discretionary votes	Votes against (and % of votes cast)	Proportion of share capital voting	Shares on which Votes were withheld
Annual Report on Remuneration	263,217,055 (99.10%)	2,393,396 (0.90%)	80.53%	265,610,451
Directors' Remuneration Policy	211,979,056 (99.14%)	1,840,017 (0.86%)	64.84%	142,559
Low & Bonar PLC Sharesave Scheme	265,342,667 (99.93%)	174,203 (0.01%)	80.50%	176,276

Kevin Matthews

Chairman, Remuneration Committee

On behalf of the Board of Directors

30 January 2019

and, while it is no longer appropriate to apply the test of independence to him following his appointment as Chairman, he was considered by the Board to be independent on his initial appointment as a Non-Executive Director.

Advisors to the Committee

Unless otherwise stated, the advisors have no other connection with the Group and the Committee believes that the advice received was, and continues to be, objective and independent.

Deloitte LLP ("Deloitte")

Deloitte were appointed by the Committee as its principal advisors on 22 June 2017 following a tender process. Deloitte is a member of the Remuneration Consultants Group (the professional body for executive remuneration consultants). Deloitte provided the Committee with executive remuneration advice, including advice relating to the operation of employee and executive share plans. The fees incurred for advice provided by Deloitte to the Committee during 2018 were £5,425. In the year Deloitte also advised the Committee on specific employee matters relating to severance arrangements. The fees incurred in relation to this one-off work were £3,000.

Freshfields Bruckhaus Deringer LLP ("Freshfields")

Freshfields and Squire Patten Boggs provide advice to the Committee in respect of matters of legal compliance and both advisors also provide legal advice to the Company, on matters other than remuneration, on a regular and continuing basis. In the year Freshfields advised the Committee on specific employee matters relating to both appointment and severance arrangements. The fees incurred in relation to these one-off pieces of work were £4,493.50.

Directors' Remuneration Policy

A summary of the Directors' Remuneration Policy is set out on the following pages. It is the Committee's current intention that the policy will operate for the three-year period to the AGM in 2020.

Salary

Purpose and link to strategy	To provide competitive fixed remuneration that will attract, retain and motivate high-quality key employees and reflect their experience, duties and geographical location.
Operation	<p>Reviewed annually, with changes typically effective 1 December.</p> <p>Benchmarked periodically against relevant market comparators as appropriate, including companies of a similar international reach and complexity.</p> <p>Individual pay levels determined by reference to internal reference points, performance, skills and experience in post.</p> <p>Consideration given to the pay levels in the country in which the Executive Director lives and works and the wider salary increases across the Group more generally.</p>
Maximum opportunity	<p>Salary levels will be eligible for increases during the three-year period that the Remuneration Policy operates.</p> <p>Executive Directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce (in the country in which the Director lives, if appropriate) in percentage of salary terms.</p> <p>Increases beyond those linked to the workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group.</p>
Framework used to assess performance and for the recovery of sums paid	The Committee considers individual salaries at the appropriate Committee meeting each year taking due account of the factors noted in operation of the salary policy.

Benefits

Purpose and link to strategy	To provide competitive benefits in line with market practice.
Operation	<p>The Company typically provides the following benefits:</p> <ul style="list-style-type: none"> ■ Car allowance ■ Private health insurance ■ Death-in-service cover ■ Other ancillary benefits, including relocation expenses/arrangements (as required). <p>Where Executive Directors are recruited from overseas, benefits more tailored to their geographical location may be provided.</p> <p>Where revised benefits are offered to employees more generally within a geographic location or across the Group, Executive Directors are likely to be eligible to receive those benefits.</p> <p>Executive Directors are also eligible to participate in all-employee share plans operated by the Company, in line with prevailing HMRC guidelines (where applicable).</p> <p>Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.</p>
Maximum opportunity	The cost of some of these benefits is not pre-determined and may vary from year to year based on the overall cost to the Company in securing these benefits for a population of employees (particularly health insurance and death-in-service cover).
Framework used to assess performance and for the recovery of sums paid	None.

Pension

Purpose and link to strategy	To provide a market-competitive, yet cost-effective, long-term retirement benefit.
Operation	A Company contribution to a defined contribution scheme or the provision of a cash supplement equivalent.
Maximum opportunity	Company contributions of up to 25% of salary.
Framework used to assess performance and for the recovery of sums paid	None.

Annual bonus

Purpose and link to strategy	To incentivise annual delivery of performance objectives relating to the short-term goals of the Company.
Operation	Annual cash bonus awards are based on performance against a sliding scale of challenging targets related to the Company's key performance indicators. The Committee will review the relevance and suitability of the bonus measures each year, and may change them each year to ensure there is ongoing alignment with the Group's strategic objectives.
Opportunity	Maximum (% salary): 100%
Framework used to assess performance and for the recovery of sums paid	<p>Details of the performance measures used for the bonus relating to the previous financial year and targets and performance against them are provided in the Annual Remuneration Report.</p> <p>The annual bonus is determined based on performance against a range of the Company's key performance indicators and paid following the approval of the Group's audited results for the year by the Board.</p> <p>Some guidance on targets for the bonus for each forthcoming year will be set out in the relevant Annual Remuneration Report, but the specific targets may be considered by the Committee to be commercially sensitive and may not be disclosed in advance.</p> <p>No more than 30% of salary in total is earned at the threshold performance levels, with a graduated scale operating thereafter through to maximum bonuses being earned for out-performance of the Company's targets for the year.</p> <p>Payments under the annual bonus plan may be subject to recovery and withholding provisions in the event of a material misstatement of the Company's financial results, material misconduct or if an error is made in assessing the extent to which any target and/or condition was satisfied.</p>

Long-term incentive plan awards

Purpose and link to strategy	To drive superior long-term financial performance and shareholder returns, aid retention and align the interests of Executive Directors with shareholders'.
Operation	<p>An award of free shares (i.e. either conditional shares or nil-cost options) is normally granted annually which vests after three years subject to continued service (save in "good leaver" circumstances) and the achievement of challenging performance conditions.</p> <p>A holding period will apply to share awards granted in the financial years ending 30 November 2017 and beyond. The holding period will require the Executive Directors to retain the after-tax value of shares for 24 months from the vesting date.</p> <p>A dividend equivalent provision operates enabling dividends to be paid (in cash or shares) on shares that vest.</p>
Opportunity	<p>Maximum (% salary): 125%</p> <p>In exceptional circumstances (e.g. recruitment), awards can be made up to 200% of salary.</p>
Framework used to assess performance and for the recovery of sums paid	<p>Granted subject to challenging financial (e.g. adjusted EPS) and total shareholder return performance targets tested over three years.</p> <p>20% of awards will vest for threshold performance, with full vesting taking place for equalling, or exceeding, the maximum performance targets.</p> <p>The Committee may scale back the level of vesting of an award if it considers underlying financial performance over the performance period has been significantly worse than the level of vesting would otherwise indicate.</p> <p>Payments may be subject to recovery and withholding provisions in the event of a material misstatement of the Company's financial results, material misconduct, or if an error is made in assessing the extent to which any target and/or condition was satisfied.</p>

Directors' Remuneration Policy continued

Share ownership guidelines

Purpose and link to strategy	To align the interests of Executive Directors with those of shareholders.
Operation	Executive Directors are expected to retain 50% of the after-tax number of vested shares issued under long-term incentive awards until the guideline holding is achieved. The Committee will monitor progress towards the guideline on an annual basis.
Requirement	A share ownership guideline of a minimum of 100% of salary applies to the Executive Directors.
Framework used to assess performance and for the recovery of sums paid	None.

Bonus Plan and Long Term Incentive Plan (LTIP)

The Committee will operate the annual bonus plan, the LTIP and the SAYE Plan according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of respects regarding the operation and administration of these plans. These include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table above):

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or a payment;
- the determination of vesting and/or meeting targets;
- discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the annual bonus and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- the annual review of performance measures weighting, and targets for the annual bonus plan and the LTIP, from year to year.

The Committee also retains the authority to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required to ensure that the conditions achieve their original purpose and are not materially less difficult to satisfy.

All historic awards that were granted under the 2013 LTIP and remain outstanding remain eligible to vest based on their original award terms. With regards to any promotions to the Board, the Company will retain the authority to honour payments agreed prior to joining the Board (such as, for example, an annual bonus formulated to reflect divisional performance), albeit any payments agreed in consideration of being promoted to the Board will be consistent with the Recruitment and Promotion Policy. A bonus may be forfeited on cessation of employment in certain circumstances as outlined in the policy on 'Directors' service contracts and payments for loss of office'.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and LTIP awards are a subset of the Group's key performance indicators.

The Committee has flexibility to change the annual bonus plan performance metrics from year to year to facilitate an appropriate evolution of measurement in line with strategy. In the first year of the Policy, profit will be used as the primary performance metric. Other metrics based on the Company's key performance indicators may also be used in order to promote alignment with strategic imperatives (e.g. the use of ROCE to provide clear alignment with the overarching strategy of achieving profitable cash-generative growth whilst ensuring that efficient management of capital is fully encouraged).

LTIP awards vest subject to (i) challenging EPS growth targets that are aligned with the long-term levels of earnings growth targeted by the Company, and (ii) relative TSR targets which provide clear alignment of interests between shareholders and executives.

Targets are set based on sliding scales that take account of internal planning and external market expectations for the Company. Only modest rewards are available for delivering threshold performance levels, with maximum rewards requiring substantial out performance of the challenging plans approved at the start of each year.

No performance targets are applied to the SAYE Plan, which is aimed at encouraging broad-based equity ownership.

The targets relating to the annual bonus are considered to be commercially sensitive and will not therefore be disclosed in advance. They will be disclosed in the Annual Remuneration Report in respect of the years to which they apply along with disclosure of performance against them and the payments resulting.

Non-Executive Directors' fees

Purpose and link to strategy	To provide a competitive fee which will attract those high-calibre individuals with the relevant skills and experience necessary to contribute to a high-performing Board.
Operation	<p>The fees for the Chairman and the Non-Executive Directors are reviewed every year.</p> <p>Fee levels are set by reference to the expected time commitments and responsibility and are periodically market-tested to determine if fee levels are in line with those offered in companies of a comparable size, international reach and complexity for each role.</p> <p>The Chairman and Non-Executive Directors are paid an annual fee and do not participate in any of the Company's incentive arrangements or receive any pension provision.</p> <p>The Non-Executive Directors receive a basic fee, with additional fees payable for chairmanship of the Company's key committees.</p> <p>The Committee recommends the remuneration of the Chairman to the Board.</p> <p>The Chairman's fee is considered by the Remuneration Committee (during which the Chairman has no part in discussions) and the Non-Executive Directors' fee is determined by the Board excluding the Non-Executives.</p> <p>The Company may repay any reasonable expenses that a Non-Executive Director incurs in carrying out their duties as a Director (including tax thereon).</p>
Maximum opportunity	The fee levels will be eligible for increases during the three-year period that the Remuneration Policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity.
Framework used to assess performance and for the recovery of sums paid	None.

Directors' Report

The Directors of the Company present their report together with the audited consolidated financial statements for the year ended 30 November 2018.

This report has been prepared in accordance with requirements outlined within The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the management report as required under Disclosure Guidance & Transparency Rule ('DTR') 4. Certain information that fulfils the requirements of the Directors' Report can be found elsewhere in this document and is incorporated by reference.

Strategic Report

The Strategic Report is set out on pages 16 to 57 and is incorporated into this Directors' Report by reference. It contains details of likely future developments and research and development activities within the Group. The Strategic Report was approved by the Board of Directors on 30 January 2019.

Risk management and internal control

The Board is responsible for maintaining a risk management and internal control system and for managing principal risks faced by the Group. Such a system is designed to manage rather than eliminate business risks and can only provide reasonable and not absolute assurance against material misstatement or loss. This is described in more detail in the Audit Committee Report on pages 70 to 75.

In carrying out their review of risks, the Directors have regard to what controls in their judgement are appropriate to the Group's businesses, to the materiality and the likelihood of the risks inherent in these businesses and to the relative costs and benefits of implementing specific controls.

Financial risk management

Details of the Group's financial risk management policies are given in the Strategic Report on pages 50 to 57 and Note 20 to the Group financial statements on pages 136 to 141.

Greenhouse gas reporting

The disclosures concerning greenhouse gas emissions are included in the Corporate responsibility section on page 45.

Profit and dividends

The Group's consolidated loss for the year, after taxation, amounts to £45.7m (2017: loss of £17.6m). The Directors have declared dividends as follows:

Ordinary Shares	
Paid interim dividend of 1.05p per share	
Paid on 21 September 2018 (2017: 1.05p per share)	£3.5m
Proposed final dividend of 0.37p per share	
(2017: 2.00p per share)	£1.2m
Total dividend of 1.42p per share for 2017/18	
(2017: 3.05p per share)	£4.7m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 10 April 2019 to shareholders whose names were on the Register of Members at the close of business on 15 February 2019.

The Company's share capital includes deferred shares (which do not attract a dividend), 6% first cumulative preference stock, 6% second cumulative preference stock and 5.5% third cumulative preference stock. The dividend received by preference stock holders is paid before the Ordinary Shareholders' dividend.

Share capital

The Company's issued share capital as at 30 November 2018 comprised 330,106,588 pence Ordinary Shares, 154,571,152 deferred shares without voting rights and £100,000 6% first cumulative preference stock, £100,000 6% second cumulative preference stock and £200,000 5.5% third cumulative preference stock (the "Preference Stock").

Each Ordinary Share carries the right to one vote at general meetings of the Company and provided that preference dividends remain paid in accordance with the Company's Articles of Association, the Preference Stock does not carry voting rights.

During the period, 400,554 Ordinary Shares in the Company were issued under the terms of the Low & Bonar 2007 UK and International Sharesave Schemes at prices between 48.8 pence and 55.2 pence.

Details of the movements in the Company's issued share capital can be found on page 144 in Note 25 to the financial statements.

As announced on 30 January 2019, the Company is proposing to raise net proceeds of approximately £50m, after £4m of estimated commissions, fees and expenses. The equity raise is on the basis of 106 new shares for every 107 existing ordinary shares held by the eligible shareholder. The issue price is proposed to be 15p per new share.

Employee benefit trust (EBT) and share awards

Details of the Company's EBT arrangements can be found on page 145 (Note 25).

The Company has a UK and international all-employee Sharesave scheme and a long-term incentive plan. Details of share-based payments during the year can be found on pages 144 to 147 (Note 25).

Directors and their share interests

Details of the Directors of the Company who served during the financial year ended 30 November 2018 are shown on pages 60 and 61 with the exception of Martin Flower who retired from the Board in 2017 on 10 September 2018 and Simon Webb who resigned from the Board on 17 December 2018.

Details of Directors' interests in the Company's Ordinary Shares, options held over Ordinary Shares, interests in share options and long-term incentive plans are set out on pages 81 to 85.

Directors' conflicts of interest

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with the Group, they should notify the Board in writing or at the next Board meeting. Directors have a continuing duty to update any changes to these conflicts.

Directors' indemnities

In accordance with the Articles of Association, and to the extent permitted by law, Directors are granted an indemnity by the Company in respect of liability incurred as a result of their office. These qualifying third-party indemnity provisions were in force during the financial year. In addition, the Company maintained a Directors' and Officers' liability insurance policy throughout the year and will continue to do so for the benefit of the Directors.

Re-election of Directors

Although the Company is not a constituent of the FTSE 350, and as such the Directors are not required to seek annual re-election, the Directors will be voluntarily submitting themselves for re-election at the forthcoming Annual General Meeting. The length of appointment and notice periods for the Chairman and Non-Executive Directors are as follows:

	Tenure to 30 November 2018	Notice period
Daniel Dayan	2 months	3 months
Philip de Klerk	1 year 2 months	12 months*
Ian Ashton	N/A	12 months*
Trudy Schoolenberg	5 years 7 months	6 months
Peter Bertram	10 months	3 months
Kevin Matthews	3 years 8 months	6 months
Mike Powell	2 years	6 months

* 12 months from the Company or 6 months from the Director.

All Non-Executive Directors are subject to automatic termination if a Director is not elected or re-elected by shareholders at the AGM.

Political donations

No political donations or contributions to political parties under the Companies Act 2006 have been made during the financial year. The Group policy is that no political donations be made, or political expenditure incurred.

Substantial interests

As at 28 January 2019, the Company had been notified of the following interests of 3% or more in the issued share capital of the Company under the UK Disclosure and Transparency Rules:

	No. of Ordinary Shares	% of total voting rights
Sterling Strategic Value Fund	57,074,983	17.29
Aberforth Partners LLP	54,133,684	16.40
J O Hambro Capital Management	35,075,143	10.63
Luxempart SA	26,661,395	8.08
AXA Investment Managers Ltd	25,250,000	7.65
Janus Henderson Investors	13,591,635	4.12
Chelverton Asset Management Ltd	13,356,562	4.05

Long-term viability statement

The Directors have assessed the viability of the Group over a three-year period to 30 November 2021, taking into account the Group's current position, the anticipated net proceeds from the announced equity raise and the potential impact of the principal risks set out in the Strategic Report. Based on this assessment and on the assumption that the principal risks are managed or mitigated, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review. Further details of our approach to assessing long-term viability can be found on page 53.

Significant agreements and change of control provisions

The Group's principal banking facilities may become repayable upon a change of control of the Company. There were no contracts subsisting during the financial year to which the Company is a party and in which a Director of the Company is or was materially interested.

Subsidiaries, joint ventures and associated undertakings

As at 28 January 2019, the Group had 60 subsidiaries, joint ventures and associated undertakings. A list of these can be found on pages 152 to 155 (Note 37) to the Company's financial statements.

Annual General Meeting (AGM)

The 2019 AGM will be held at Instinctif Partners, 1st Floor, 65 Gresham Street, London EC2V 7NQ on Friday 5 April 2019, commencing at 11.00am and the notice of AGM containing the text of the resolutions to be proposed at the AGM together with explanatory notes will be sent to shareholders who have opted to receive it with this Annual Report and Accounts or alternatively can be found on our website at investors.lowandbonar.com/shareholder-services/aggm/yr-2019.

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the business activities as set out in the Strategic Report on pages 16 to 57 as well as the Group's principal risks and uncertainties as set out on pages 54 to 57. Based on the Group's cash flow forecasts and projections, which take into account the anticipated net proceeds from the announced equity raise, the Board is satisfied that the Group will be able to operate within the level of its facilities for

the foreseeable future. The Directors highlight that whilst the equity raise is fully underwritten, it is dependent on the receipt of shareholder approval, which is subject to customary conditions and is not scheduled to complete until after the date of signing these financial statements. Accordingly, at the time of signing these financial statements, there remains a material uncertainty related to events or conditions that may cast a significant doubt on the Group's ability to continue as a going concern. However, the Directors believe that shareholder approval will be received with the general meeting to approve the equity raise scheduled for 19 February 2019. For this reason, the Board considered it appropriate to adopt the going concern basis in preparing the financial statements.

Auditor

Following a tender process the Board approved the appointment of EY as the Company's auditors from the start of the 2019 financial year. A resolution to appoint EY as auditor of the Company and to authorise the determination of its remuneration will be proposed at the forthcoming AGM.

Disclosure of information to auditor

Each of the Directors who held office on the date at which this Directors' Report was approved confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware, and that he or she has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

UK Corporate Governance Code

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

The corporate governance statement is included in the Directors' Report by cross-reference and can be found on pages 58 to 94.

Approved by the Board and signed on its behalf by

Erika Percival
Company Secretary

30 January 2019

Statement of Directors' responsibilities

in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are also responsible under section 172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole and in doing so have regard for the needs of wider society and stakeholders, including customers, consistent with the Group's core and sustainable business objectives.

We consider 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 position and performance, business model and strategy.

Philip de Klerk
Group Chief Executive

Ian Ashton
Group Chief Financial Officer

30 January 2019

30 January 2019

Independent Auditor's report

to the members of Low & Bonar plc

1 Our opinion is unmodified

We have audited the financial statements of Low & Bonar PLC ("the Company") for the year ended 30 November 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Balance Sheets, Consolidated Cash Flow Statement, Company Cash Flow Statement, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, and the related notes, including the accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 November 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders in 1975. The period of total uninterrupted engagement is for the 44 financial years ended 30 November 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Material uncertainty related to going concern

We draw your attention to note A on page 109 of the financial statements which indicates that to avoid a potential covenant breach the Group and Parent Company's ability to continue as a going concern is dependent on the full anticipated receipts from the successful equity raise, which is subject to shareholder approval and the associated underwriting agreement.

These events and conditions, along with the other matters explained on page 109 constitute a material uncertainty that may cast significant doubt about the Group's and Parent's ability to continue as a going concern.

Our opinion is not modified in respect of these matters.

The risk: Disclosure quality

The financial statements explain how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, including the impact of Brexit, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.

Our response:

With the assistance of a restructuring specialist we performed the following procedures:

- **Benchmarking assumptions:** We tested the integrity of the cash flow projections by assessing the appropriateness of key assumptions used in preparing those projections, with a specific focus on expected revenue growth and expected significant non-underlying income and expenditure. We evaluated these assumptions through enquiries with each of the divisional managers and those responsible for preparing and delivering these key initiatives.
- **Our sector experience:** We assessed the projections and assumptions by reference to our knowledge of the business and general market conditions and assessed the potential risk of management bias in preparing the cash flow projections.
- **Re-performance:** We re-performed the directors' forecast covenant calculations as at 30 November 2018, 31 May 2019, 30 November 2019, 31 May 2020 and 30 November 2020 for mathematical accuracy and compliance with finance arrangements.
- **Assessing application:** We assessed the appropriateness of the adjustments made in calculating adjusted EBITDA, the benchmark used in assessing covenant compliance, with particular focus on non-underlying items.
- **Sensitivity analysis:** We challenged the level of sensitivities applied (including downside scenarios) for reasonableness based on our knowledge of the business and markets served, and we evaluated whether the directors' plans to alleviate the downside risk evident from these scenarios were feasible in the circumstances.
- **Funding assessment:** We inspected the terms of the proposed equity raise, including the underwriting agreements, to assess the impact on the forecast cash flow models. We considered the terms of all the Group's financing arrangements, including both committed and uncommitted facilities, and assessed any impacts arising from the proposed equity raise and how these had been factored into the forecast models.
- **Assessing transparency:** We assessed the going concern disclosures for clarity, including that sufficient details were provided concerning the material uncertainty.

Our results:

We found the disclosure of the material uncertainty to be acceptable.

We are required to report to you if the directors' going concern statement under the Listing Rules set out on page 94 is materially inconsistent with our audit knowledge. We have nothing to report in this respect.

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit

Refer to page 54 (principal risks), page 53 (viability statement) and page 74 (Audit Committee Report), page 109 (accounting policy)

The risk: Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in the forecast-based valuation risks below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see above). All of these depend on assessments of the future economic environment and the group's future prospects and performance.

In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement, and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Our response:

We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:

- **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.
- **Sensitivity analysis:** When addressing the recoverability of Coated Technical Textiles group of Cash Generating Units, recoverability of Civil Engineering tangible fixed assets, recoverability of parent company's investments in Bonar International Holdings Limited and LCM Construction Products Limited and debt due from Coated Technical Textiles and Civil Engineering entities and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on going concern and impairment we considered all the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results

As reported below under the recoverability of Coated Technical Textiles group of Cash Generating Units, recoverability of Civil Engineering tangible fixed assets, recoverability of parent company's investments in Bonar International Holdings Limited and LCM Construction Products Limited and debt due from Coated Technical Textiles and Civil Engineering entities, we found the resulting estimates and related disclosures of these matters, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Recoverability of Coated Technical Textiles Group of Cash Generating Units (CGU), Risk vs 2017: ▲

Refer to page 73 (Audit Committee report), page 112 (accounting policy) and pages 130 and 131 (financial disclosures).

The risk: Forecast-based valuation

The carrying amount of the Coated Technical Textiles CGU is significant and at risk of irrecoverability due to weak customer demand as a result of challenging production consistency issues and increased raw material prices. The carrying amount of the Coated Technical Textiles CGU is significant and the estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

Independent Auditor's report continued

Our response:

Our procedures included:

- **Benchmarking assumptions:** With the assistance of our restructuring specialist, we tested the integrity of the cash flow projections by assessing the appropriateness of key assumptions used in preparing those projections, with a specific focus on expected revenue growth and expected significant non-underlying income and expenditure. We evaluated these assumptions through enquiries with each of the divisional managers and those responsible for preparing and delivering these key initiatives.
- **Benchmarking assumptions:** We compared the group's assumptions in relation to key inputs such as, growth rate, discount rate, forecast revenue and profit margins, to historical information and externally derived data. We were assisted by our own valuation specialist to evaluate the discount rate.
- **Sensitivity analysis:** We performed a sensitivity analysis on the key assumptions noted above.
- **Assessing transparency:** We assessed the adequacy of disclosures in the financial statements, including those in respect of the key assumptions used and the impairment loss recorded.

Our results:

We found the Group's assessment of the recoverable amount of Coated Technical Textiles GBU and resulting impairment charge to be acceptable (2017 result: acceptable).

Recoverability of Civil Engineering tangible fixed assets, Risk vs 2017: ◀▶

Refer to page 73 (Audit Committee report), page 112 (accounting policy) and pages 132 and 133 (financial disclosures).

The risk: Forecast-based valuation

During the prior year the Group recognised an impairment loss on the Civil Engineering CGU, writing off goodwill and other intangible assets. The loss was driven by the challenging trading conditions across this particular business segment. The carrying amount of the remaining Civil Engineering tangible assets is significant and the estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

Our response:

Our procedures included:

- **Our sector experience:** We obtained the directors' assessment of whether indicators of impairment existed in the individual Civil Engineering CGUs in relation to tangible fixed assets and considered this for reasonableness in line with accounting standards.
- **Benchmarking assumptions:** With the assistance of our restructuring specialist, we tested the integrity of the cash flow projections by assessing the appropriateness of key assumptions used in preparing those projections, with a specific focus on expected revenue growth and expected significant non-underlying income and expenditure. We evaluated these assumptions through enquiries with each of the divisional managers and those responsible for preparing and delivering these key initiatives.

- **Benchmarking assumptions:** We compared the group's assumptions in relation to key inputs such as, growth rate, discount rate, forecast revenue and profit margins, to historical information and externally derived data. We were assisted by our own valuation specialist to evaluate the discount rate.
- **Sensitivity analysis:** We performed sensitivity analysis, including a breakeven analysis, on the key assumptions noted above.
- **Assessing transparency:** We assessed the adequacy of disclosures in the financial statements, including those in respect of the key assumptions used and the impairment loss recorded.

Our results:

We found the Group's assessment of the recoverable amount of Civil Engineering tangible assets to be acceptable (2017 result: acceptable).

Provision and contingent liabilities relating to customs duty irregularities £2.6 million, (2017: £1.7 million), Risk vs 2017: ▲

Refer to page 75 (Audit Committee report), page 116 (accounting policy) and page 143 (financial disclosures).

The risk: Subjective estimate

Significant judgment is required to assess whether the identified customs duty irregularities and any related penalties should be recognised as provisions within the financial statements or warrant disclosure as contingent liabilities.

The amounts involved are potentially significant, and the application of accounting standards to determine the amount, if any, to be provided as a liability requires judgement.

Our response:

Our procedures included:

- **Personnel interviews:** We enquired of the directors and Group Counsel and inspected board minutes for discussions relating to the identified irregularities.
- **Benchmarking assumptions:** We compared the directors' estimate of the level of exposure arising from these irregularities to third party evidence, where available, accompanied by discussions with the Group's external legal advisors.
- **Assessing transparency:** We evaluated the adequacy of the Group's provision disclosure in the financial statements in accordance with accounting standards, and in particular the disclosure of the estimation uncertainty. We assessed whether the irregularities had any associated matters that warranted disclosure as a contingent liability.

Our results:

We found the group's assessment of the amount to be acceptable (2017 result: acceptable).

Recoverability of parent company's investments in Bonar International Holdings Limited and LCM Construction Products Limited and debt due from Coated Technical Textiles and Civil Engineering entities, Risk vs 2017: ▲

Refer to page 74 (Audit Committee report), page 112 (accounting policy) and pages 133 and 134 (financial disclosures).

The risk: Forecast-based valuation

The parent company holds its interest in its operations through a number of direct and indirect investments. As a result, the carrying value of its investments in Bonar International Holdings Limited and LCM Construction Products Limited is affected by the recoverability of the carrying value in the underlying investments. Due to the Coated Technical Textiles and Civil Engineering segments facing challenging trading conditions, as described in the forecast-based valuation risks above, there is a risk that the carrying value in these investments, as well as the amounts due from CTT and Civil Engineering entities, may not be recoverable.

The estimated recoverable amounts of these balances are subjective due to the inherent uncertainty in forecasting and discounting future cash flows.

Our response:

Our procedures included:

- **Benchmarking assumptions:** We tested the integrity of the cash flow projections relating to Bonar International Holdings Limited by assessing the appropriateness of key assumptions used in preparing those projections. We evaluated these assumptions through enquiries with each of the divisional managers and those responsible for preparing and delivering these key initiatives. We compared the group's assumptions in relation to key inputs such as, growth rate, discount rate, forecast revenue and profit margins, to historical information and externally derived data.
- **Our sector experience:** We evaluated assumptions within the cash flow projections relating to Bonar International Holdings Limited, in particular the discount rate, using our own valuation specialist.
- **Tests of detail:** Comparing the carrying amount of the investment in LCM Construction Products Limited to its draft balance sheet to identify whether its net assets, being an approximation of the minimum recoverable amount, was in excess of its carrying amount.
- **Tests of detail:** We identified the carrying amounts of debt due from entities that belong to the CTT and Civil Engineering segments. Assessing 100% of receivables due from companies in the CTT and Civil Engineering divisions to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making.
- **Assessing transparency:** We assessed the adequacy of the parent company's disclosures in respect of investments in subsidiaries/group debtor balances.

Our results:

We found the group's assessment of the recoverable amount of the parent company's investments in Bonar International Holdings Limited and LCM Construction Products Limited and debt due from entities included in the CTT and Civil Engineering segments to be acceptable (2017 result: acceptable).

4 Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £0.8 million (2017: £1.3 million), determined with reference to a benchmark of group result before tax from continuing operations, normalised to exclude non-underlying items other than amortisation of acquired intangibles, averaged over the current and previous 2 financial years due to the volatility of the result. Materiality represents 3.6% of this benchmark (2017: 4.8% of group loss before tax of £19.7 million, normalised to exclude non-underlying items other than amortisation of acquired intangibles, of £46.7 million).

The reduction in amount of the benchmark since the prior year is a result of lower profit before tax and non-underlying items.

Materiality for the parent company financial statements as a whole was set at £0.65 million (2017: £1.1 million), determined with reference to a benchmark of company total assets, of which it represents 0.2% (2017: 0.3%).

We applied a lower materiality of £0.5 million (2017: £1.0 million) to share based payments and the disclosure of Directors' Remuneration for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £40,000 (2017: £75,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 44 (2017: 43) reporting components, we subjected 6 (2017: 9) to full scope audits for group purposes and 1 (2017: 2) to specified audit procedures. The latter was not individually significant but was included in the scope of our group reporting work in order to provide further coverage over the group's results.

The procedures for full scope audits covered approximately 68% of total group revenue (2017: 74%); 64% of total profits and losses that make up group profit before tax (2017: 72%) and 65% of total group assets (2017: 50%). The procedures for specified audit procedures covered approximately 7% of total group revenue (2017: 7%), 2% of total profits and losses that make up group profit before tax (2017: 7%) and 4% of total group assets (2017: 16%).

Independent Auditor's report continued

The remaining 25% (2017: 19%) of total group revenue, 34% (2017: 21%) of total profits and losses that make up group profit before tax and 31% (2017: 34%) of total group assets is represented by 37 (2017: 32) reporting components, none of which individually represented more than 5% (2017: 4%) of any of total group revenue, 3% (2017: 1%) of total profits and losses that make up group profit before tax or 5% (2017: 9%) of total group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality, which was set at £0.65m as a reflection of the risk profile of the Group across the components. The work on 4 of the 6 components (2017: 5 of the 9 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group team inspected audit documentation prepared by 4 (2017: 4) component teams for full scope audits, being Germany, Holland, China and Belgium (2017: Germany, Holland, Belgium and Czech Republic) and 1 (2017: nil) component team for specified audit procedures, being Czech Republic. Telephone conference meetings were also held with all component auditors. During these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement page 53 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 and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 95, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial nature of the group's

activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we identified actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. Further detail in respect of the customs duty irregularities is set out in the key audit matter disclosures in section 3 of this report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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

Anthony Hambleton (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

St Nicholas House
Park Row
Nottingham
NG1 6FQ

30 January 2019

Consolidated Income Statement

for the year ended 30 November

	Note	2018			2017		
		Underlying £m	Non-underlying (Note 5) £m	Total £m	Underlying £m	Non-underlying (Note 5) £m	Total £m
Revenue	1	431.9	–	431.9	446.5	–	446.5
Operating profit/(loss)	1	22.2	(58.6)	(36.4)	35.5	(50.4)	(14.9)
Financial income	6	0.2	–	0.2	0.1	–	0.1
Financial expense	6	(5.7)	(0.3)	(6.0)	(4.9)	–	(4.9)
Net financing costs		(5.5)	(0.3)	(5.8)	(4.8)	–	(4.8)
Profit/(loss) before taxation	2	16.7	(58.9)	(42.2)	30.7	(50.4)	(19.7)
Taxation	7	(4.4)	0.9	(3.5)	(8.9)	11.0	2.1
Profit/(loss) after taxation		12.3	(58.0)	(45.7)	21.8	(39.4)	(17.6)
Profit/(loss) for the year from continuing operations		12.3	(58.0)	(45.7)	21.8	(39.4)	(17.6)
Loss for the year from discontinued operations	30	–	(0.7)	(0.7)	–	(1.0)	(1.0)
Profit/(loss) for the year		12.3	(58.7)	(46.4)	21.8	(40.4)	(18.6)
Attributable to							
Equity holders of the Company		11.8	(58.7)	(46.9)	21.2	(40.4)	(19.2)
Non-controlling interest	28	0.5	–	0.5	0.6	–	0.6
		12.3	(58.7)	(46.4)	21.8	(40.4)	(18.6)
Earnings per share	10						
Continuing operations:							
Basic		3.56p		(14.04p)	6.42p		(5.56p)
Diluted		3.52p		(14.04p)	6.32p		(5.56p)
Discontinued operations:							
Basic		–		(0.21p)	–		(0.30p)
Diluted		–		(0.21p)	–		(0.30p)
Total:							
Basic		3.56p		(14.25p)	6.42p		(5.86p)
Diluted		3.52p		(14.25p)	6.32p		(5.86p)

Consolidated Statement of Comprehensive Income

for the year ended 30 November

	Note	2018 £m	2017 £m
Loss for the year		(46.4)	(18.6)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension schemes	4	3.5	9.8
Deferred tax on defined benefit pension schemes	4	(1.4)	(3.2)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		1.6	-
Exchange differences recycled from reserves		-	-
Total other comprehensive income for the year, net of tax		3.7	6.6
Total comprehensive loss for the year		(42.7)	(12.0)
Attributable to			
Equity holders of the parent		(43.3)	(13.0)
Non-controlling interest	28	0.6	1.0
Total		(42.7)	(12.0)

Balance Sheets

as at 30 November

	Note	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Non-current assets					
Goodwill	11	28.2	66.9	–	–
Intangible assets	12	23.4	24.8	1.1	0.8
Property, plant and equipment	13	137.0	144.5	0.3	0.5
Investment in subsidiaries	14	–	–	174.8	181.3
Investment in joint venture	15	–	–	–	–
Investment in associates	16	0.8	0.7	–	–
Deferred tax assets	22	8.6	10.1	–	3.5
Other receivables	18	–	–	42.4	47.2
Post-employment benefits	4	11.4	10.0	11.0	10.0
		209.4	257.0	229.6	243.3
Current assets					
Inventories	17	93.9	97.3	–	–
Trade and other receivables	18	77.8	86.9	158.7	172.9
Cash and cash equivalents	20	47.8	38.2	0.4	0.1
Assets classified as held for sale	21	2.7	–	–	–
		222.2	222.4	159.1	173.0
Current liabilities					
Interest-bearing loans and borrowings	20	5.0	2.7	2.5	2.0
Current tax liabilities		0.7	2.2	–	0.5
Trade and other payables	19	92.4	86.7	11.7	105.6
Provisions	23	3.8	1.7	–	–
Liabilities directly associated with assets classified as held for sale	30	2.2	1.4	–	–
		104.1	94.7	14.2	108.1
Net current assets		118.1	127.7	144.9	64.9
Total assets less current liabilities		327.5	384.7	374.5	308.2
Non-current liabilities					
Interest-bearing loans and borrowings	20	171.3	173.9	65.1	71.5
Deferred tax liabilities	22	16.8	17.5	3.9	3.5
Post-employment benefits	4	11.1	12.2	–	–
Other payables	24	0.8	0.8	88.7	–
		200.0	204.4	157.7	75.0
Net assets		127.5	180.3	216.8	233.2
Equity attributable to equity holders of the parent					
Share capital	25	47.4	47.4	47.4	47.4
Share premium account	26	74.8	74.6	74.8	74.6
Translation reserve	27	(24.9)	(26.4)	–	–
Retained earnings		23.2	78.3	94.6	111.2
Total equity attributable to					
Equity holders of the parent		120.5	173.9	216.8	233.2
Non-controlling interest	28	7.0	6.4	–	–
Total equity		127.5	180.3	216.8	233.2

The consolidated financial statements on pages 102 to 157 were approved by the Board on 30 January 2019 and signed on its behalf by:

Philip de Klerk **Ian Ashton**
30 January 2019 30 January 2019

Registered number: SC008349

Consolidated Cash Flow Statement

for the year ended 30 November

	Note	2018 £m	2017 (restated) £m
Loss for the year from continuing operations		(45.7)	(17.6)
Loss for the year from discontinued operations		(0.7)	(1.0)
Loss for the year		(46.4)	(18.6)
Adjustments for:			
Depreciation	2	15.9	18.5
Amortisation	2	4.1	4.8
Income tax expense/(credit)	7	3.5	(2.1)
Net financing costs	6	5.8	4.8
Increase in provision for disposal of Bonar Natpet (liabilities held for sale)	30	0.7	0.3
Share of profit from associate	16	(0.1)	(0.2)
Loss on disposal of the grass yarns business		-	0.7
Loss on disposal of the agro-textile business		-	12.7
Civil Engineering impairment charge		2.3	31.6
Coated Technical Textiles impairment charge	11	39.0	-
ERP impairment charge	12	1.5	-
Other impairment charges		1.0	-
Non-cash pension charges		4.5	1.1
Other non-cash income		(0.2)	-
Decrease/(increase) in inventories		4.4	(9.2)
Decrease/(increase) in trade and other receivables		9.5	(10.3)
Increase/(decrease) in trade and other payables		4.1	(0.1)
Increase in provisions		2.1	1.7
(Gain)/loss on disposal of non-current assets		(0.2)	0.2
Equity-settled share-based payment		(0.2)	0.7
Cash inflow from operations		51.3	36.6
Interest received		0.1	-
Interest paid		(5.2)	(4.4)
Tax paid		(5.4)	(10.3)
Pension cash contributions		(3.4)	(4.4)
Net cash inflow from operating activities		37.4	17.5
Proceeds from the disposal of the grass yarns business		-	3.0
Proceeds from the disposal of the agro-textile business		-	4.2
Proceeds from the disposal of fixed assets		2.6	-
Acquisition of Walfloor Industries Inc.		-	(3.4)
Acquisition of property, plant and equipment		(15.2)	(28.7)
Intangible assets purchased		(3.4)	(5.7)
Net cash outflow from investing activities		(16.0)	(30.6)
Drawdown of borrowings		129.0	33.7
Repayment of borrowings		(127.9)	-
Loan fees repaid		(1.6)	-
Proceeds of share issues to employees		0.2	0.2
Equity dividends paid		(10.1)	(10.0)
Dividends paid to non-controlling interests		-	(1.0)
Net cash (outflow)/inflow from financing activities		(10.4)	22.9
Net cash inflow	29	11.0	9.8
Cash and cash equivalents at start of year		35.5	26.3
Foreign exchange differences		0.9	(0.6)
Cash and cash equivalents at end of year		47.4	35.5

Company Cash Flow Statement

for the year ended 30 November

	Note	2018 £m	2017 (restated) £m
(Loss)/profit for the year	8	(7.6)	20.1
Adjustments for:			
Depreciation		0.2	0.1
Income tax charge/(credit)		2.9	(2.6)
Provision for investment impairment		6.2	–
Provision for amount due from subsidiary undertaking		5.3	–
Loss on disposal of investments		0.3	–
Net financing income		(1.6)	(2.9)
Non-cash pension charges		4.2	0.6
Other non-cash income		(0.1)	–
Decrease/(increase) in receivables		13.7	(27.7)
(Decrease)/increase in payables		(5.3)	86.1
Equity-settled share-based payment		(0.2)	0.7
Cash inflow from operations		18.0	74.4
Interest received		5.7	5.0
Interest paid		(3.7)	(1.7)
Pension cash contributions		(3.0)	(4.1)
Net cash inflow from operating activities		17.0	73.6
Investment in subsidiary		–	(88.1)
Acquisition of intangible assets		(0.3)	(0.8)
Net cash outflow from investing activities		(0.3)	(88.9)
Proceeds of share issues to employees		0.2	0.2
Loan fees repaid		(1.4)	–
Drawdown of borrowings		71.5	23.1
Repayment of borrowings		(77.1)	–
Equity dividends paid		(10.1)	(10.0)
Net cash (outflow)/inflow from financing activities		(16.9)	13.3
Net cash outflow	29	(0.2)	(2.0)
Cash and cash equivalents at start of year		(1.9)	0.1
Cash and cash equivalents at end of year		(2.1)	(1.9)

Consolidated Statement of Changes in Equity

for the year ended 30 November

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Non-controlling interest £m	Total equity £m
At 30 November 2016	47.4	74.4	(26.0)	100.2	196.0	6.4	202.4
Total comprehensive (loss)/profit for the year	–	–	(0.4)	(12.6)	(13.0)	1.0	(12.0)
Dividends paid to Ordinary Shareholders	–	–	–	(10.0)	(10.0)	–	(10.0)
Dividends paid to non-controlling interests	–	–	–	–	–	(1.0)	(1.0)
Shares issued	–	0.2	–	–	0.2	–	0.2
Share-based payment	–	–	–	0.7	0.7	–	0.7
Net increase/(decrease) for the year	–	0.2	(0.4)	(21.9)	(22.1)	–	(22.1)
At 30 November 2017	47.4	74.6	(26.4)	78.3	173.9	6.4	180.3
Total comprehensive profit/(loss) for the year	–	–	1.5	(44.8)	(43.3)	0.6	(42.7)
Dividends paid to Ordinary Shareholders	–	–	–	(10.1)	(10.1)	–	(10.1)
Shares issued	–	0.2	–	–	0.2	–	0.2
Share-based payment	–	–	–	(0.2)	(0.2)	–	(0.2)
Net increase/(decrease) for the year	–	0.2	1.5	(55.1)	(53.4)	0.6	(52.8)
At 30 November 2018	47.4	74.8	(24.9)	23.2	120.5	7.0	127.5

Company Statement of Changes in Equity

for the year ended 30 November

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 30 November 2016	47.4	74.4	94.6	216.4
Profit for the year	–	–	20.1	20.1
Actuarial gain on defined benefit pension scheme	–	–	8.9	8.9
Deferred tax on defined benefit pension scheme	–	–	(3.1)	(3.1)
Dividends paid to Ordinary Shareholders	–	–	(10.0)	(10.0)
Shares issued	–	0.2	–	0.2
Share-based payment	–	–	0.7	0.7
Net increase for the year	–	0.2	16.6	16.8
At 30 November 2017	47.4	74.6	111.2	233.2
Loss for the year	–	–	(7.6)	(7.6)
Actuarial gain on defined benefit pension scheme	–	–	1.9	1.9
Deferred tax on defined benefit pension scheme	–	–	(0.6)	(0.6)
Dividends paid to Ordinary Shareholders	–	–	(10.1)	(10.1)
Shares issued	–	0.2	–	0.2
Share-based payment	–	–	(0.2)	(0.2)
Net increase/(decrease) for the year	–	0.2	(16.6)	(16.4)
At 30 November 2018	47.4	74.8	94.6	216.8

Significant Accounting Policies

General information

Low & Bonar PLC (the 'Company') is a public company, limited by shares, domiciled in Scotland and incorporated in Scotland under the Companies (Consolidation) Act 1908. The address of the registered office is Whitehall House, 33 Yeaman Shore, Dundee, Scotland, DD1 4BJ. The management head office is One Connaught Place, London, W2 2ET.

The consolidated financial statements of the Company for the year ended 30 November 2018 comprise the Company and its subsidiaries (together referred to as the 'Group').

(A) Basis of preparation

The financial statements are presented in Pounds Sterling, rounded to the nearest hundred thousand Pounds. They are prepared on the historical cost basis except for the revaluation to fair value of certain financial instruments. UK company law requires directors to consider whether it is appropriate to prepare the financial statements on the basis that the Company and the Group are a going concern.

Both the Parent Company financial statements and the Group financial statements have been prepared in accordance with IFRS as adopted by the EU ('adopted IFRS'). At the date of authorisation of these financial statements, there are a number of Standards, Interpretations and Amendments in issue but not yet effective and which have therefore not yet been applied in these financial statements (accounting policy W).

On publishing the Parent Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related Notes which form a part of these approved financial statements.

The adopted IFRS applied by the Group in the preparation of these financial statements are those that were effective at 30 November 2018.

Going concern

The Group closely monitors and manages its funding position and liquidity risk throughout the year, including monitoring forecast covenant results to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced and sensitivities considered for, but not limited to, reduced volume growth, raw material price changes, and reduction in margins. These forecasts and sensitivity analyses allow management to mitigate any liquidity or covenant compliance risks in a timely manner.

During the year, management has taken action to implement certain cost-saving programmes, to reduce planned operational expenditure, general and administrative spend and capital expenditure, and to better control working capital. Management also successfully refinanced the Group's Revolving Credit Facility and Private Placement Notes, including a relaxation of the leverage covenant from 3x adjusted EBITDA to 3.5x adjusted EBITDA until, and including, the May 2019 covenant test.

At the year end, the Group had headroom of £88m on its borrowing facilities and headroom on its related financial covenants which are the same under both the Revolving Credit Facility and the Private Placement Notes. The Group routinely takes action to manage working capital every six months, and the headroom reflects the benefit of these actions.

The forecasts which underpin our going concern assessment are based on the approved 2019 budget, and reflect an assumed growth in sales volumes of B&I and I&T, an increase in profitability of Civil Engineering, following the operational improvement actions undertaken by management, and an improvement in profitability of CTT reflecting the progress made during 2018 to resolve the production consistency issues that have been experienced. The forecasts reflect an increase in raw material prices from 2018, and also reflect the net debt benefit of the working capital management actions taken each six months, at levels broadly similar to the amounts delivered in 2018. The forecasts indicate that the Group will be able to operate within the headroom of its existing borrowing facilities for at least 12 months from the date of approval of the Annual Report and Accounts.

Notwithstanding this, the level of headroom over the loan covenants is limited. Whilst further headroom could be created through certain mitigating actions, such as reduction in capex, further cost savings, and a reduction in dividends, risks to the business exist which could eliminate this headroom. These risks, which have been taken into account in modelling downside scenarios for the purposes of this assessment, and the viability statement review, include lower than projected sales growth, the recovery of CTT being slower than anticipated, the impact of foreign exchange fluctuations on the Group's reported Sterling results following the UK's withdrawal from the EU, and/or significant raw material price increases above those assumed in the budget combined with an inability to pass the price increases on to customers. The Directors are also pursuing the sale of the Civil Engineering business, and this disposal, which would create further headroom, has not been assumed within the projections.

The Directors have considered the base case projections, and the impact of the plausible risks to the business on these projections. Despite the actions taken to date to reduce cost, improve working capital and improve the business, there remains a risk that the leverage ratio will exceed the maximum leverage ratio under the debt facility arrangement of 3.5x times in the measurement period ended 31 May 2019 and in subsequent periods, noting that the leverage ratio covenant reduces to 3.0x times for the test date ended 30 November 2019 and future test dates.

Should a breach on the leverage covenant begin to appear likely despite mitigating actions that management would take, in the first instance we would seek to renegotiate the terms of the debt facilities or seek an amendment or waiver of the leverage ratio covenant. However we may not be able to obtain such amendment or waiver from the lenders either at all, or without a significant cost. In this situation, the lenders could demand accelerated repayment and we may not have the funds to make these repayments.

In light of this, the Group is intending to raise a net amount of £50m via an equity raise, the prospectus for which was published on 30 January 2019.

The Directors have considered in their assessment of going concern the prospects of the equity raise proceeding and the net proceeds of the equity raise being received by the Group, together with the risks attached to the equity raise not taking place, including appetite in the market as a result of Brexit uncertainty. The Directors highlight that whilst the equity raise is fully underwritten, it is dependent on the receipt of shareholder approval, which is subject to customary conditions, and which is not scheduled to complete until after the date of signing of these financial statements.

Significant Accounting Policies continued

(A) Basis of preparation continued

Accordingly, at the time of signing these financial statements, there remains a material uncertainty related to events or conditions that may cast a significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the Directors believe that shareholder approval will be received with the general meeting to approve the equity raise scheduled for 19 February 2019, and that taking into account the proceeds of the equity raise, they therefore have a reasonable expectation that the Company and the Group will be able to operate within the level of available facilities and cash for the foreseeable future and accordingly believe that it is appropriate to prepare the financial statements on a going concern basis.

Restatement of Cash Flow Statement

The prior year cash and cash equivalent amounts in the Consolidated Cash Flow Statement and Company Cash Flow Statement have been restated to include bank overdrafts. This adjustment has resulted in cash and cash equivalents at the end of the year decreasing from £38.2m at 30 November 2017 to £35.5m for the Group and £0.1m to £(1.9)m for the Company. Drawdown on borrowings has decreased from £36.4m at 30 November 2017 to £33.7m for the Group and £23.8m to £23.1m for the Company. The restatement has no impact on the net assets of the Group or Company.

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Parent Company financial statements, investments in subsidiaries are carried at cost less impairment.

The interest in non-controlling interests is initially stated at the non-controlling interests' share of the fair values of the identifiable assets and liabilities recognised on the date of acquisition. Subsequent to this acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Changes in the Group's interest that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The Group accounts for its joint ventures using the equity method. The investment in the joint venture is recognised initially at cost and is adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture. Where a joint venture is loss-making, the Group accounts for its share of loss until the carrying value of the investment is reduced to zero. A share of further losses is only recognised to the extent that the Group has a legal or constructive obligation to do so.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions and any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

(v) Discontinued operations

A discontinued operation is a component of the Group's businesses that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(vi) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

(C) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Pounds Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Pounds Sterling at exchange rates ruling at the date the fair values were determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(C) Foreign currency continued

(ii) Translation of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The income statements of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the date of the transactions. Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken to Other Comprehensive Income. They are released to the income statement upon disposal. Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future are treated as part of the net investment in the foreign operation.

(D) Hedging

(i) Hedge of net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the translation reserve. They are released to the income statement upon disposal of the foreign operation.

In respect of all foreign operations, any differences that have arisen since 1 December 2004, the date of transition to IFRS, are presented as a separate component of equity in the Group financial statements.

The Group tests effectiveness on a prospective and retrospective basis to ensure compliance with IAS 39.

(E) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy J). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant, property and equipment.

(ii) Leased assets

Leases whereby the Company or the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy J). Lease payments are accounted for as described in accounting policy Q. Where land and buildings are held under lease the accounting treatment of the land is considered separately from that of buildings.

(iii) Subsequent expenditure

The Company and the Group recognise in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured

reliably. Subsequent costs are capitalised if it is probable that the future economic benefits will flow to the entity, and the costs can be reliably measured.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Land is not depreciated.

The estimated useful lives for significant classes of assets are as follows:

– property	10–50 years
– plant and equipment	3–15 years

For other assets, the useful economic lives are:

– fixtures and fittings	3–7 years
– computer hardware	2–5 years
– tooling	1–5 years
– motor vehicles	3–5 years

(F) Intangible assets

(i) Goodwill

Goodwill is recognised only in a business combination and is measured as a residual. Goodwill represents the excess of the fair value of the consideration paid over the share of the identifiable assets acquired and liabilities assumed.

Goodwill is stated at deemed cost less any accumulated impairment losses (see accounting policy J).

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when it is incurred.

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy J).

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see accounting policy J). Expenditure on internally generated goodwill and brands is recognised in the income statement when it is incurred.

Significant Accounting Policies continued

(F) Intangible assets continued

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite life are not amortised but are systematically tested for impairment annually and further tested at each balance sheet date if there is any evidence of potential impairment. Other intangible assets are amortised from the date that they are available for use.

The estimated useful lives of the identified intangible assets are as follows:

– technology based	5–10 years
– customer relationships	4–11 years
– marketing related	10 years
– order backlog	3 months
– non-compete agreements	4–5 years
– computer software	3–12 years
– research and development	5–7 years

(G) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at their amortised cost less impairment losses (see accounting policy J).

(H) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(I) Cash and cash equivalents

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

(J) Impairment

The carrying amounts of the Company's and the Group's assets, other than inventories (accounting policy H), and deferred tax assets (accounting policy S) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses

recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the group of cash generating units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in the income statement.

An impairment loss in respect of goodwill is not reversible. Other impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Calculation of recoverable amount

Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assumptions of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(K) Share capital

(i) Preference share capital

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions: they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of financial expenses. Finance payments associated with financial instruments that are classified in equity are dividends, and are recorded directly in equity.

(ii) Dividends

Dividends on redeemable Preference Shares are recognised as a liability on an accruals basis. Dividends on Ordinary Shares are recognised as a liability in the period in which they are declared. Dividend income is recognised in the income statement on the date that the dividend is declared.

(iii) Equity transaction costs

Directly attributable and incremental transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(L) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

(M) Employee benefits

The Company and the Group operate defined benefit pension plans and defined contribution pension plans. The Company also offers share-based compensation benefits to certain employees of the Group.

(i) Defined contribution plans

A defined contribution pension plan is one under which fixed contributions are paid to a third party. The Company and the Group have no further payment obligations once these contributions have been paid. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

A defined benefit pension plan is one that specifies the amount of pension benefit that an employee will receive on retirement. The Company's and the Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of the Company's or the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the Company or the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

The Group determines the extent to which payments made which fulfil obligations to make future contributions to cover an existing shortfall will be available as a refund or reduction in future contributions after they are paid into the plan. To the extent that the contributions payable will not be available after they are paid into the plan, the Group recognises a liability when the obligation arises.

Actuarial gains and losses are recognised immediately in Other Comprehensive Income.

(iii) Equity and equity-related compensation benefits

The Company and Group have applied the requirements of IFRS 2. In accordance with the exemption available within the transitional provisions of IFRS 1, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Company operates various equity-settled and cash-settled share option schemes. Equity-settled share-based payments are measured at fair value at the date of the grant, and the fair value determined at the grant date of these payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured taking into account market conditions and by use of the Black-Scholes model or a Stochastic model, as appropriate. Measurement inputs include share price at the measurement date, exercise price of the instrument, expected volatility (based on historic volatility patterns), the expected dividend yield and the risk-free interest rate (calculated based on UK Gilts with a term commensurate with the expected term remaining of the performance period at grant). The fair values of cash-settled payments are re-measured at each balance sheet date and the cost of these payments is recognised over the vesting period, taking into account the re-measurement of fair value at each balance sheet date.

The Low & Bonar 1995 Employees' Share Ownership Plan Trust (the 'ESOP') purchases shares in the Company in order to satisfy awards made under the Company's Long-term incentive plan. Shares held by the ESOP are treated as treasury shares and a deduction is computed in the Company's issued share capital for the purposes of calculating EPS. The ESOP is accounted for as a branch.

(N) Provisions

A provision is recognised in the balance sheet when the Company or the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to the affected parties.

(O) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at their amortised cost. They are not interest-bearing.

(P) Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods are recognised when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer (which is generally on despatch as most items are sold on a cost includes freight basis; or on delivery where Delivered Duty Paid ("DDP") Incoterms are used), the amount of revenue can be measured reliably, and it is probable that the economic benefits of the transaction will flow to the Group.

Significant Accounting Policies continued

(Q) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments

Payments made under finance leases are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective-interest rate method, dividends on redeemable preference shares, net interest in respect of defined benefit pension assets and liabilities, interest receivable on funds invested, dividend income and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy D). Interest income is recognised in the income statement as it accrues, using the effective interest rate.

(R) Non-underlying items

As permitted by IAS 1 (Revised): Presentation of Financial Statements, certain items are presented separately. Although the term “non-underlying” is not defined under IFRS, the Group has adopted the policy that the items that are separately presented as non-underlying on the face of the income statement are those items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, or due to materiality, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

The following items, and the related tax thereon, are routinely classified as non-underlying:

- Impairments and asset write-offs are deemed to be non-underlying in nature. This includes impairments of tangible and intangible assets. Other non-routine write offs/write downs, where deemed material, are also included in this category.
- Amortisation of acquired intangible assets.
- Gains or losses in respect of acquisitions or disposals, including failed or aborted acquisitions or disposals.
- The initial recognition of previously unrecognised tax losses due to a change in profit projections is treated as non-underlying due to the irregularity and size of the adjustments, and the distorting impact this would otherwise have on the underlying effective tax rate.

(S) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income 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.

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

Deferred tax is provided using the balance sheet liability method, providing for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following timing differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the timing difference and it is probable that the timing difference will not reverse in the future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(T) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker and used to assess performance and allocate resources on an appropriate basis. The chief operating decision-maker has been identified as the Board of Directors.

(U) Significant judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(U) Significant judgements and estimates continued

(i) Critical accounting judgements

Recoverability of goodwill, intangible assets and property, plant and equipment

In performing the impairment reviews, the Group assesses the recoverable amount of its operating assets principally with reference to value in use, assessed using discounted cash flow models. These models are subject to estimation uncertainty and there is judgement in determining the assumptions that are considered to be reasonable and consistent with those that would be applied by market participants as outlined below.

The Group assesses at each reporting date whether there are any indicators that its assets and groups of cash generating units (CGUs) may be impaired. Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows, are updated regularly as part of the Group's planning and forecasting processes. Judgement is therefore required to determine whether the updates represent significant changes in the service potential of an asset or CGU, and are therefore indicators of impairment or impairment reversal. The judgement also takes into account the Group's long-term economic forecasts, market consensus and sensitivity analysis of the discounted cash flow models used to value the Group's asset.

Taxation

The Group has a number of taxation judgements to consider including the recoverability of deferred tax assets, the assessment of corporation tax in each of the jurisdictions in which it operates and the total provision for income taxes based on management's interpretation of country-specific tax law and the likelihood of settlement. Included in current tax liabilities is an amount of £2.8m (2017: £3.5m) in respect of uncertain tax positions. This amount relates primarily to the risks arising from the inter-company pricing arrangements within the Group and to specific tax risks in Germany and the Netherlands. Inter-company pricing is the subject of continuing focus by the tax authorities following recent changes in the international tax rules and the liability has been reviewed at the 30 November 2018 in light of this. Management evaluates each of these risks on a case by case basis and regularly re-evaluates their assessment of likely outcomes based on the latest information available and previous experience.

In addition, the recognition and measurement of deferred tax requires the application of judgement in assessing the amount, timing and probability of future taxable profits and repatriation of retained earnings. These factors affect the determination of the appropriate rates of tax to apply and the recoverability of deferred tax assets. These judgements are influenced, inter alia, by factors such as estimates of future performance of the Group's operations, future capital expenditure and dividend policies. See Note 22 for the Group's deferred tax disclosures.

Non-underlying items

The definition of non-underlying items is not prescribed in any IFRS and therefore judgement is involved in determining which items constitute non-underlying items. The Directors apply judgement when considering the presentation of underlying and non-underlying items. As discussed above, the Group separately presents specific non-underlying items in the income statement, which in the Directors judgement, need to be disclosed separately by virtue of their nature, size and/or incidence in order for users of the financial statements to obtain a proper understanding of the financial information and the underlying performance of the business. This judgement has an impact on the calculation of the covenants as non-underlying items are excluded from the calculation of adjusted EBITDA (Note 38).

As noted in accounting policy R, certain items are routinely presented separately as non-underlying items on the face of the income statement. In the current year, restructuring costs have been presented separately as they relate directly to a major Group-wide transformation programme which is over and above the level of restructuring that is routinely undertaken in the normal course of business. As disclosed in Note 5 these restructuring costs include the cost of headcount reductions and other non-underlying significant consulting costs.

(ii) Key sources of estimation uncertainty

Retirement benefit schemes

The expected costs of providing pensions and post-employment benefits under defined benefit arrangements relating to employee service during the period are determined based on financial and actuarial assumptions. Note 4 outlines the key assumptions used to value the Group's post-employment obligations and the sensitivity of obligations to changes in these assumptions. The key assumptions include the discount rate, the rate of inflation, the mortality assumptions and the rate of future pension increases. Measurement of the UK Scheme's defined benefit obligation is particularly sensitive to changes in certain key assumptions including the discount rate. An increase or decrease of 0.5% in the discount rate would result in a decrease or increase in the defined benefit obligation of c £9.1m – £10.2m (2017: £10.2m – £11.5m) respectively.

The UK pension scheme provided guaranteed minimum pensions ("GMPs") in lieu of benefits under the State Earnings Related Pension Scheme ("SERPS") in respect of contracted-out service up to 5 April 1997. GMPs (in line with the State pension benefits provided within SERPS) are required to be paid to men and women at different retirement ages, 65 and 60 respectively. As a result of the ruling on 26 October 2018 relating to Lloyds Bank's pension schemes, Article 141 of the EC Treaty (and the Barber decision as enacted in the Pensions Act 1995) requires our scheme (or any UK pension scheme providing GMPs) to adjust benefits to remove inequalities introduced by GMPs, including those caused by the different retirement ages. In conjunction with the Group's pension advisors, we have made an initial assessment of the additional liability this ruling would give rise to and at 30 November 2018 estimate the additional liability to be £4m. This estimation is based on 15% of the proportion of liabilities relating to GMPs accrued after 1990. Under IAS 19, where you are making changes to future benefits of the Scheme, this is classified as a plan amendment and should therefore be accounted for as a past service cost. Past service costs are recognised in the income statement and the £4.0m is presented as a non-underlying item in Note 5.

Significant Accounting Policies continued

(U) Significant judgements and estimates continued

Given the inherent uncertainty surrounding the details and application of the ruling and the complexity of the UK scheme, the amount of the additional liability is calculated based on the information currently available. The key assumption in the calculation is that the additional liability will be 15% of the GMPs accrued after 1990. This is the Group's best estimate at this time although we understand, from discussions with our advisors, that a range of 10-20% might be appropriate as we gain more transparency on the ruling. We will therefore continue to revise the £4m estimate going forward as we gain more clarity and understanding of exactly how this ruling will be applied and how it will impact the scheme.

Provision for custom duties and fees

In previous periods, the Group identified irregularities in relation to customs duties which relate to sales arranged from a former overseas sales office which was closed several years ago. The 2018 non-underlying charge of £1.6m and closing provision of £2.6m represents the Group's best estimate of the liability (both the penalty to be incurred and the professional fees included) and it has been treated as non-underlying due to its nature. In forming a view as to the adequacy of the provision, management have taken account of the findings of the investigation to date which include some assessments and assumptions that could significantly alter the level of costs to be incurred, were they to be incorrect. These assessments and assumptions include the identification of all transactions with irregularities, the value of customs duties impacted and the level of relief for penalties that could be given due to the Group's active management of the issue. The investigation is ongoing and until matters have been resolved with the relevant authorities, the timing of any cash outflows is uncertain. Whilst management believe that the assessments and assumptions used in calculating the required provision are appropriate, it is reasonably possible that, within the next financial year, variations in key assessments and assumptions, particularly the level of relief given for penalties, could lead to a material change to the amount provided.

Calculations of value in use and fair value less costs to sell used in impairment testing

The impairment tests undertaken with respect to goodwill, intangible assets and property, plant and equipment (Notes 11, 12 and 13) use commercial judgement and key assumptions and estimates including the discount rate, the long-term growth rate and the cash flow projections to be used. Estimating a value in use amount requires management to make an estimate of the future expected cash flows from each group of cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(V) Financial guarantee contracts

Where the Company enters into contracts to guarantee the indebtedness of other companies within the Group, these are considered to be insurance arrangements and are accounted for as such. In this respect, the Company treats the guarantee contract as a contingent liability unless it becomes probable that the Group will be required to make a payment under the guarantee.

(W) New IFRS not yet applied

On the date on which these financial statements were authorised the following Standards, Interpretations and Amendments had been issued but were not effective for the year ended 30 November 2018 (and in some cases had not yet been adopted by the EU) and have not yet been adopted by the Group:

IFRS 9 Financial Instruments

For the Group, transition to IFRS 9 is effective from 1 December 2018. The half year results for the period ended 31 May 2019 will be IFRS 9 compliant with the first Annual Report published in accordance with IFRS 9 being the 30 November 2019 report. The Group has elected not to restate comparatives on initial application of IFRS 9, the opening impact of adoption of IFRS 9 will be recognised in reserves. IFRS 9 provides a new expected losses impairment model for financial assets, including trade receivables, and includes amendments to classification and measurement of financial instruments.

During this reporting period the Group has undertaken an impact assessment of this new standard on its financial statements. The Group's use of financial instruments is limited to short-term trading balances such as receivables and payables and borrowings.

As part of the impact assessment, we identified a difference to trade receivables calculated for our CTT business unit. The impact is to increase the provision against trade receivables by approximately £200,000 resulting from an estimate of lifetime expected credit losses being applied to all receivables, even those not past due. In accordance with IFRS 9, this adjustment will be reflected as an opening retained earnings adjustment in the Annual Report for the year ended 30 November 2019.

We identified a further adjustment to the accounting treatment of non-substantial debt modifications under IFRS 9 of approximately £140,000. This adjustment will also be reflected as an opening retained earnings adjustment in the Annual Report for the year ended 30 November 2019.

(W) New IFRS not yet applied continued

IFRS 15 Revenue from Contracts with Customers

For the Group, transition to IFRS 15 is effective from 1 December 2018. The half year results for the period ended 31 May 2019 will be IFRS 15 compliant with the first Annual Report published in accordance with IFRS 15 being the 30 November 2019 report. The Group has elected to apply the new standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. As such, comparatives for the year ended 30 November 2019 will not be restated.

IFRS 15 replaces existing revenue guidance including IAS 18 "Revenue", and sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on a five-step model.

During the year ending 30 November 2018, the Group performed a detailed assessment of the impact of IFRS 15, involving an initial top-down risk assessment, and then a detailed validation exercise conducted with each business unit. This exercise concluded that, as our performance obligations are mainly limited to the delivery of goods, there is no significant change required to the accounting currently carried out in accordance with IAS 18.

The net impact to the opening balance sheet and balance sheet as at 30 November 2018 is immaterial.

Apart from additional disclosure requirements, the adoption of IFRS 15 will not have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

For the Group, transition to IFRS 16 will take effect from 1 December 2019. The half year results for the period ending 31 May 2020 will be IFRS 16 compliant with the first Annual Report published in accordance with IFRS 16 being for the year ending 30 November 2020.

IFRS 16 provides a single on-balance sheet accounting model for lessees which recognises a right of use asset, representing its right to use the underlying asset, and lease liability, representing its obligations to make payment in respect of the use of the underlying asset. The distinction between finance and operating leases for lessees is removed. In addition, the profile of expenses related to leasing arrangements will change. Straight line operating lease expenses will be replaced by the recognition of depreciation of the right-of-use asset and interest charges on lease liabilities.

The Group expects to apply the exemptions available in respect of leases which are less than 12 months long and those which have been classified as leases of low-value items. In addition, the Group expects to apply the practical expedient to all contracts, previously assessed as containing a lease under IAS 17, without reassessing whether such contracts meet the definition of a lease under IFRS 16. The Group expects to apply a modified approach to transition.

The Group is currently assessing the financial impact of the new standard. The most significant impact will be that the Group's property plant and equipment leases will be brought onto the balance sheet resulting in an increase in right of use assets and lease liabilities, and depreciation and interest expense in the income statement rather than the current lease expense included in operating expenses. The actual impact of applying IFRS 16 is dependent on future economic conditions including: movements in the Group's borrowing rate at 30 November 2019, the composition of the Group's lease portfolio at transition date, the Group's view on whether renewal options will be exercised, and the Group's final decisions regarding the use of recognition exemptions and practical expedients for transition.

Other new standards, interpretations and amendments which are not expected to have a material impact on the Group's financial results

- Amendments to IFRS 2: Classification and measurement of Share-based Payment Transactions
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Annual Improvements to IFRSs – 2014-2016 Cycle
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance consideration
- Amendments to IAS 40 Investment Property
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28 Investments in Associates and Joint Ventures – not yet endorsed by the EU
- IFRS 17 Insurance Contracts – not yet endorsed by the EU
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) – not yet endorsed by the EU
- Annual Improvements to IFRSs 2015-2017 Cycle – not yet endorsed by the EU
- Amendments to References to Conceptual Framework in IFRS Standards – not yet endorsed by the EU
- Definition of a Business (Amendments to IFRS 3) – not yet endorsed by the EU
- Definition of Material (Amendments to IAS 1 and IAS 8) – not yet endorsed by the EU
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – not yet endorsed by the EU
- IFRS 14 Regulatory Deferral Accounts – not yet endorsed by the EU

(X) Alternative performance measures

The Group uses certain alternative performance measures to enhance the understanding of underlying business performance, and to be consistent with its communication with investors. These are detailed in Note 38, together with reconciliations to the statutory figures contained in these financial statements.

Notes to the Accounts

1. Segmental information

The Group's principal activities are in the international manufacturing and supply of those performance materials commonly referred to as technical textiles. For the purposes of management reporting to the chief operating decision maker, the Group is split into four reportable business units: Building & Industrial, Civil Engineering, Coated Technical Textiles and Interiors & Transportation. Segment assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash and cash equivalents, interest-bearing loans, borrowings, investments in joint ventures and associates, post-employment benefits and corporate assets and expenses. Inter-segment sales are not material.

From December 2018, Building & Industrial and Interiors & Transportation will be reorganised into a regional structure being Europe, North America and APAC.

Revenue from external customers

	2018 £m	2017* £m
Building & Industrial	89.8	108.2
Civil Engineering	77.6	79.7
Coated Technical Textiles	138.8	138.3
Interiors & Transportation	125.7	120.3
Revenue for the year	431.9	446.5

Operating profit/(loss)

	Underlying		Non-underlying		Total	
	2018 £m	2017* £m	2018 £m	2017* £m	2018 £m	2017* £m
Building & Industrial	6.9	13.0	(2.3)	(13.7)	4.6	(0.7)
Civil Engineering	0.1	(0.5)	(3.9)	(31.6)	(3.8)	(32.1)
Coated Technical Textiles	2.5	9.3	(42.9)	(3.0)	(40.4)	6.3
Interiors & Transportation	18.5	19.1	(1.1)	–	17.4	19.1
Unallocated central	(5.8)	(5.4)	(8.4)	(2.1)	(14.2)	(7.5)
Total	22.2	35.5	(58.6)	(50.4)	(36.4)	(14.9)

Return on sales/operating margin**

	2018	2017*
Building & Industrial	7.7%	12.0%
Civil Engineering	0.1%	(0.6)%
Coated Technical Textiles	1.8%	6.7%
Interiors & Transportation	14.7%	15.9%
Total	5.1%	8.0%

* Restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in Note 36.

** Return on sales/operating margin for each segment is calculated by dividing each segment's underlying operating profit by its revenue from external customers.

1. Segmental information continued

Adjusted constant currency analyses

Adjusted constant currency analyses retranslate prior period results at the current period's rates of exchange. Management believe this allows a better understanding of underlying business performance. For the year ended 30 November 2017, the results of the Agro-textile business disposed of in October 2017 have been removed to present the figures on a consistent basis as the current period results (Note 38).

	2018 £m	2017* (restated) £m	Year on year change* %	2017 (constant currency)* £m	Year on year change* %
Revenue					
Building & Industrial	89.8	108.2	(17.0)%	89.0	+0.9%
Civil Engineering	77.6	79.7	(2.6)%	80.6	(3.7)%
Coated Technical Textiles	138.8	138.3	+0.4%	137.7	+0.8%
Interiors & Transportation	125.7	120.3	+4.5%	118.1	+6.4%
Revenue for the year	431.9	446.5	(3.3)%	425.4	+1.5%
Underlying profit before tax from continuing operations					
Building & Industrial	6.9	13.0	(46.9)%	11.6	(40.5)%
Civil Engineering	0.1	(0.5)	120.0%	(0.5)	120.0%
Coated Technical Textiles	2.5	9.3	(73.1)%	9.4	(73.4)%
Interiors & Transportation	18.5	19.1	(3.1)%	18.7	(1.1)%
Unallocated Central	(5.8)	(5.4)	+7.4%	(5.4)	+7.4%
Underlying operating profit	22.2	35.5	(37.5)%	33.8	(34.3)%
Net financing costs	(5.5)	(4.8)	+14.6%	(4.8)	+14.6%
Total	16.7	30.7	(45.6)%	29.0	(42.4)%

* Restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in Note 36.

Segment assets, liabilities, other information

2018	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	61.7	41.4	105.0	149.7	2.5	360.3
Investment in associates						0.8
Cash and cash equivalents						47.8
Post-employment benefits						11.4
Assets classified as held for sale						2.7
Other unallocated assets						8.6
Total Group assets						431.6
Reportable segment liabilities	(13.2)	(22.3)	(28.0)	(28.7)	–	(92.2)
Loans and borrowings						(176.3)
Post-employment benefits						(11.1)
Liabilities directly associated with assets classified as held for sale						(2.2)
Other unallocated liabilities						(22.3)
Total Group liabilities						(304.1)
Other information						
Additions to property, plant and equipment	1.7	1.3	2.8	9.4	–	15.2
Additions to intangible assets and goodwill	1.0	0.1	0.3	1.6	0.4	3.4
Depreciation	(3.0)	(1.1)	(3.8)	(7.8)	(0.2)	(15.9)
Amortisation of acquired intangible assets	(0.6)	–	(2.2)	–	–	(2.8)
Non-underlying items – continuing operations	(1.7)	(3.9)	(40.7)	(1.1)	(8.4)	(55.8)

Notes to the Accounts continued

1. Segmental information continued

2017*	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	81.1	39.0	154.0	145.5	0.8	420.4
Investment in associates						0.7
Cash and cash equivalents						38.2
Post-employment benefits						10.0
Other unallocated assets						10.1
Total Group assets						479.4
Reportable segment liabilities	(19.0)	(13.8)	(26.1)	(30.1)	–	(89.0)
Loans and borrowings						(176.6)
Post-employment benefits						(12.2)
Liabilities directly associated with assets classified as held for sale						(1.4)
Other unallocated liabilities						(19.9)
Total Group liabilities						(299.1)
Other information						
Additions to property, plant and equipment	3.4	2.2	3.0	20.7	–	29.3
Additions to intangible assets and goodwill	6.8	0.1	0.1	1.6	0.8	9.4
Depreciation	(3.8)	(2.8)	(3.6)	(8.2)	(0.1)	(18.5)
Amortisation of acquired intangible assets	(0.6)	(0.1)	(3.0)	–	–	(3.7)
Non-underlying items – continuing operations	(13.1)	(31.5)	–	–	(2.1)	(46.7)

* Restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in Note 36.

The geographical analysis of external revenue by location of customers and non-current assets by location of assets, as presented to the chief operating decision-maker, is as follows:

	External revenue by location of customers				Non-current assets by location of assets	
	2018 £m	2018 %	2017 £m	2017 %	2018 £m	2017 £m
Europe	273.4	63.3	281.3	63.0	133.4	183.9
North America	95.3	22.1	98.5	22.1	26.0	26.3
Middle East	12.3	2.8	14.9	3.3	–	–
Asia	37.1	8.6	37.0	8.3	50.0	46.8
Rest of the World	13.8	3.2	14.8	3.3	–	–
Total	431.9	100.0	446.5	100.0	209.4	257.0

Revenues arising in the UK, which is the parent Company's country of domicile, were £17.9m (2017: £21.7m). The net book value of non-current assets located in the UK at 30 November 2018 was £13.3m (2017: £12.4m). In the current and prior year more than 10% of the Group's revenues arose in Germany. The net book value of non-current assets located in Germany at 30 November 2018 was £35.9m (2017: £78.0m) and revenues in the year to 30 November 2018 were £74.9m (2017: £72.6m).

2. Profit/(loss) before taxation

	2018 £m	2017 £m
Total operating costs (including non-underlying items)	468.3	461.4
Comprises:		
Cost of sales	324.3	320.4
Distribution costs	40.2	41.9
Administrative and other costs	41.0	42.8
Other operating costs	1.6	3.4
Research and development expenditure recognised as an expense	5.4	6.2
Non-underlying items (Note 5)	55.8	46.7
Total operating costs (including non- underlying items) above include:		
Staff costs (Note 3)	97.3	104.6
Inventories		
Cost of inventories recognised as an expense	146.0	186.1
Write down of inventories recognised as an expense	0.5	0.6
Change in provisions held against inventories	(0.2)	1.1
Depreciation of property, plant and equipment	15.9	18.5
Amortisation of intangible assets	4.1	4.8
Exchange differences recognised as a gain	0.1	1.3
(Gain)/loss on disposal of non-current assets	(0.2)	0.2
Amounts payable under operating leases:		
Property	3.3	3.6
Plant and equipment	2.0	1.9

The balance of operating costs relates to other external charges.

The non-underlying items, which are outlined in detail in Note 5, exclude amortisation of acquired intangible assets of £2.8m (2017: £3.7m) which have been charged to 'Administrative and other costs'.

Auditor's remuneration

During the year the Group obtained the following services from its auditor at costs detailed below:

	2018 £m	2017 £m
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	0.2	0.1
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	0.4	0.4
Non-audit services:		
Corporate tax compliance	–	–
Corporate tax consultancy	–	–
Other non-audit services	–	–

The total amount paid to the auditor was £0.6m (2017: £0.5m).

Subsequent to the period end and prior to the approval of these financial statements, the auditor provided non-audit services related to corporate finance transactions.

3. Staff numbers and costs

The average number of persons employed by the Group during the year including Executive Directors was:

	Group	
	2018	2017
Production	1,402	1,565
Sales	286	289
Administrative	293	313
Total	1,981	2,167

The average number of people employed by the Company during the year was 22 (2017: 19).

The aggregate staff costs were:

	Group	
	2018 £m	2017 £m
Wages and salaries	78.8	85.3
Social security costs	14.7	16.5
Pension costs	3.8	2.8
Total	97.3	104.6

	Company	
	2018 £m	2017 £m
Wages and salaries	3.0	3.4
Social security costs	0.4	0.4
Pension costs	0.7	0.2
Total	4.1	4.0

The Directors of the Company are listed on pages 60 and 61.

The decrease in aggregate staff costs is due to the prior year sale of Lokeren, the current year closure of the Ivanka plant plus the Group-wide transformation programme.

Notes to the Accounts continued

4. Post-employment benefits

The Group operates a number of pension schemes in the UK and overseas. These are either defined benefit or defined contribution in nature. The assets of the schemes are held separately from those of the Group.

(a) Defined contribution schemes

Various defined contribution pension schemes exist around the Group. These are accounted for on a contribution payable basis. The total cost charged to income in respect of defined contribution pension schemes was £3.6m (2017: £2.7m).

(b) Defined benefit schemes

(i) United Kingdom

The UK defined benefit scheme is a funded pension scheme, closed to future accrual of benefits, providing benefits linked to inflation. The scheme is subject to the regulatory requirements that apply to registered UK pension schemes, and a Trustee board is responsible for ensuring it is operated in a manner compliant with the relevant regulations. The weighted duration of the expected benefit payments from the scheme is around 14 years.

The net income statement charge for the year ended 30 November 2018 for the UK pension scheme was £3.9m (2017: £0.7m). Within this, there is a £4.0m charge relating to the additional liability which has arisen following the GMP ruling, this is presented in non-underlying items (Note 5). The remaining £0.1m credit comprises £0.3m interest income offset by £0.2m pension administration costs paid through the scheme.

In 2015, the Group completed a medically-underwritten buy-in of £34m of UK scheme liabilities, to reduce the scheme's exposure to interest rate, inflation and mortality risks and to provide a more effective liability and cash flow match. The buy-in policy provides a match to the benefits of the members covered, and is valued as equal to the present value of the defined benefit obligation for those members.

There is a risk that the Group may be required to increase its contributions into its defined benefit pension schemes to cover funding shortfalls. The funding may be affected by poor investment performance of pension fund investments, changes in the discount rate applied and longer life expectancy of members. This risk is mitigated by the main Group scheme being closed to new members and by actions taken to reduce investment risk, including the purchase of a buy-in policy. Regular dialogue also takes place with the scheme Trustee, and the Board regularly discusses pension fund strategy.

The UK scheme was independently valued by a qualified actuary at 31 March 2017 using the projected unit method. The main assumption in carrying out the valuation was for investment returns of 2.00% per annum above gilts in respect of investments in higher risk assets and 0.25% above gilts in respect of lower risk assets. At 31 March 2017, the total market value of assets in the UK scheme was £196.1m. The overall level of funding was 92.9%. The scheme is held by the Company and all of the UK disclosures relate to the Company and the Group.

Following the 2017 valuation of the UK scheme, the Company agreed a schedule of contributions with the Trustee of the scheme under which the Company pays contributions of £4.1m by 30 June 2017 and then £3.0m per annum by no later than 30 June each year until 2020 and a final payment of £2.4m by 30 June 2021. The Company is required to make further contributions to the UK scheme if the Group's net cash inflow before distributions exceeds certain agreed levels provided that the total contributions payable in any one year are no more than £3.5m. In addition, the scheme's administration expenses are paid directly by the Company (or reimbursed to the scheme) up to a maximum of £0.5m per annum over the period from 30 June 2018 to 30 June 2021. Administration expenses over the £0.5m per annum threshold are met by the Trustees.

In applying IAS 19, the Group has considered the requirements of IFRIC 14 and whether the Group has an 'unconditional right' to a refund of surplus, in particular assuming the gradual settlement of the scheme liabilities over time until all members have left the scheme (i.e. on the death of the last beneficiary). The Group has concluded that it does have an effective unconditional right to a refund under these circumstances, and on these grounds IFRIC 14 does not require an adjustment to the net pension asset.

The UK pension scheme provides guaranteed minimum pensions ("GMPs") in lieu of benefits under the State Earnings Related Pension Scheme ("SERPS") in respect of contracted-out service up to 5 April 1997. GMPs (broadly in line with the State pension benefits that were provided within SERPS) are required to be paid to men and women at different retirement ages, 65 and 60 respectively. As a result of the ruling on 26 October 2018 relating to Lloyds Bank's pension schemes, Article 141 of the EC Treaty (and the Barber decision as enacted in the Pensions Act 1995) requires our scheme (or any UK pension scheme providing GMPs) to adjust benefits to remove inequalities introduced by GMPs, including those caused by the different retirement ages. In conjunction with the Group's pension advisors, we have made an initial assessment of the additional liability this ruling would give rise to and at 30 November 2018 estimate the additional liability to be £4m. This estimation is based on 15% of the proportion of liabilities relating to GMPs accrued after 1990. Under IAS 19, where you are making changes to future benefits of the scheme, this is classified as a plan amendment and should therefore be accounted for as a past service cost. Past service costs are recognised in the income statement and the £4.0m is presented as a non-underlying item in Note 5.

Given the inherent uncertainty surrounding the details and application of the ruling and the complexity of the UK scheme, the amount of the additional liability is calculated based on the information currently available. The key assumption in the calculation is that the additional liability will be 15% of the GMPs accrued after 1990. This is the Group's best estimate at this time although we understand, from discussions with our advisors, that a range of 10-20% might be appropriate as we gain more transparency on the ruling. We will therefore continue to revise the £4m estimate going forward as we gain more clarity and understanding of exactly how this ruling will be applied and how it will impact the scheme.

4. Post-employment benefits continued

(ii) Non-UK

Defined benefit schemes are held in Germany, Belgium and the United States. Further disclosure on these schemes is detailed below. Given the relative immateriality of these schemes their results have been combined in the following disclosures. Defined benefit schemes also exist in the Group's Dutch businesses, which are members of an industry-wide scheme; it is not possible to separately identify assets and liabilities and therefore these schemes are accounted for on a contribution payable basis.

(iii) Financial assumptions

Management determines the assumptions to be adopted in discussion with their actuaries. The application of different assumptions could have a significant effect on the amounts reflected in the consolidated income statement, the consolidated statement of comprehensive income and the balance sheet in respect of post-employment benefits. The valuations require the exercise of judgement in relation to various assumptions, including the discount rate, future pension increases and employee and pensioner demographics. The assumptions vary among the countries in which the Group operates and there may be an inter-dependency between some of the assumptions.

The financial assumptions used to estimate defined benefit obligations are:

	UK schemes		Non-UK schemes	
			Weighted average assumptions	
	2018 %	2017 %	2018 %	2017 %
Discount rate	2.90	2.50	3.25	2.75
Future salary increases	–	–	2.25	2.25
Future pension increases	3.20	3.10	1.80	1.80
Inflation increase (Consumer Price Index)	2.20	2.10	2.00	2.00
Health care cost trend – immediate	–	–	6.00	6.60
Health care cost trend – ultimate	–	–	4.50	4.50

In assessing the Group's post-employment liabilities, management monitor mortality assumptions and use up-to-date mortality tables. Allowance is made for expected future increases in life expectancy. The figures assume that a UK scheme male member, currently aged 65, will survive a further 21.6 years and a female member for a further 23.6 years (2017: male – 21.6 years, female – 23.5 years). They also assume that a UK scheme male member currently aged 45, will survive a further 43.1 years and a female member for a further 45.1 years (2017: male – 43.0 years, female – 45.0 years). Management consider that the assumptions used are appropriate approximations to the life expectancy of scheme members in the light of scheme-specific experience and more widely available statistics.

(iv) Financial impact of schemes

The total amount recognised for defined benefit schemes is as follows:

	UK schemes		Non-UK schemes		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Fair value of scheme assets	187.0	193.4	11.0	10.9	198.0	204.3
Present value of defined benefit obligations	(176.0)	(183.4)	(21.7)	(23.1)	(197.7)	(206.5)
Net asset/(liability) recognised in the balance sheet	11.0	10.0	(10.7)	(12.2)	0.3	(2.2)

The non-UK schemes net liability includes an asset of £0.4m (2017: £nil) in respect of the Belgian scheme which has been included within non-current assets.

Amounts recognised as a charge to the income statement in respect of the defined benefit pension schemes are as follows:

	UK schemes		Non-UK schemes		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Current service cost	–	–	0.3	0.4	0.3	0.4
Net interest (income)/cost	(0.3)	–	0.2	0.2	(0.1)	0.2
Administration costs	0.2	0.7	–	–	0.2	0.7
Past service costs	4.0	–	–	–	4.0	–
Total	3.9	0.7	0.5	0.6	4.4	1.3

Notes to the Accounts continued

4. Post-employment benefits continued

From 1 July 2018, the scheme's administration expenses will be paid directly by the Company up to a cap of £0.5m, therefore the £0.2m above reflects the expenses from 1 November 2017 to 30 June 2018 which were borne by the scheme. The pension administration expenses paid directly by the Company amounted to £0.3m (2017: £0.7m).

Amounts recognised in Other Comprehensive Income are as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Net actuarial gain in the year due to:	3.5	9.8	1.9	8.9
– Changes in financial assumptions	6.8	(3.9)	7.0	(4.6)
– Changes in demographic assumptions	1.4	2.2	–	2.1
– Experience adjustments on benefit obligations	(0.9)	4.9	(0.8)	4.7
Actual return on scheme assets less interest on scheme assets	(3.8)	6.6	(4.3)	6.7
Associated deferred tax	(1.4)	(3.2)	(0.6)	(3.1)

The changes in the net assets/(liabilities) recognised in the balance sheet are as follows:

	UK schemes		Non-UK schemes		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening balance sheet asset/(liability)	10.0	(2.2)	(12.2)	(12.8)	(2.2)	(15.0)
Amount recognised in income statement	(3.9)	(0.7)	(0.5)	(0.6)	(4.4)	(1.3)
Amount recognised in Other Comprehensive Income	1.9	8.9	1.6	0.9	3.5	9.8
Contributions paid	3.0	4.0	0.4	0.4	3.4	4.4
Exchange loss	–	–	–	(0.1)	–	(0.1)
Closing balance sheet asset/(liability)	11.0	10.0	(10.7)	(12.2)	0.3	(2.2)

The non-UK schemes net liability includes an asset of £0.4m (2017: £nil) in respect of the Belgian scheme which has been included within non-current assets.

Changes in the present value of the defined benefit obligation are as follows:

	UK schemes		Non-UK schemes		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening defined benefit obligation	183.4	190.4	23.1	24.6	206.5	215.0
Current service cost	–	–	0.3	0.4	0.3	0.4
Interest cost	4.4	5.2	0.6	0.6	5.0	5.8
Actuarial gain due to:	(6.2)	(2.2)	(1.1)	(0.7)	(7.3)	(2.9)
– Changes in financial assumptions	(7.0)	4.6	0.2	(0.4)	(6.8)	4.2
– Changes in demographic assumptions	–	(2.1)	(1.4)	(0.1)	(1.4)	(2.2)
– Experience adjustments on obligations	0.8	(4.7)	0.1	(0.2)	0.9	(4.9)
Benefits paid	(9.6)	(10.0)	(1.6)	(1.3)	(11.2)	(11.3)
Past service costs	4.0	–	–	–	4.0	–
Exchange adjustments	–	–	0.4	(0.5)	0.4	(0.5)
Closing defined benefit obligation	176.0	183.4	21.7	23.1	197.7	206.5

4. Post-employment benefits continued

Changes in the fair value of scheme assets are as follows:

	UK schemes		Non-UK schemes		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Opening fair value of scheme assets	193.4	188.2	10.9	11.8	204.3	200.0
Interest on scheme assets	4.7	5.1	0.4	0.4	5.1	5.5
Actual return on scheme assets less interest on scheme assets	(4.3)	6.7	0.5	0.2	(3.8)	6.9
Administration costs	(0.2)	(0.7)	–	–	(0.2)	(0.7)
Contributions by employers	3.0	4.1	0.4	0.3	3.4	4.4
Benefits paid	(9.6)	(10.0)	(1.6)	(1.3)	(11.2)	(11.3)
Exchange adjustments	–	–	0.4	(0.5)	0.4	(0.5)
Closing fair value of scheme assets	187.0	193.4	11.0	10.9	198.0	204.3

The fair value of the UK scheme assets at the balance sheet date is analysed as follows:

	2018 £m	2018 %	2017 £m	2017 %
Equity securities	10.4	6	26.2	14
Debt securities	7.9	4	8.0	4
Diversified growth funds	29.3	16	45.5	24
LDI funds	38.5	20	34.6	18
Property	24.6	13	22.8	12
Insurance policy	33.3	18	35.2	18
Private credit	15.7	8	–	–
Cash and other	27.3	15	21.1	10
Total	187.0	100	193.4	100

The insurance policy is a buy-in policy that matches the benefits due to a group of pensioners, and is valued at the amount of obligations covered. The remaining assets are invested in quoted pooled funds, apart from the investment in a segregated diversified growth fund for which quoted prices are not available; the valuation of this fund is provided by the fund manager. The scheme uses Liability Driven Investment (“LDI”) funds to help manage investment risk, providing a hedge against nominal rate liabilities.

The fair value of the non-UK scheme assets at the balance sheet date is analysed as follows:

	2018 £m	2018 %	2017 £m	2017 %
Equity securities	5.2	47	4.8	44
Debt securities	4.9	45	5.4	49
Property	0.1	1	–	–
Insurance policy	0.6	5	0.6	6
Cash and other	0.2	2	0.1	1
Total	11.0	100	10.9	100

A sensitivity analysis of significant assumptions on the UK scheme at 30 November is as follows:

	Decrease/(increase) in obligation (£m)			
	2018		2017	
Change in assumptions	-0.5%pa	+0.5%pa	-0.5%pa	+0.5%pa
Discount rate	(10.2)	9.1	(11.5)	10.2
Inflation and pension increases	5.8	(5.9)	6.5	(6.7)
Life expectancy	-1 year	+1 year	-1 year	+1 year
	6.0	(6.0)	5.8	(6.5)

Consistent with the previous year's figures, these sensitivities have been calculated to show the movement in the net liability in isolation, taking into account the effects of the obligation on the matching annuity policy, and assume no other changes in market conditions at the accounting date.

Notes to the Accounts continued

5. Non-underlying items

During the year the Group recognised significant non-underlying items and amortisation of acquired intangible assets as detailed below:

		2018 £m	2017 £m
Amounts charged/(credited) to operating profit			
Restructuring costs – (All segments)	(a)	4.2	–
Coated Technical Textiles impairment – (Coated Technical Textiles segment)	(b)	39.0	–
Civil Engineering impairment – (Civil Engineering segment)	(c)	–	26.9
Impairment of Hungary plant and equipment – (Civil Engineering segment)	(d)	2.3	–
Impairment of the ERP system – (Unallocated segment)	(e)	1.5	–
Closure of Ivanka plant – (Civil Engineering segment)	(f)	0.5	4.7
Impairment of R&D costs – (Civil Engineering segment)	(g)	0.2	–
Provision for custom duties & fees – (Unallocated segment)	(h)	1.6	1.7
Acquisition and disposal related costs – (Civil Engineering and Interiors & Transportation segments)	(i)	0.6	0.5
Amortisation of acquired intangible assets – (Building & Industrial and Coated Technical Textiles segments)	(j)	2.8	3.7
Loss on the disposal of land and buildings – (Coated Technical Textiles segment)	(k)	0.1	–
Disposal of the agro-textile business – (Building & Industrial segment)	(l)	1.2	12.7
Costs associated with the fire in Lomnice – (Coated Technical Textiles segment)	(m)	0.6	–
Pension administration costs – (Unallocated segment)	(n)	–	0.2
GMP equalisation additional liability – (Unallocated segment)	(o)	4.0	–
Total charge to operating profit		58.6	50.4
Write-off of arrangement fees – (Unallocated segment)	(p)	0.3	–
Total charge to profit before tax		58.9	50.4
Tax credit in the year	(q)	(0.9)	(11.0)
Total charge to profit – continuing operations		58.0	39.4
Total charge to discontinued operations	(r)	0.7	1.0
Total charge to profit for the period		58.7	40.4

a) £4.2m of costs have been incurred in the year in the major Group-wide transformation programme to right-size the organisation and to optimise the organisational structure. Costs include the non-underlying costs of headcount reduction, plus certain costs associated with reviewing and optimising the Group's warehouse footprint and other non-underlying consulting costs.

b) Following the annual goodwill impairment review of CTT in 2018, the goodwill was fully impaired from £39.0m in 2017 to £nil at 30 November 2018 (Note 11).

c) The prior year impairment review of the Civil Engineering CGU resulted in a full impairment of the £19.4m goodwill balance, with further impairments of property, plant and equipment (PP&E) and certain intangible assets totaling £6.6m and £0.9m respectively.

d) In the current year Low & Bonar Hungary Kft incurred significant operating losses. An impairment review was conducted which resulted in an impairment of plant and equipment totaling £2.3m (Note 12).

e) In the current year, a review was made of the benefits expected to be derived from the implementation of the Group-wide ERP system following the change in organisational structure. Based on this review, a total impairment of £1.5m has been recorded, £0.7m relates to Computer software (Note 12) and £0.8m relating to assets in the course of construction (Note 13).

f) In 2017, as part of the first stage review of Civil Engineering, it was decided to exit from the loss-making weaving plant in Ivanka, Slovakia. As a consequence, the assets were written down to the

proceeds expected to be realised from the exit, resulting in a charge of £4.7m. This charge comprised of a write-down of PP&E totaling £3.4m, a write down of intangible assets totaling £0.3m, and a write off of inventory of £1.0m. In 2018, the non-underlying items relate to the ongoing site costs of running the site until the remaining assets are disposed of, redundancy costs, a gain on the disposal of the remaining plant and machinery along with a loss on the disposal of the remaining inventory.

g) As a result of the proposed sale of the Civil Engineering business, a review of the recoverability of the capitalised R&D costs in the CGU was completed. This resulted in a write off of £0.2m relating to assets which were not deemed to be recoverable.

h) In previous periods, the Group identified irregularities in relation to customs duties which relate to sales arranged from a former overseas sales office which was closed several years ago. The 2018 non-underlying charge of £1.6m and closing provision of £2.6m represents the Group's best estimate of the liability (both the penalty to be incurred and the legal fees included) and it has been treated as non-underlying due to its nature. A thorough investigation is being undertaken and the Group is confident that this is a contained matter.

i) In the year the Group incurred acquisition and disposal costs of £0.6m (2017: £0.5m), £0.4m of which relates to the proposed sale of the Civil Engineering business. In the prior year, the £0.5m related to the acquisition of Walfloor Industries Inc.

j) The amortisation of acquired intangibles of £2.8m (2017: £3.7m) is excluded from underlying business profit in accordance with Group's accounting policies.

5. Non-underlying items continued

k) In the period a loss of £0.1m was recorded relating to the disposal of unused land and buildings at the Group's manufacturing site in Lomnice, Czech Republic.

l) In October 2017, the Group completed the disposal of the Lokeren-based agro-textile business. The proceeds totalled £6.1m (€7.0m), of which £5.8m was received in the year and £0.3m in December 2017. The disposal generated a loss before tax of £12.7m (£8.4m after tax). £0.6m of the cost in 2018 represents the fair value of an unfavourable contract to purchase woven products from the purchasers of the agro-textile business, this contract was entered into at the time of the sale. During the period the Group also incurred additional costs relating to the disposal amounting to £0.6m.

m) In the second half of 2018, there was a fire in Lomnice (the CTT plant in Czech Republic). Due to the fire, production was severely disrupted and the £0.6m represents the operating loss incurred in the period due to the temporary closure of the plant. Insurance recoveries of these costs, when they are received, will also be treated as a non-underlying item.

n) The Group incurred £nil (2017: £0.2m) of pension administration costs relating to its UK defined benefit scheme.

o) A £4.0m additional liability has been recognised in the UK pension scheme following the recent court case to equalise all GMP benefits (Note 4).

p) During 2018, the Group's Revolving Credit Facility was re-financed. As this was deemed to be a substantial modification of the previous financing agreement, the arrangement fees for the previous agreement were immediately written off to the income statement.

q) The non-underlying tax credit of £0.9m (2017: £11.0m) includes:

	2018 £m	2017 £m
Tax credits on non-underlying expenses	1.8	0.3
Deferred tax on non-underlying pension movements	0.3	–
Civil Engineering impairment	(0.7)	2.2
Impairment of Hungary plant and equipment	0.2	–
Revaluation of deferred tax assets and liabilities arising from changes in tax rates	2.0	–
De-recognition of previously recognised net deferred tax assets	(3.5)	–
Recognition of previously unrecognised deferred tax assets	–	3.1
Disposal of agro-textile business	–	4.3
Amortisation of acquired intangible assets	0.8	1.1
Total	0.9	11.0

r) The Group recorded a loss of £0.7m, net of tax, in respect of discontinued operations. This relates to the increase in the expected costs we will be required to pay to exit the joint venture with Bonar Natpet (Note 30).

6. Financial income and financial expense

	Underlying	
	2018 £m	2017 £m
Financial income		
Interest income	0.1	0.1
Net interest on pension scheme net liabilities	0.1	–
	0.2	0.1
Financial expense		
Interest on bank overdrafts and loans	(5.8)	(4.5)
Amortisation of bank arrangement fees	(0.3)	(0.4)
Net interest on pension scheme net liabilities	–	(0.2)
Capitalised interest	0.1	0.2
	(6.0)	(4.9)
Net financial expense	(5.8)	(4.8)

Included in interest on bank overdrafts and loans is £0.3m for the write off of unamortised loan fees (Note 5 (p)).

7. Taxation

Recognised in the income statement

	2018 £m	2017 £m
Current tax		
UK corporation tax		
– current year	–	–
– prior year	–	–
Overseas tax		
– current year	4.9	8.4
– prior year	(0.7)	(0.1)
Total current tax	4.2	8.3
Deferred tax	(0.7)	(10.4)
Total charge/(credit) in the income statement from continuing operations	3.5	(2.1)
Tax from discontinued operations (Note 30)	(0.1)	–
Tax on disposal of grass yarns business (Note 30)	–	(0.2)
Total tax charge/(credit) in the income statement	3.4	(2.3)

The amount of deferred tax income relating to changes in tax rates is £2.0m (2017: £0.2m).

Notes to the Accounts continued

7. Taxation continued

Reconciliation of effective tax rate

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax of 19.00% (2017: 19.33%) to the profit before tax are as follows:

	Underlying		Non-underlying		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Profit/(loss) before tax from continuing operations	16.7	30.7	(58.9)	(50.4)	(42.2)	(19.7)
Profit/(loss) before tax from discontinued operations	–	–	(0.8)	(1.2)	(0.8)	(1.2)
Profit/(loss) before tax from total operations	16.7	30.7	(59.7)	(51.6)	(43.0)	(20.9)
Tax charge/(credit) at 19.00% (2017: 19.33%)	3.2	6.0	(11.4)	(10.0)	(8.2)	(4.0)
Expenses not deductible	0.1	1.4	9.0	4.2	9.1	5.6
Income not taxable	(0.3)	(2.2)	–	–	(0.3)	(2.2)
Higher tax rates on overseas earnings	1.0	2.3	0.3	(1.2)	1.3	1.1
Current tax losses not utilised	1.4	–	–	–	1.4	–
Tax losses utilised	–	(0.1)	–	–	–	(0.1)
Other differences	(0.3)	1.6	(0.4)	(0.9)	(0.7)	0.7
Adjustments to current tax charged in prior periods	(0.7)	(0.1)	–	–	(0.7)	(0.1)
Adjustments to deferred tax charges due to changes in tax rates	–	–	(2.0)	(0.2)	(2.0)	(0.2)
Adjustments to deferred tax charged in prior period	–	–	3.5	(3.1)	3.5	(3.1)
Total tax charge/(credit) for the year	4.4	8.9	(1.0)	(11.2)	3.4	(2.3)

The non-underlying tax credit of £1.0m in 2018 includes £0.1m relating to discontinued operations (2017: credit of £11.2m includes £0.2m) (Note 30).

Deferred tax recognised directly in Other Comprehensive Income

	2018 £m	2017 £m
Actuarial gains and losses relating to post-employment benefit obligations	(1.4)	(3.2)
Total of items that will not be reclassified subsequently to profit or loss	(1.4)	(3.2)

A 1% reduction in the main rate of UK corporation tax from 20% to 19% took effect from 1 April 2017. A further reduction from 19% to 17% will take effect from 1 April 2020. Given that the Group does not expect to pay corporation tax in the UK in the foreseeable future, this change is not considered to have any material impact on the Group. The reduction in the US federal tax rate from 35% to 21% which was enacted on 22 December 2017 and which took effect from 1 January 2018 generated a one-off benefit of £2.1m on the revaluation of deferred tax liabilities in 2018.

8. Profits of the Company

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The loss after tax was £7.6m (2017: profit amounting to £20.1m).

9. Dividends

Amounts recognised as distributions to equity shareholders in the year were as follows:

	2018 £m	2017 £m
Final dividend for the year ended 30 November 2017 – 2.00 pence per share (2016: 2.00 pence per share)	6.6	6.6
Interim dividend for the year ended 30 November 2018 – 1.05 pence per share (2017: 1.05 pence per share)	3.5	3.4
	10.1	10.0

9. Dividends continued

The Directors have proposed a final dividend in respect of the financial year ended 30 November 2018 of 0.37 pence per share which will absorb an estimated £1.2m of shareholders' funds. This has not been provided for in these accounts because the dividend was proposed after the year end. If it is approved by shareholders at the Annual General Meeting of the Group to be held on 5 April 2019, it will be paid on 10 April 2019 to Ordinary Shareholders who are on the register at 15 February 2019. The dividend will not be paid on the new shares issued in the anticipated equity raise.

During the year the Board declared a final dividend on Ordinary Shares in relation to the year ended 30 November 2017 of 2.00 pence per share, which was paid to Ordinary Shareholders on the register of members at close of business on 19 April 2018.

The Directors declared an interim dividend on Ordinary Shares in relation to the year ended 30 November 2018 of 1.05 pence per share, which was paid to Ordinary Shareholders on the register of members at close of business on 21 September 2018.

10. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary Shareholders by the weighted-average number of Ordinary Shares outstanding, excluding those held by the ESOP which are treated as cancelled for the purpose of this calculation. For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. The Group has two classes of dilutive potential Ordinary Shares: those share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the year; and those long-term incentive plan awards for which the performance criteria have been satisfied.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2018			2017		
	Earnings £m	Weighted average number of shares (millions)	Per share amount Pence	Earnings £m	Weighted average number of shares (millions)	Per share amount Pence
Statutory – continuing operations						
Basic earnings per share	(46.2)	329.918	(14.04)	(18.2)	329.425	(5.56)
Earnings attributable to Ordinary Shareholders						
Effect of dilutive items						
Share-based payment	–	3.883	–	–	5.556	–
Diluted earnings per share	(46.2)	333.801	(14.04)	(18.2)	334.981	(5.56)
Statutory – discontinued operations						
Basic earnings per share	(0.7)	329.918	(0.21)	(1.0)	329.425	(0.30)
Earnings attributable to Ordinary Shareholders						
Effect of dilutive items						
Share-based payment	–	3.883	–	–	5.556	–
Diluted earnings per share	(0.7)	333.801	(0.21)	(1.0)	334.981	(0.30)
Statutory – total operations						
Basic earnings per share	(46.9)	329.918	(14.25)	(19.2)	329.425	(5.86)
Earnings attributable to Ordinary Shareholders						
Effect of dilutive items						
Share-based payment	–	3.883	–	–	5.556	–
Diluted earnings per share	(46.9)	333.801	(14.25)	(19.2)	334.981	(5.86)
Before non-underlying items – continuing operations						
Basic earnings per share	11.8	329.918	3.56	21.2	329.425	6.42
Earnings attributable to Ordinary Shareholders						
Effect of dilutive items						
Share-based payment	–	3.883	–	–	5.556	–
Diluted earnings per share	11.8	333.801	3.52	21.2	334.981	6.32

On a statutory basis, the effect of the dilutive shares has been ignored as it is deemed to be anti-dilutive (i.e. it is reducing the loss per share).

Notes to the Accounts continued

11. Goodwill

	Group	
	2018 £m	2017 £m
Cost		
At 1 December	86.3	82.6
Acquisition of Walfloor Industries Inc.	–	0.9
Exchange adjustments	0.5	2.8
At 30 November	86.3	86.3
Accumulated impairment losses		
At 1 December	19.4	–
Impairment loss recognised	39.0	19.4
Exchange adjustments	0.2	–
At 30 November	58.6	19.4
Net book value at 30 November	28.2	66.9

Cash generating units

Goodwill is allocated to the grouping of cash generating units ("CGUs") which have been identified according to the principal markets in which each business operates, being the operating segments.

A summary of the net book value of goodwill presented at CGU level is shown below:

	Group	
	2018 £m	2017 £m
Cash generating unit groups		
Building & Industrial	12.4	12.2
Civil Engineering	–	–
Coated Technical Textiles	–	39.0
Interiors & Transportation	15.8	15.7
At 30 November	28.2	66.9

The Group tests goodwill values annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts are determined using value in use calculations (as these have been assessed to be higher than the estimate of fair value less costs to sell) for each CGU group based on projected cash flows, discounted to calculate the net present value.

The approach to what is considered to be the key assumptions within the impairment reviews is outlined below:

Cash flow projections

Cash flow projections for each CGU group are derived from the most recent annual budgets approved by the Board (being the 2019 budget plan with 2020-2023 extrapolated from the 2019 budget), which take into account current market conditions and the long-term average and projected growth rates for each of the key markets served by the CGUs, along with forecast changes to selling prices and direct costs and CGU-specific forecast risks and potential cash volatilities. These cash flow projections are based on management's expectations of future changes in markets informed by various external sources of information.

Long-term growth rates

The value in use calculations assume terminal growth rates of 2.0% - 2.5% (2017: 2.0%) beyond year five which is consistent with rates disclosed by the OECD.

Discount rate

Forecast pre-tax cash flows for each CGU group are discounted to net present value using the Group's discount rate, calculated based on external advice. Pre-tax discount rates were calculated separately for each CGU group and were 13.0% to 14.4% (2017: 11.1% to 11.3%). These were used to calculate the value in use for each CGU group, reflecting management's views of the individual risks and rewards associated with each CGU group.

Impairment of Coated Technical Textiles ("CTT") goodwill

As at 31 May 2018, management reviewed the poor financial performance of CTT and determined it appropriate to recognise a non-cash partial impairment of the goodwill allocated to CTT of £13.3m which was reported as a non-underlying item.

As part of the annual goodwill impairment test, triggered by the continuing downturn in the GBU's performance, management have again reduced their forecasts for the future performance of the CTT GBU. These reduced forecasts have been used to project the value in use of the CTT CGU grouping using the macro assumptions listed above resulting in an estimate of recoverable amount of the CTT CGU grouping of £33.0m.

The analysis resulted in an estimate of recoverable amount of the CTT CGU grouping below the carrying value of the net assets. Accordingly the full carrying value of the goodwill of £39.0m has been impaired by an additional £25.7m.

Prior year impairment of Civil Engineering goodwill

In the prior year, following a review of the Civil Engineering market, triggered by the downturn in the GBU's performance, management reduced their forecasts for the future performance of the Civil Engineering GBU. These reduced forecasts were used to project the value in use of the Civil Engineering CGU grouping and the analysis resulted in an estimate of recoverable amount of the Civil Engineering CGU grouping of £33.8m. Accordingly the full carrying value of the goodwill of £19.4m was impaired. In addition, the value in use estimate resulted in an impairment of Civil Engineering's intangible assets totalling £0.9m (Note 12) and property, plant and equipment totalling £6.6m (Note 13).

Sensitivity

Building & Industrial and Interiors & Transportation

At 30 November 2018, there was sufficient headroom on the impairment assessments performed for the Building & Industrial and Interiors & Transportation CGUs such that reasonably possible changes in key assumptions would not lead to an impairment.

CTT

Whilst management believe that the assumptions used in impairment testing are realistic, it is possible that variations in key assumptions could affect the recoverable amounts. Accordingly, a sensitivity analysis has been performed by varying key assumptions whilst holding other variables constant.

11. Goodwill continued

In addition, a sensitivity analysis has been performed using a downside scenario which takes into account risks identified during the viability statement review, including lower than projected sales growth, slower than anticipated recovery, the impact of foreign exchange fluctuations following the UKs withdrawal from the EU, and/or significant raw material price increases above those assumed in the budget combined with an ability to pass the price increases on to customers.

The table below outlines the impairment against intangible assets and property, plant and equipment that would be recorded if certain key assumptions were reduced:

	CTT £m
5% reduction in cash flows	1.7
1% increase in discount rate	7.0
1% reduction in long-term growth rate	5.1
Downside scenarios	16.3

12. Intangible assets

Group	Computer software £m	Research and development £m	Order backlog £m	Customer relationships £m	Marketing related £m	Technology based £m	Non-compete agreements £m	Total £m
Cost								
At 30 November 2016	7.1	6.5	0.4	33.3	14.9	19.6	0.6	82.4
Exchange adjustment	–	0.3	–	0.8	0.6	0.7	–	2.4
Additions	5.0	0.7	–	–	–	–	–	5.7
Acquisition of Walfloor Industries Inc.	–	–	–	2.5	–	0.1	0.2	2.8
Disposal of the agro-textile business	(0.5)	(0.8)	–	–	–	–	–	(1.3)
At 30 November 2017	11.6	6.7	0.4	36.6	15.5	20.4	0.8	92.0
Exchange adjustment	0.1	0.2	–	0.3	0.1	0.1	–	0.8
Additions	2.5	0.9	–	–	–	–	–	3.4
At 30 November 2018	14.2	7.8	0.4	36.9	15.6	20.5	0.8	96.2
Aggregate amortisation								
At 30 November 2016	3.6	3.9	0.3	24.0	10.1	17.7	0.6	60.2
Exchange adjustment	–	0.1	–	0.9	0.4	0.5	–	1.9
Charge for the year	0.3	0.8	–	1.7	0.9	1.1	–	4.8
Disposal of the agro-textile business	(0.4)	(0.5)	–	–	–	–	–	(0.9)
Impairment	0.7	0.2	–	0.3	–	–	–	1.2
At 30 November 2017	4.2	4.5	0.3	26.9	11.4	19.3	0.6	67.2
Exchange adjustment	0.1	–	–	0.1	0.2	0.1	0.1	0.6
Charge for the year	0.6	0.7	–	1.8	0.8	0.2	–	4.1
Impairment	0.7	0.2	–	–	–	–	–	0.9
At 30 November 2018	5.6	5.4	0.3	28.8	12.4	19.6	0.7	72.8
Net book value								
At 30 November 2018	8.6	2.4	0.1	8.1	3.2	0.9	0.1	23.4
At 30 November 2017	7.4	2.2	0.1	9.7	4.1	1.1	0.2	24.8
At 30 November 2016	3.5	2.6	0.1	9.3	4.8	1.9	–	22.2

Notes

- (i) Research and development assets relate to expenditure incurred in the course of research where findings may be applied to a plan or design for the production of new or substantially improved products and processes.
- (ii) Customer relationships consist of customer lists, customer contracts and relationships and non-contractual customer relationships.
- (iii) Marketing-related intangible assets are assets that are primarily used in the marketing or promotion of products or services. Such assets include trademarks, trade names, service marks and internet domain names.
- (iv) Technology-based intangible assets relate to innovations and technological advances and include patented and unpatented technology, databases and trade secrets.
- (v) Non-compete agreements prohibit a seller from competing with the purchaser of a business.
- (vi) Computer software and Research & Development represent assets which are internally generated.
- (vii) In the current year, a review was made of the benefits expected to be derived from the implementation of the Group-wide ERP system following the change in organisational structure. Based on this review, a total impairment of £1.5m has been recorded, £0.7m relates to Computer software and £0.8m relating to assets in the course of construction (Note 13).
- (viii) The prior year Civil Engineering impairment review resulted in an impairment of £0.2m relating to Research and Development and a £0.7m impairment to computer software (Note 11). In addition, the decision to close the Ivanka site resulted in a £0.3m write down to the Customer Relationships intangible asset (Note 5).

The Company intangible assets of £1.1m (2017: £0.8m) represents capitalised software costs.

Notes to the Accounts continued

13. Property, plant and equipment

	Group				Company
	Property £m	Plant and equipment £m	Assets under construction £m	Total £m	Property £m
Cost					
At 30 November 2016	67.2	271.6	10.6	349.4	0.8
Exchange adjustment	1.0	3.4	(0.3)	4.1	–
Additions	2.9	7.2	19.2	29.3	–
Acquisition of Walfloor Industries Inc.	–	0.5	–	0.5	–
Reclassifications	0.3	1.9	(2.2)	–	–
Disposals	–	(3.8)	–	(3.8)	–
Disposal of the agro-textile business	(5.2)	(21.5)	–	(26.7)	–
At 30 November 2017	66.2	259.3	27.3	352.8	0.8
Exchange adjustment	0.7	3.9	0.3	4.9	–
Additions	4.1	3.4	7.7	15.2	–
Assets classified as held for sale	(2.7)	–	–	(2.7)	–
Reclassifications	1.4	19.6	(21.0)	–	–
Disposals	(5.1)	(8.8)	(1.5)	(15.4)	–
At 30 November 2018	64.6	277.4	12.8	354.8	0.8
Accumulated depreciation					
At 30 November 2016	23.3	175.8	–	199.1	0.2
Exchange adjustment	0.6	3.6	–	4.2	–
Charge for the year	5.0	13.5	–	18.5	0.1
Reclassifications	–	–	–	–	–
Disposals	–	(3.0)	–	(3.0)	–
Disposal of the agro-textile business	(2.7)	(17.8)	–	(20.5)	–
Impairments	2.1	7.9	–	10.0	–
At 30 November 2017	28.3	180.0	–	208.3	0.3
Exchange adjustment	0.2	2.4	–	2.6	–
Charge for the year	1.9	14.0	–	15.9	0.2
Reclassifications	(3.3)	3.3	–	–	–
Disposals	(0.9)	(12.0)	–	(12.9)	–
Impairments	0.3	2.8	0.8	3.9	–
At 30 November 2018	26.5	190.5	0.8	217.8	0.5
Net book value					
At 30 November 2018	38.1	86.9	12.0	137.0	0.3
At 30 November 2017	37.9	79.3	27.3	144.5	0.5
At 30 November 2016	43.9	95.8	10.6	150.3	0.6

The carrying value of freehold land not depreciated at 30 November 2018 was £2.8m (2017: £2.9m). Committed capital expenditure at 30 November 2018 was £2.0m (2017: £3.4m).

Current year impairments

The £3.9m impairment charge is comprised of £2.3m relating to impairment of plant and equipment in Hungary (Note 5), £0.8m relating to the partial write-off of the Group ERP system (Note 12), £0.3m relating to the write down of an old roof following its replacement and £0.5m relating to the write off of project costs for the Group's warehouse footprint project.

Sensitivity analysis has been performed on the recoverable value of the assets in Hungary of £4.3m to understand how variations in key assumptions could affect the recoverable amounts. The assumptions used in determining the recoverable amounts are consistent with those used in the Goodwill impairment assessments, as detailed in Note 11.

The table below outlines the additional impairment against plant and equipment that would be recorded if certain key assumptions were reduced:

	Hungary £m
1 year delay in medium-term growth assumptions	0.6
1% increase in discount rate	0.7
1% reduction in long-term growth rate	0.6

13. Property, plant and equipment continued

In addition, we have looked at what the key assumptions would have to be for the value of the assets to be written down to zero. For this to occur the assumptions would have to be the following (keeping the other assumptions the same):

- Pre-tax discount rate of 26.0%
- an 82% reduction in medium-term forecasts plus a reduction in the long-term growth rate to 1.0%

Reasonably possible changes in key assumptions would not lead to an impairment in any of the other Civil Engineering CGUs.

Prior year impairments

Following a review of the profitability of the Ivanka site (part of the Civil Engineering GBU) in 2017, and the subsequent decision to close the site, the property, plant and equipment were written down to management's internally-generated estimate of the expected sales proceeds net of expected costs to sell. This resulted in a property impairment charge of £2.1m and an impairment of plant and equipment totalling £1.3m which were included within non-underlying items. The property, plant and equipment was written down to its estimated recoverable amount of £4.7m (including £1.0m value of inventory).

The prior year impairment review of the CGUs allocated to the Civil Engineering segment resulted in an impairment of plant and equipment including within non-underlying items totalling £6.6m (Note 11).

14. Investment in subsidiaries

	Company	
	2018 £m	2017 £m
Cost at 1 December	191.6	103.5
Equity investment in subsidiary undertaking	–	88.1
Disposal of subsidiaries	(8.2)	–
Cost at 30 November	183.4	191.6
Provision for impairment at 1 December	(10.3)	(10.3)
Impairment of subsidiary undertaking	(6.2)	–
Disposal of subsidiaries	7.9	–
Provision at 30 November	(8.6)	(10.3)
Net book value at 30 November	174.8	181.3

The carrying value of investments in the Parent Company have been tested for impairment given the current and prior year impairments recorded in the Civil Engineering and CTT CGUs. The recoverable amounts of the investments are determined using value in use calculations (as these have been assessed to be higher than the estimate of fair value less costs to sell) for each investment based on projected cash flows, discounted to calculate the net present value.

The cashflows and key assumptions used in the value in use calculation are consistent with those considered in the goodwill impairment assessments as detailed in Note 11.

As disclosed in Note 11, the B&I and I&T CGUs (and therefore the companies which they comprise) have sufficient headroom on the impairment assessments such that reasonably possible changes in key assumptions would not lead to an impairment. This headroom is supporting the recoverable value of the investments held by the Parent Company.

During the year, £6.2m (2017: £nil) was provided in respect of shares held in a subsidiary entity.

During the year, a net amount of £0.3m (2017: £nil) was written off following the striking off of a number of dormant companies (see Note 37 for further details of which companies were struck off).

During the prior year, a 100% wholly owned subsidiary, Low & Bonar Euro Holdings Limited, was incorporated. The subsidiary undertakings are shown within Note 37.

15. Investment in joint venture

	Group	
	2018 £m	2017 £m
Cost		
At 1 December & 30 November	3.0	3.0
Impairment provision		
At 1 December & 30 November	(3.0)	(3.0)
Net book value at 30 November	–	–

The Group's share of the assets, liabilities, income and expenses of its joint venture is shown below:

	2018 £m	2017 £m
Total assets	40.8	38.4
Total liabilities	(37.5)	(35.4)
Net assets	3.3	3.0
Group share of net assets	1.7	1.5
Total revenue	20.6	17.6
Total loss for the year	(3.6)	(3.6)
Group share of loss for the year	–	–

In prior periods, the losses from the joint venture resulted in a substantial decline in the cost of our investment. As a result, when the cost of investment reached zero no further losses have been recognised.

In January 2018, the Board agreed to exit from the Bonar Natpet joint venture. The expected costs to exit the joint venture of £2.2m are classified as Liabilities directly associated with assets classified as held for sale (Note 30).

Notes to the Accounts continued

16. Investment in associates

	Group	
	2018 £m	2017 £m
Cost and net book value		
At 1 December	0.7	0.5
Share of retained profit	0.1	0.2
At 30 November	0.8	0.7

The Group's share of the assets, liabilities, income and expenses of its associated undertakings is shown below:

	2018 £m	2017 £m
Total assets	1.9	1.7
Total liabilities	(0.2)	(0.3)
Net assets	1.7	1.4
Group share of net assets	0.6	0.6
Total revenue	3.0	3.0
Total profit for the year	0.3	0.4
Group share of profit for the year	0.1	0.2

The associates are shown within Note 37.

17. Inventories

	Group	
	2018 £m	2017 £m
Raw materials and consumables	23.8	21.9
Work in progress	21.8	19.3
Finished goods	48.3	56.1
Total	93.9	97.3

Inventories are presented in the Balance Sheet net of provision for impairment of obsolete and slow-moving items. The provision required is estimated by management based upon prior experience and their assessment of the current and future economic environment. The write-down of inventories is included in cost of sales (Note 2).

18. Trade and other receivables

	Group	
	2018 £m	2017 £m
Current		
Trade receivables	66.4	73.6
Provision for impairment of receivables	(1.5)	(1.3)
Net trade receivables	64.9	72.3
Other receivables	8.8	11.0
Prepayments	4.1	3.6
Total	77.8	86.9

	Company	
	2018 £m	2017 £m
Non-current		
Amounts owed by subsidiaries	42.4	47.2
Current		
Amounts owed by subsidiaries	157.6	171.5
Other receivables	0.3	0.7
Prepayments	0.8	0.7
Total	158.7	172.9

The Group has an established credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group's review includes external ratings and bank references, where available. Purchase limits are established for each customer; these limits are reviewed quarterly. The Group has a long history of trading with a number of its customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

At 30 November 2018, the Group held a trade receivable of £0.1m (2017: £nil) due from Bonar Natpet LLC, a joint venture and an amount of £0.3m (2017: £0.1m) owed by the Low & Bonar Group Retirement Benefit Scheme.

Impairment losses

The age profile of gross trade receivables at the balance sheet date was:

	Group	
	2018 £m	2017 £m
Not past due	56.1	63.3
0–30 days past due	4.2	4.6
31–120 days past due	3.3	2.5
More than 120 days past due	2.8	3.2
Total	66.4	73.6

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group	
	2018 £m	2017 £m
Balance at 1 December	(1.3)	(1.5)
Increased during the year	(0.6)	(0.2)
Released during the year	0.2	0.3
Utilised during the year	0.2	0.1
Exchange adjustments	–	–
Total	(1.5)	(1.3)

18. Trade and other receivables continued

The allowance for impairment in respect of trade receivables at the end of the year was allocated against aged receivables as follows:

	Group	
	2018 £m	2017 £m
Not past due	-	-
0-30 days past due	-	-
31-120 days past due	(0.1)	(0.1)
More than 120 days past due	(1.4)	(1.2)
Total	(1.5)	(1.3)

Provisions for impairment of receivables are estimated by management based on prior experience and their assessment of the current economic environment. Management believe that this provision is adequate to cover the risk of bad debts and exposure to credit risk. At 30 November 2018, 79.4% (2017: 70.7%) of trade receivables were insured.

19. Trade and other payables

	Group	
	2018 £m	2017 £m
Current		
Trade payables	68.7	64.2
Other taxes and social security	2.1	2.5
Other payables	3.8	2.6
Accruals	17.8	17.4
Total	92.4	86.7

	Company	
	2018 £m	2017 £m
Current		
Amounts owed to subsidiaries	9.5	102.8
Other taxes and social security	0.2	0.2
Other payables	1.1	1.9
Accruals	0.9	0.7
Total	11.7	105.6

The amounts owed to subsidiaries has reduced from 2017 as a loan of £88.7m with Low & Bonar Euro Holdings Limited has now been classified as a non-current liability (Note 24).

At 30 November 2018, the Group held a trade payable of £1.6m (2017: £0.1m) due from Bonar Natpet LLC, a joint venture.

Notes to the Accounts continued

20. Financial assets, liabilities, derivatives and financial risk management

The objectives of the Group's treasury policies are to ensure sufficient liquidity to meet the Group's operational and strategic needs and the management of financial risk at optimal cost. The main financial risks to which the Group is exposed are foreign currency risk, credit risk and interest rate risk. Group treasury policies are set by the Board and permit the use of conventional financial instruments and certain derivative instruments to manage and mitigate these risks. There were no changes to this policy in the year ended 30 November 2018.

The Group treasury function is responsible for implementing Group policy and for managing the Group's relationships with its key providers of debt and other treasury services. The treasury function is operated as a cost centre and no speculative transactions are permitted. Underlying policy assumptions and activities are reviewed by the Board. Controls over exposure changes and transaction authenticity are in place.

Fair value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Group				Company			
	Fair value 2018 £m	Book value 2018 £m	Fair value 2017 £m	Book value 2017 £m	Fair value 2018 £m	Book value 2018 £m	Fair value 2017 £m	Book value 2017 £m
Loans and receivables								
Cash and cash equivalents	47.8	47.8	38.2	38.2	0.4	0.4	0.1	0.1
Trade and other receivables	73.7	73.7	83.3	83.3	200.3	200.3	219.4	219.4
Financial liabilities at amortised cost								
Trade and other payables	(93.9)	(93.9)	(89.7)	(89.7)	(100.4)	(100.4)	(105.6)	(105.6)
Bank overdrafts	(0.4)	(0.4)	(2.7)	(2.7)	(2.5)	(2.5)	(2.0)	(2.0)
Preference shares	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Prepaid arrangement fees	1.5	1.5	0.8	0.8	1.2	1.2	0.5	0.5
Floating rate borrowings	(123.8)	(123.8)	(121.4)	(121.4)	(65.9)	(65.9)	(71.6)	(71.6)
Fixed rate borrowings	(53.8)	(53.2)	(53.5)	(52.9)	–	–	–	–
Total	(149.3)	(148.7)	(145.4)	(144.8)	32.7	32.7	40.4	40.4

Estimation of fair value

The major methods and assumptions used in estimating the fair values of financial instruments reflected in the table are summarised as follows:

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Trade and other receivables/payables

The fair value of trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Interest-bearing financial assets and liabilities

The fair value of interest-bearing assets and liabilities that bear interest at floating rates approximates to their carrying value. The fair value of the fixed interest financial liabilities is determined by discounting future contracted cash flows, using appropriate yield curves, to their net present value.

Funding and liquidity

During 2018, the Group's €165m unsecured multi-currency revolving credit facility was re-financed and an amendment made to the €60m loan note raised by private placement in relation to covenant levels.

The Group's borrowing facilities at 30 November 2018 totalled £216.5m (2017: £215m), comprising:

- a new €165m unsecured multi-currency revolving credit facility with a syndicate of five of its key relationship banks, committed until May 2023, which bears interest at between 0.95% to 2.45% above LIBOR depending on the ratio of the Group's net debt to adjusted EBITDA at each of its half-year and year-end reporting dates;
- an amended €60m senior loan note raised by private placement with Pricoa Capital Group Limited; this funding is unsecured and is scheduled for repayment between September 2022 and September 2026 in even tranches, and bears interest at a fixed rate of 2.57% per annum for the term of the loan; and
- RMB150m of unsecured revolving and term loan facilities, maturing in June 2020, arranged in July 2015 to finance the construction of the Group's manufacturing facility in Changzhou, China.

20. Financial assets, liabilities, derivatives and financial risk management continued

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders commensurate with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes changes in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's capital structure is as follows:

	Group	
	2018 £m	2017 £m
Net debt	128.5	138.4
Total equity	127.5	180.3
Total	256.0	318.7

Analysis of cash and cash equivalents

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Sterling	–	2.5	0.4	–
Euro	26.9	19.9	–	0.1
US Dollar	10.0	10.9	–	–
Chinese Yuan	7.6	4.4	–	–
Other	3.3	0.5	–	–
Total	47.8	38.2	0.4	0.1

Analysis of interest-bearing borrowings

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Borrowings falling due within one year or on demand				
Bank overdrafts	0.4	2.7	2.5	2.0
Interest bearing loans	4.6	–	–	–
Total	5.0	2.7	2.5	2.0
Borrowings falling due after more than one year				
Interest bearing loans and overdrafts	117.7	120.6	64.7	71.1
2.57% €60m Senior Note due 2022-2026	53.2	52.9	–	–
Other borrowings				
– Preference shares	0.4	0.4	0.4	0.4
Total	171.3	173.9	65.1	71.5

All of the Company's and Group's borrowings are unsecured.

Notes to the Accounts continued

20. Financial assets, liabilities, derivatives and financial risk management continued

The following tables show the undiscounted contracted cash flows and maturities of financial liabilities, together with their carrying amounts and average effective interest rates, as at the balance sheet date:

	Group 2018						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1–2 years £m	2–5 years £m	>5 years £m
Non-derivative financial liabilities:							
Multicurrency revolving facility							
– Sterling	2.4	(14.5)	(15.0)	(0.3)	(14.7)	–	–
– Euro	1.6	(84.0)	(86.1)	(1.2)	(84.9)	–	–
– US Dollar	3.7	(11.8)	(12.5)	(0.4)	(12.1)	–	–
2.57% €60m Senior Note due 2022-2026	2.6	(53.2)	(63.4)	(1.4)	(1.4)	(4.1)	(56.5)
RMB150m facility	5.2	(13.5)	(15.3)	(2.4)	(12.9)	–	–
Bank overdrafts							
– Sterling	2.5	(0.4)	(0.4)	(0.4)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		1.5	–	–	–	–	–
		(176.3)	(193.1)	(6.1)	(126.0)	(4.1)	(56.9)
Trade and other payables		(93.9)	(93.9)	(93.1)	(0.8)	–	–
Total		(270.2)	(287.0)	(99.2)	(126.8)	(4.1)	(56.9)

	Group 2017						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1–2 years £m	2–5 years £m	>5 years £m
Non-derivative financial liabilities:							
Multicurrency revolving facility							
– Sterling	1.9	(13.8)	(14.3)	(0.3)	(14.0)	–	–
– Euro	1.3	(73.8)	(75.2)	(0.8)	(74.4)	–	–
– US Dollar	2.5	(20.2)	(21.0)	(0.5)	(20.5)	–	–
2.57% €60m Senior Note due 2022-2026	2.6	(52.9)	(63.1)	(1.4)	(1.4)	(4.1)	(56.2)
RMB150m facility	5.2	(13.6)	(16.1)	(0.7)	(0.7)	(14.7)	–
Bank overdrafts							
– Sterling	2.5	(1.7)	(1.7)	(1.7)	–	–	–
– Euro	2.5	(1.0)	(1.0)	(1.0)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees	–	0.8	–	–	–	–	–
		(176.6)	(192.8)	(6.4)	(111.0)	(18.8)	(56.6)
Trade and other payables		(89.7)	(89.7)	(88.9)	(0.8)	–	–
Total		(266.3)	(282.5)	(95.3)	(111.8)	(18.8)	(56.6)

20. Financial assets, liabilities, derivatives and financial risk management continued

	Company 2018						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1–2 years £m	2–5 years £m	>5 years £m
Non-derivative financial liabilities:							
Multicurrency revolving facility							
– Sterling	2.4	(14.2)	(15.1)	(0.3)	(14.8)	–	–
– Euro	1.6	(39.9)	(41.6)	(0.6)	(41.0)	–	–
– US Dollar	3.7	(11.8)	(12.9)	(0.4)	(12.5)	–	–
Bank overdrafts							
– Euro	2.5	(1.9)	(1.9)	(1.9)	–	–	–
– USD	2.5	(0.6)	(0.6)	(0.6)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		1.2	–	–	–	–	–
		(67.6)	(72.5)	(3.8)	(68.3)	–	(0.4)
Trade and other payables		(100.4)	(100.4)	(11.7)	–	(88.7)	–
Total		(168.0)	(172.9)	(15.5)	(68.3)	(88.7)	(0.4)

	Company 2017						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1–2 years £m	2–5 years £m	>5 years £m
Non-derivative financial liabilities:							
Multicurrency revolving facility							
– Sterling	1.9	(14.6)	(15.4)	(0.3)	(15.1)	–	–
– Euro	1.3	(36.8)	(38.1)	(0.5)	(37.6)	–	–
– US Dollar	2.5	(20.2)	(21.6)	(0.5)	(21.1)	–	–
Bank overdrafts							
– Sterling	2.5	(1.7)	(1.7)	(1.7)	–	–	–
– Euro	2.5	(0.3)	(0.3)	(0.3)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees	–	0.5	–	–	–	–	–
		(73.5)	(77.5)	(3.3)	(73.8)	–	(0.4)
Trade and other payables		(105.6)	(105.6)	(105.6)	–	–	–
Total		(179.1)	(183.1)	(108.9)	(73.8)	–	(0.4)

Foreign exchange risk

(a) Translational

The Group has significant net assets based outside of the UK, predominantly in the Eurozone, the US and China, with further amounts held in the Czech Republic and the Middle East. The Group has elected to use its direct currency borrowings under the senior note private placement and its €165m multi-currency revolving facility as hedges against movements in the Sterling value of its Euro and US Dollar investments and to mitigate the risk associated with fluctuations in foreign currency rates. The Group's borrowing under its RMB150m facilities acts as a natural balance sheet hedge against the Group's investments in China. The Group recognised an amount of £nil in the income statement as a result of ineffectiveness arising from those hedges of net investments in foreign operations. Underlying profit before tax for the year ended 30 November 2017 retranslated using 2018 average exchange rates would have been £0.5m lower.

(b) Transactional

The Company and Group have limited transactional currency exposures, arising on sales and purchases made in currencies other than the functional currency of the entity making the sale or purchase. Significant exposures which are deemed at least highly probable are matched where possible, and the remaining transactional risk may be mitigated using forward foreign exchange contracts, all of which mature within one year of the balance sheet date.

For the year ended 30 November 2018 and 30 November 2017 no derivative instruments were used to manage the transactional currency exposures.

Notes to the Accounts continued

20. Financial assets, liabilities, derivatives and financial risk management continued

The following significant exchange rates applied during the year:

	Average rate 2018	Average rate 2017	Year end rate 2018	Year end rate 2017
Sterling/Euro	1.13	1.15	1.13	1.14
Sterling/US Dollar	1.34	1.28	1.28	1.35
Sterling/Czech Crown	29.03	30.26	29.26	28.98
Sterling/Hungarian Forint	360.32	354.05	364.54	355.33
Sterling/Chinese Yuan	8.83	8.70	8.87	8.95

Sensitivity analysis

A 10% strengthening of Sterling against the following currencies would have decreased equity and profit before amortisation and non-recurring items after tax by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant:

	2018		2017	
	Profit £m	Equity £m	Profit £m	Equity £m
Euro	0.1	(3.2)	(0.1)	(6.3)
US Dollar	(0.4)	(2.6)	(0.8)	(1.6)
Czech Crown	(0.1)	(1.0)	(0.1)	(1.1)
Chinese Yuan	(0.4)	(4.8)	(0.3)	(4.5)

A 10% weakening of Sterling against the above currencies as at 30 November 2018 and 2017 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the risk of loss in relation to a financial asset due to non-payment by the customer or counterparty. The Group's objective is to reduce its exposure to counterparty default by restricting the type of counterparty it deals with and by employing an appropriate policy in relation to the collection of financial assets. The Group's principal financial assets are cash and receivables which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk in relation to cash is mitigated by Group policies which restrict dealings to approved counterparties with high credit ratings and with whom the Group has an ongoing banking relationship. The Group has set maximum permitted exposures with each counterparty which are reviewed regularly.

Trade receivable exposures are with a wide range of counterparties, and the credit strength of these counterparties is monitored. Where appropriate, credit risks are minimised through the use of forward funding, letters of credit, variations in payment terms and insurance. The maximum exposure to credit risk is represented by the carrying value of each financial asset as recorded in the Balance Sheet. There are no significant concentrations of credit risk at the balance sheet date nor are there any significant exposures to any one customer. See Note 18 for further details.

The Group's policy is to provide financial guarantees only where there is a clear commercial advantage in doing so.

The Company believes that all amounts receivable from subsidiary companies are recoverable in full.

20. Financial assets, liabilities, derivatives and financial risk management continued

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade and other receivables	73.7	83.3	200.3	219.4
Cash and cash equivalents	47.8	38.2	0.4	0.1
Total	121.5	121.5	200.7	219.5

Interest rate risk

The Group's strategy seeks a balance between fixed and floating rate borrowings, to achieve a reasonable effective interest rate whilst protecting the Group against material adverse changes in interest rates over the medium term.

All of the Group's interest-bearing assets and liabilities at 30 November 2018 and 2017 were on a floating rate basis, apart from preference debt with an average coupon rate of 5.75% and the €60m Senior Note due 2022-2026 which bears interest at 2.57%.

Floating rate financial assets and liabilities comprise borrowings under the Group's syndicated multi-currency revolving credit facility, which bear interest at LIBOR (or, in the case of borrowings in Euro, EURIBOR), or the lender's base rate for the currency concerned, plus a margin of between 0.95% to 2.45% above LIBOR, and cash deposits and bank overdrafts which bear interest at market rates; and borrowings under the Group's RMB150m facility, which bear interest at rates set by reference to local base rate.

Profile

At the balance sheet date, the interest rate profile of the Group's and Company's interest-bearing net debt and financial instruments was:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Fixed rate				
Total fixed rate	(53.6)	(53.3)	(0.4)	(0.4)
Floating rate				
Total floating rate	(74.9)	(85.1)	(66.8)	(73.0)
Total	(128.5)	(138.4)	(67.2)	(73.4)

The Group and Company's interest-bearing net debt and financial instruments do not include amounts owed or owing to joint ventures or joint venture partners.

Sensitivity analysis

A change of 100 basis points in interest rates would have increased or decreased equity by £0.8m (2017: £0.7m). The impact on the profit or loss for the period would have been to increase or decrease profit by £1.0m (2017: £0.9m). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

21. Assets held for sale

During the year, as an outcome of the first phase of the Board's review of the Civil Engineering Global Business Unit, a decision was taken to close the loss-making weaving plant in Ivanka, Slovakia. The assets are being actively marketed and are expected to be sold in the next 12 months. The non-current assets comprising land and buildings of £2.7m have therefore been presented as assets held for sale within current assets.

Notes to the Accounts continued

22. Deferred taxation

Group

Recognised deferred tax assets and liabilities:

	2018			2017		
	Assets £m	Liabilities £m	Net assets/ (liabilities) £m	Assets £m	Liabilities £m	Net assets/ (liabilities) £m
Intangible assets	–	(3.2)	(3.2)	–	(4.2)	(4.2)
Retirement benefit liabilities	2.4	–	2.4	2.6	–	2.6
Retirement benefit assets	–	(3.9)	(3.9)	–	(3.5)	(3.5)
Accelerated tax depreciation	0.8	(8.4)	(7.6)	–	(9.2)	(9.2)
Tax losses	3.9	–	3.9	7.3	–	7.3
Other	1.5	(1.3)	0.2	0.2	(0.6)	(0.4)
Net tax assets/(liabilities)	8.6	(16.8)	(8.2)	10.1	(17.5)	(7.4)

Unrecognised deferred tax assets:

	2018 £m	2017 £m
Tax losses	24.9	21.0
Employee share schemes	1.4	1.4
Accelerated tax depreciation	0.9	0.9
Total	27.2	23.3

Unrecognised tax losses include an amount of £6.5m (2017: £6.5m) in respect of capital losses. The tax losses have no expiry date.

Movement in deferred tax during the year ended 30 November 2018:

	Balance 1 Dec 2017 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Arising on acquisition £m	Exchange adjustments £m	Balance 30 Nov 2018 £m
Intangible assets	(4.2)	–	1.0	–	–	(3.2)
Retirement benefit liabilities	2.6	(0.7)	0.5	–	–	2.4
Retirement benefit assets	(3.5)	(0.7)	0.3	–	–	(3.9)
Accelerated tax depreciation	(9.2)	–	1.7	–	(0.1)	(7.6)
Tax losses	7.3	–	(3.4)	–	–	3.9
Other	(0.4)	–	0.6	–	–	0.2
Total	(7.4)	(1.4)	0.7	–	(0.1)	(8.2)

Movement in deferred tax during the year ended 30 November 2017:

	Balance 1 Dec 2016 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Arising on acquisition £m	Exchange adjustments £m	Balance 30 Nov 2017 £m
Intangible assets	(4.2)	–	1.1	(1.0)	(0.1)	(4.2)
Retirement benefit liabilities	3.1	(0.1)	(0.3)	–	(0.1)	2.6
Retirement benefit assets	–	(3.1)	(0.4)	–	–	(3.5)
Accelerated tax depreciation	(13.6)	–	4.1	(0.1)	0.4	(9.2)
Tax losses	1.1	–	6.2	–	–	7.3
Other	0.1	–	(0.3)	–	(0.2)	(0.4)
Total	(13.5)	(3.2)	10.4	(1.1)	–	(7.4)

22. Deferred taxation continued

The Group has recognised deferred tax assets of £8.6m (2017: £10.1m) as the Directors believe it is probable that future taxable profits will be available against which the assets can be utilised as they reverse over the coming years.

The Group has not recognised deferred tax assets of £27.2m (2017: £23.3m) as the Directors do not believe it is probable that future taxable profits will be available against which the assets can be utilised as they reverse over the coming years.

The Group has not recognised deferred tax liabilities totalling £0.7m (2017: £0.7m) in respect of potential withholding tax due on the remittance of undistributed profits from subsidiaries as the Group is able to control the timing of the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Company

The Company has no recognised deferred tax assets (2017: £3.5m) as the Directors do not believe it is probable that future taxable profits will be available against which the assets can be utilised as they reverse over the coming years mainly attributable to tax losses.

The Company has deferred tax liabilities of £3.9m (2017: £3.5m) related to the pension surplus.

Unrecognised deferred tax assets:

	2018 £m	2017 £m
Tax losses	12.1	8.7
Employee share schemes	1.4	1.5
Total	13.5	10.2

The Company has not recognised deferred tax assets of £13.5m (2017: £10.2m) as the Directors do not believe it is probable that future taxable profits will be available against which the assets can be utilised as they reverse over the coming years.

Tax losses include an amount of £4.4m (2017: £4.4m) in respect of capital losses. The tax losses have no expiry date.

23. Provisions

	Custom duties and fees £m	Restructuring £m	Other £m	Group £m
Current				
At 30 November 2016	–	–	–	–
Created in the year	1.7	–	–	1.7
Utilised in the year	–	–	–	–
At 30 November 2017	1.7	–	–	1.7
Created in the year	1.6	4.2	0.6	6.4
Utilised in the year	(0.7)	(3.3)	(0.3)	(4.3)
At 30 November 2018	2.6	0.9	0.3	3.8

£2.6m of the provision relates to irregularities in relation to customs duties that were identified in previous periods. In the year ended 30 November 2018, the Group recognised a charge of £1.6m in respect of these irregularities (Note 5). This charge has been treated as a non-underlying item, and the resulting provision of £2.6m represents the Group's best estimate of the remaining costs to settle this issue. In forming a view as to the adequacy of the provision, management have taken account of the findings of the investigation to date which include some assessments and assumptions that could significantly alter the level of costs to be incurred, were they to be incorrect. These assessments and assumptions include the identification of all transactions with irregularities, the value of customs duties impacted and the level of relief for penalties that could be given due to the Group's active management of the issue. The investigation is ongoing and the timing of any cash outflows is uncertain.

£0.9m of the provision relates to costs relating to the transformation programme that are yet to be settled. The Group recognised a charge of £4.2m in respect of this programme (Note 5) and have utilised £3.3m of the provision. The programme is still ongoing and the final costs may be subject to change.

The Other provision amounting to £0.3m relates to the fair value of a contract entered into by the Group with the purchasers of the agro-textile business to purchase woven products at an above market price. The contract was entered into at the time of disposal.

Notes to the Accounts continued

24. Other payables

	Group	
	2018 £m	2017 £m
Non-current		
Other payables	0.8	0.8

	Company	
	2018 £m	2017 £m
Non-current		
Amounts owed to subsidiaries	88.7	–

The amounts owed to subsidiaries has increased from 2017 as a loan of £88.7m with Low & Bonar Euro Holdings Limited was previously classified as a current liability.

25. Share capital

	Group and Company 2018		Group and Company 2017	
	Ordinary Shares £m	Deferred Shares £m	Ordinary Shares £m	Deferred Shares £m
Allotted, called up and fully paid				
At 1 December				
329,706,034 (2017: 329,298,026) Ordinary Shares at 5 pence each	16.5	–	16.5	–
154,571,152 Deferred Shares at 20 pence each	–	30.9	–	30.9
400,554 Ordinary Shares (2017: 408,008) issued under share option plans and long-term incentive plan	–	–	–	–
At 30 November				
330,106,588 (2017: 329,706,034) Ordinary Shares of 5 pence each	16.5	–	16.5	–
154,571,152 Deferred Shares of 20 pence each	–	30.9	–	30.9

Capital reorganisation

On 11 March 2009, the Company's Ordinary Share capital was reorganised by means of a capital reorganisation involving: (i) the subdivision and reclassification of each issued Ordinary Share into one new Ordinary Share of 5 pence and one Deferred Share of 20 pence; and (ii) the subdivision of each authorised but unissued Ordinary Share into five new Ordinary Shares of 5 pence each. On completion of the capital reorganisation, each Ordinary Shareholder held one new Ordinary Share and one Deferred Share for each Ordinary Share previously held.

A Deferred Share: (i) does not entitle its holder to receive any dividend or other distribution; (ii) does not entitle its holder to receive notice of, nor to attend, speak or vote at, any general meeting of the Company; (iii) entitles its holder on a return of capital on a winding-up (but not otherwise) only to the repayment of the amount paid up on that share after payment of (a) the amounts entitled to be paid up to holders of the Preference Shares and (b) the capital paid up on each Ordinary Share of 5 pence in the share capital of the Company and the further payment of £10m on each such Ordinary Share; and, (iv) does not entitle its holder to any further participation in the capital, profits or assets of the Company.

25. Share capital continued

Ordinary Share Capital

At a general meeting of the Company, on a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, shall have one vote and every proxy present who has been duly appointed by a member entitled to vote on the resolution shall have one vote. No member shall, unless the Directors otherwise determine, be entitled to be present or to be counted in a quorum or to vote either personally or by proxy or otherwise at any general meeting of the Company or at any separate general meeting of the holders of any class of the shares of the Company or upon a poll or to exercise any other right conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of shares in the Company of which he is the holder (whether alone or jointly with any other person), together with interest, costs, charges and expenses (if any), remains unpaid. If any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to the Company the information thereby required, then (unless the Directors otherwise determine) in respect of: the shares comprising the shareholding account in the Register of Members which comprises or includes the shares in relation to which the default occurred (all or the relevant number as appropriate of such shares being the default shares, which expression shall include any further shares which are issued in respect of such shares); and any other shares held by the member, the member shall (for so long as the default continues) not nor shall any transferee to which any of such shares are transferred other than pursuant to an approved transfer or pursuant to the Articles be entitled to be present or to vote either personally or by proxy at a general meeting of the Company or a meeting of the holders of any class of shares of the Company or to exercise any other right conferred by membership in relation to general meetings of the Company or meetings of the holders of any class of shares of the Company. The profits which the Company may determine to distribute in respect of any financial year or other period for which its accounts are made up shall be applied, in the first place, in paying to the holders of the first cumulative preference stock a fixed cumulative preferential dividend at the rate of 6 per cent. Per annum: in the second place, in paying to the holders of the second cumulative preference stock a fixed cumulative preferential dividend at the rate of 6 per cent. Per annum: and, in the third place, in paying to the holders of the third cumulative preference stock a fixed cumulative preferential dividend at the rate of 5½ per cent. Per annum, and, subject to any special rights which may be attached to any shares hereafter created or issued, the balance of the said profits shall be distributed among the holders of the ordinary shares. On a return of assets on liquidation or otherwise, the assets of the Company available for distribution among the members shall be applied, in the first place, in repaying to the holders of the first cumulative preference stock the sum of £1 for each £1 of such stock held (together with a sum equal to any arrears or deficiency of the fixed dividend thereon to be calculated down to the date of the return of capital): in the second place, in repaying to the holders of the second cumulative preference stock the sum of £1 for each £1 of such stock held (together with a sum equal to any arrears or deficiency of the fixed dividend thereon to be calculated down to the date of the return of capital): and, in the third place, in repaying to the holders of the third cumulative preference stock the sum of £1 for each £1 of such stock held (together with a sum equal to any arrears or deficiency of the fixed dividend thereon to be calculated down to the date of the return of capital), and, subject to any special rights which may be attached to any shares hereafter created or issued, the balance shall belong to and be distributed among the holders of the ordinary shares. A Deferred Share entitles its holder on a return of capital on a winding-up (but not otherwise) only to the repayment of the amount paid up on that share after payment of (i) the amounts entitled to be paid to holders of the preference stock, and (ii) the capital paid up on each ordinary share of five pence in the share capital of the Company and the further payment of £10,000,000 on each such ordinary share. The full rights and obligations attaching to ownership of shares in the Company are contained in its Articles of Association.

The Company operates an employee benefit trust to hold shares in relation to satisfying awards made under certain employee share schemes. At 30 November 2018, the trust held 26,752 Ordinary Shares (2017: 26,752 Ordinary Shares).

Shares issued during the year

During the year ended 30 November 2018, 400,544 shares (2017: 408,008 shares) were issued to employees who exercised share options. The nominal value was 5.00p per share and the aggregate consideration was £0.2m (2017: £0.2m). No shares (2017: nil) were issued pursuant to awards made under the LTIP granted in 2013.

Notes to the Accounts continued

25. Share capital continued

Preference Shares

	Group and Company	
	2018 £m	2017 £m
Allotted, called up and fully paid		
100,000 (2017: 100,000) 6% first cumulative preference stock of £1.00 each	0.1	0.1
100,000 (2017: 100,000) 6% second cumulative preference stock of £1.00 each	0.1	0.1
200,000 (2017: 200,000) 5.5% third cumulative preference stock of £1.00 each	0.2	0.2
Total	0.4	0.4

Preference Shares are included within borrowings. Preference Shares have priority over Ordinary Shares on a winding-up of the Company. Provided that preference dividends remain paid in accordance with the Company's Articles of Association, Preference Shares do not carry voting rights.

Potential issues of Ordinary Shares

An element of senior executive remuneration is provided in the form of share options and long-term incentive plan awards. More details of these options and awards can be found in the Directors' Remuneration Report on pages 77 to 91. Employees are also invited to participate in the Low & Bonar Sharesave schemes.

Share options

Under the provisions of the employee share option schemes there were options for a total of 1.8 million Ordinary Shares outstanding at 30 November 2018 (2017: 2.9 million Ordinary Shares). The number of options outstanding which were granted in the last financial year was 1.0 million (2017: 0.6 million).

Details of the options included in the IFRS 2 charge are as follows:

Year of grant	Average fair value in pence	Exercise price in pence	Exercise period	Ordinary Shares of 5p each				30 Nov 2018
				1 Dec 2017	Granted	Exercised	Forfeited	
Share options								
2013	18.55	58.80	2016 to 2018	6,122	–	–	(6,122)	–
2013	20.29	58.80	2016 to 2018	163,602	–	–	(163,602)	–
2014	22.37	68.80	2017 to 2019	41,509	–	–	(10,987)	30,522
2014	21.89	68.80	2017 to 2019	97,241	–	–	(23,351)	73,890
2015	14.20	48.80	2018 to 2020	573,798	–	(225,853)	(341,799)	6,146
2015	13.47	48.80	2018 to 2020	629,592	–	(78,400)	(551,192)	–
2016	12.59	49.00	2019 to 2021	290,553	–	(20,203)	(134,443)	135,907
2016	11.84	49.00	2019 to 2021	513,298	–	(21,282)	(231,349)	260,667
2017	15.92	55.20	2020 to 2022	244,982	–	(5,434)	(122,819)	116,729
2017	15.98	55.20	2020 to 2022	340,736	–	–	(160,277)	180,459
2018	11.70	44.96	2021	–	1,076,022	–	(103,217)	972,805
Total				2,901,433	1,076,022	(351,172)	(1,849,158)	1,777,125

The weighted average exercise price of share options outstanding at 30 November 2018 was 48.99p (2017: 51.69p). The weighted average exercise prices of share options granted, exercised and forfeited in the year to 30 November 2018 were 44.96p, 48.92p and 50.89p, respectively (2017: 55.2p, 63.14p and 58.29p, respectively). No share options were exercisable at 30 November 2018 (2017: nil).

The fair values of share options granted in the year to 30 November 2018 was 11.70p (2017: 15.87p to 16.55p) and were derived using the Black-Scholes model. The assumed future volatility was 35.3% (2017: 31.22% to 32.20%), the dividend yield was 5.55% (2017: 4.23%), the expected term ranged was 3.31 years (2017: 3.4 years to 5.4 years) and the risk-free rate was 0.89% (2017: 0.12% to 0.42%).

The average share price in the year ended 30 November 2018 was 49.10p (2017: 74.90p).

25. Share capital continued

Long-term incentive plan awards

Under the provisions of the long-term incentive plans there were awards for a total of 5.9 million Ordinary Shares outstanding at 30 November 2018 (2017: 9.6 million Ordinary Shares). The number of awards outstanding which were granted in the last financial year was 2.8 million (2017: 3.3 million).

Details of the awards included in the IFRS 2 charge are shown below:

Year of grant	Average fair value in pence	Award price in pence	Vesting period	Ordinary Shares of 5p each				30 Nov 2018
				1 Dec 2017	Awarded	Exercised	Forfeited	
2015	48.27	57.25	2015 to 2018	2,937,728	–	–	(2,937,728)	–
2015	50.62	59.50	2015 to 2018	75,177	–	–	(75,177)	–
2015	62.24	71.00	2015 to 2018	270,383	–	–	(270,383)	–
2016	54.36	63.50	2016 to 2018	138,848	–	–	(138,848)	–
2016	51.54	63.50	2016 to 2019	2,873,689	–	–	(1,479,829)	1,393,860
2017	62.24	70.00	2017 to 2020	2,581,650	–	–	(1,465,246)	1,116,404
2017	63.31	77.00	2017 to 2020	142,857	–	–	(142,857)	–
2017	53.33	69.50	2017 to 2020	553,572	–	–	–	553,572
2018	50.15	59.40	2018 to 2021	–	3,369,500	–	(553,352)	2,816,148
Total	52.15	63.34		9,573,904	3,369,500	–	(7,063,420)	5,879,984

None of the instruments awarded under the Group's long-term incentive plans were exercisable at 30 November 2018 (2017: nil). The fair values of awards made in the year to 30 November 2018 ranged from 40.90p to 59.40p (2017: 37.15p to 77.00p) and were derived using the Black-Scholes or Stochastic models. The assumed future volatility was based on historical trends and was 35.06% (2017: 25.11% to 31.38%), the dividend yield was 0% (2017: 0%), the expected term was 3 years (2017: 2 to 3 years) and the risk-free rate was 0.94% (2017: 0.17% to 0.42%).

The total amount credited/charged to the Consolidated Income Statement in respect of share-based payments was a credit of £0.2m (2017: £0.7m charge). Liabilities in respect of cash-settled share-based payments were not material at either 30 November 2018 or 30 November 2017.

26. Share premium account

	Group and Company	
	2018 £m	2017 £m
At 1 December	74.6	74.4
Premium on Ordinary Shares issued during the year	0.2	0.2
At 30 November	74.8	74.6

27. Translation reserve

	Group	
	2018 £m	2017 £m
At 1 December	(26.4)	(26.0)
Adjustments on translation of net assets and results of overseas subsidiaries, net of hedging	1.5	(0.4)
At 30 November	(24.9)	(26.4)

28. Non-controlling interest

	Group	
	2018 £m	2017 £m
At 1 December	6.4	6.4
Share of profit after taxation	0.5	0.6
Dividends	–	(1.0)
Exchange adjustment	0.1	0.4
At 30 November	7.0	6.4

Non-controlling interest represents the minority shareholder's 40% interest in Yihua Bonar Yarns & Fabrics Co. Ltd. ('YBF'). Total net assets for YBF at 30 November 2018 were £17.4m (2017: £16.0m) and total profit after taxation for the year ended 30 November 2018 was £1.3m (2017: £1.6m).

Notes to the Accounts continued

29. Reconciliation of net cash flow movement to movement in net debt

	Group	
	2018 £m	2017 £m
For the year ended 30 November		
Net cash inflow	11.0	9.8
Foreign exchange differences	0.9	(0.6)
Net increase in cash and cash equivalents	11.9	9.2
Amortisation of bank arrangement fees	(0.6)	(0.4)
Loan fees paid	1.6	–
Repayment of borrowings	127.9	–
Drawdown of borrowings	(129.0)	(33.7)
Foreign exchange differences	(1.9)	(2.5)
Net movement in interest bearing loans and borrowings	(2.0)	(36.6)
Movement in net debt in the year	9.9	(27.4)
Net debt at 1 December	(138.4)	(111.0)
Net debt at 30 November	(128.5)	(138.4)
	Company	
	2018 £m	2017 £m
For the year ended 30 November		
Net decrease in cash and cash equivalents	(0.2)	(2.0)
Amortisation of bank arrangement fees	(0.6)	(0.3)
Loan fees repaid	1.4	–
Repayment of borrowings	77.1	(23.1)
Drawdown of borrowings	(71.5)	–
Foreign exchange differences	–	0.3
Net movement in interest bearing loans and borrowings	6.4	(23.1)
Movement in net debt in the year	6.2	(25.1)
Net debt at 1 December	(73.4)	(48.3)
Net debt at 30 November	(67.2)	(73.4)

The only non-cash changes are amortisation of bank arrangement fees.

30. Discontinued operations

During 2016, the Board announced the disposal of the Group's artificial grass yarns business (previously comprising the majority of its Sport & Leisure global business unit). The £0.9m loss for 2017 primarily represented the true-up of the final settlement of the deferred purchased consideration receivable outstanding at 30 November 2016.

In January 2018, the Board agreed to exit from the Bonar Natpet joint venture. Efforts to sell the business had commenced in 2016 and the investment was treated as a discontinued operation in the November 2016 accounts. The expected costs to exit, which primarily include a contribution to Bonar Natpet of 50% of all trade debts older than six months, total £2.2m (2017: £1.4m) and the movement from 2017 is disclosed below. The exit cost provision is classified as Liabilities directly associated with assets classified as held for sale.

The results of the discontinued operations, which have been included in the Consolidated Income Statement, were as follows:

	Group	
	2018 £m	2017 £m
Revenue	–	–
Expenses	–	–
Profit/(loss) before tax	–	–
Loss on disposal of grass yarns business	–	(0.9)
Tax on loss on disposal of grass yarns business	–	0.2
Net profit/(loss) from disposals	–	(0.7)
Movement in exit cost provision for Bonar Natpet	(0.8)	(0.3)
Tax on movement in exit cost provision for Bonar Natpet	0.1	–
Net loss attributable to discontinued operations (attributable to owners of the Company)	(0.7)	(1.0)

During the year ended 30 November 2018, the discontinued businesses contributed £nil (2017: £nil) outflow to the Group's net operating cash flows and paid £nil (2017: £nil) in respect of investing activities and financing activities.

31. Business combinations – prior year

During the year ended 30 November 2017, Low & Bonar acquired 100% of the share capital of Walfloor Industries Inc., a company registered in Washington State, USA, on a debt-free, cash-free basis for a total consideration of £2.9m and a contingent consideration of up to £0.7m in cash based on the commercial performance of the business in the 12 months following acquisition. The contingent consideration was fair-valued upon acquisition at £0.3m. The company produce rain screens and acoustic mats and the acquisition significantly strengthens our customer relationships in the US building products market and provides a West Coast platform for further growth. Acquisition costs of £0.5m were charged to non-underlying items.

Results of the acquired business are included with the results of the Building & Industrial global business unit.

The acquired business contributed £1.1m to the Group's consolidated revenue for the prior year and increased the Group's consolidated underlying profit before interest and tax for the prior year by £0.4m. Had the business been owned by the Group for the entire prior year, the contribution to the Group's consolidated revenue and consolidated underlying profit before interest and tax would have been £1.3m and £0.5m respectively.

Details of the purchase consideration, the provisional fair values of net assets acquired and provisional goodwill arising on the acquisition of Walfloor Industries Inc. are as follows:

	Book value at acquisition £m	Fair value adjustments £m	Provisional fair value £m
<i>Intangible assets</i>			
Customer related	–	2.5	2.5
Technology related	–	0.1	0.1
Non-compete agreement related	–	0.2	0.2
<i>Property, plant and equipment</i>			
Property, plant and equipment	0.2	0.3	0.5
Inventories	0.1	–	0.1
Deferred tax liabilities	(0.1)	(1.0)	(1.1)
Net assets acquired	0.2	2.1	2.3
Cash consideration			2.9
Contingent consideration			0.3
Fair value of consideration			3.2
Goodwill arising on acquisition			0.9

Goodwill of £0.9m arising from the acquisition is attributable to revenue synergies expected to be generated from new cross-selling opportunities across the enlarged US building products market. It also includes expected benefits from the existing workforce and expertise as a result of being part of the enlarged Buildings & Industrial GBU.

32. Operating lease commitments

At 30 November, the Group had total non-cancellable commitments under operating leases as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Plant and equipment				
Lease payments within one year	1.4	1.8	–	–
Lease payments between one and two years	0.9	1.3	–	–
Lease payments between two and five years	0.7	1.1	–	–
Lease payments beyond five years	0.1	0.1	–	–
Total	3.1	4.3	–	–
Property				
Lease payments within one year	4.2	4.6	0.3	0.4
Lease payments between one and two years	3.6	4.2	0.3	0.4
Lease payments between two and five years	6.7	11.0	0.1	0.5
Lease payments beyond five years	0.9	2.5	–	–
Total	15.4	22.3	0.7	1.3

Notes to the Accounts continued

33. Contingent liabilities

At the time of disposing of the Group's North American packaging operations in March 2000, the Company entered into an Environmental Agreement with the purchasers of the business. The Environmental Agreement contains provisions regarding the remediation of known environmental contamination in the vicinity of one of the facilities which was sold in Burlington, Ontario. The Environmental Agreement expired in September 2006 and the Group has an ongoing liability only in respect of outstanding claims notified prior to this date. At 30 November 2018, an accrual of £nil (2017: £nil) remains in the Group's balance sheet for the ongoing remediation costs as the Directors now believe that all costs have been incurred.

The Company from time to time guarantees certain obligations of its subsidiaries arising in the normal course of trade. At 30 November 2018, £13.7m of guarantees were outstanding (2017: £13.6m). In addition, the Company has issued a joint and several liability undertaking, as defined in Article 403 of Book 2 of the Civil Code in the Netherlands, for its subsidiary undertaking Low & Bonar Technical Textiles Holding BV.

At 30 November 2018, the Group had guaranteed SAR 33.3m (£7.1m) (2017: SAR 33.3m (£6.6m)) of debt obligations of its joint venture Bonar Natpet LLC. The Group expects to be released from its guarantee during 2019, under agreement to exit the joint venture.

34. Related party transactions

At 30 November 2018, the Group held a trade receivable of £0.1m (2017: £nil) and a trade payable of £1.6m (2017: £0.1m) due from/to Bonar Natpet LLC, a joint venture.

At 30 November 2018, the Group was owed £0.3m (2017: £0.1m) by the Low & Bonar Group Retirement Benefit Scheme.

The Company provides debt finance to various operating subsidiaries. A total of £200.0m was outstanding at 30 November 2018 (2017: £218.7m). The Company also borrows surplus funds from its subsidiaries. At 30 November 2018, the total amount payable to subsidiaries was £98.1m (2017: £14.7m). The Company received income in respect of management services provided to its subsidiaries totalling £6.7m (2017: £8.7m). The Company received interest income from related parties totalling £5.7m (2017: £5.0m) and accrued interest payable to related parties of £2.0m (2017: £0.1m). The Company received dividend income from its subsidiaries of £12.8m (2017: £11.8m).

All related party transactions were conducted on an arm's-length basis.

The remuneration of key personnel (including Directors) of the Group was:

	2018 £m	2017 £m
Short-term benefits	2.2	2.3
Post-employment benefits	0.2	0.4
Share-based payments	–	–
Termination benefits	0.6	–
Total	3.0	2.7

Key personnel comprise four Executive Directors (2017: two) and ten other members of the Executive Leadership Team (2017: nine).

The aggregate amount of Directors' remuneration was £0.8m (2017: £0.7m) and the aggregate gain made by the Directors on the exercise of share options was £nil (2017: £nil). The cash paid into defined contribution schemes was £0.1m (2017: £0.1m) and three Directors were members of defined contribution schemes during the year (2017: three). Full details of Directors' emoluments, pension benefits and interests in the shares of the Company are set out in the Directors' Remuneration Report on pages 80 to 87.

35. Post balance sheet event

The Company has today launched an equity raise to raise gross proceeds totaling £54m (£50m net of fees).

The equity raise, which is fully underwritten by Peel Hunt LLP, will be subject to shareholders' approval. The general meeting to approve the equity raise is scheduled for 19 February 2019.

36. Segmental restatement

As indicated in the 2017 Annual Report, the Group took the decision, effective 1 December 2017, to transfer the profitable Enka business (erosion control and drainage applications) from the Civil Engineering GBU into the B&I GBU. This transfer was part of the strategy review of Civil Engineering, and the Directors believe that the Enka business, a portion of which was already part of B&I, would perform better under single leadership within B&I.

The tables below show the impact of this restatement on the segment information previously provided:

	Year ended 30 November 2017		
	Reported £m	Enka reclassification £m	Restated £m
Revenue			
Building & Industrial	85.9	22.3	108.2
Civil Engineering	102.0	(22.3)	79.7
Coated Technical Textiles	138.3	–	138.3
Interiors & Transportation	120.3	–	120.3
Total	446.5	–	446.5
Underlying profit before tax from continuing operations			
Building & Industrial	12.4	0.6	13.0
Civil Engineering	0.1	(0.6)	(0.5)
Coated Technical Textiles	9.3	–	9.3
Interiors & Transportation	19.1	–	19.1
Unallocated Central	(5.4)	–	(5.4)
Total	35.5	–	35.5
Return on sales			
Building & Industrial	14.4%	(2.4)%	12.0%
Civil Engineering	0.1%	(0.7)%	(0.6)%
Coated Technical Textiles	6.7%	–	6.7%
Interiors & Transportation	15.9%	–	15.9%
Total	8.0%	–	8.0%
Reportable segment assets			
Building & Industrial	67.3	13.8	81.1
Civil Engineering	52.8	(13.8)	39.0
Coated Technical Textiles	154.0	–	154.0
Interiors & Transportation	145.5	–	145.5
Unallocated Central	0.8	–	0.8
Total	420.4	–	420.4
Reportable segment liabilities			
Building & Industrial	(15.4)	(3.6)	(19.0)
Civil Engineering	(17.4)	3.6	(13.8)
Coated Technical Textiles	(26.1)	–	(26.1)
Interiors & Transportation	(30.1)	–	(30.1)
Total	(89.0)	–	(89.0)

Notes to the Accounts continued

36. Segmental restatement continued

The impact of the Segmental restatement on the Other segment information disclosed is set out below:

£m Year ended 30 November 2017	Restated					Total
	B&I	Civil Engineering	CTT	I&T	Unallocated central	
Additions to property, plant and equipment	3.4	2.2	3.0	20.7	–	29.3
Additions to intangible assets and goodwill	6.8	0.1	0.1	1.6	0.8	9.4
Depreciation	(3.8)	(2.8)	(3.6)	(8.2)	(0.1)	(18.5)
Amortisation of acquired intangible assets	(0.6)	(0.1)	(3.0)	–	–	(3.7)
Non-underlying items – continuing operations	(13.1)	(31.5)	–	–	(2.1)	(46.7)

£m Year ended 30 November 2017	As reported					Total
	B&I	Civil Engineering	CTT	I&T	Unallocated central	
Additions to property, plant and equipment	3.0	2.6	3.0	20.7	–	29.3
Additions to intangible assets and goodwill	5.3	1.6	0.1	1.6	0.8	9.4
Depreciation	(3.6)	(3.0)	(3.6)	(8.2)	(0.1)	(18.5)
Amortisation of acquired intangible assets	(0.6)	(0.1)	(3.0)	–	–	(3.7)
Non-underlying items – continuing operations	(13.1)	(31.5)	–	–	(2.1)	(46.7)

37. Group companies

Subsidiary undertakings	Principal product areas	Registered address	%
Building & Industrial/Civil Engineering/Interiors & Transportation			
Low & Bonar NV	Woven and non-woven fabrics and construction fibres	Industriestraat 39, 9240 Zele, Belgium	100.0
Yihua Bonar Yarns & Fabrics Co. Ltd	Woven fabrics	No.6 Yangtze West Road, Yizheng, Yangzhou, People's Republic of China	60.0
Low & Bonar Hull Limited	Construction fibres	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Low & Bonar Hungary Kft	Non-woven fabrics	3580 Tiszaújváros, Huszár Andor street 5., Hungary	100.0
Low & Bonar BV	Polymeric mats and composites	Westervoortsedijk 73, 6827AV Arnhem, The Netherlands	100.0
Low & Bonar Production GmbH	Polymeric mats and composites	Rheinstraße 11, 41836 Hückelhoven, Germany	100.0
Low & Bonar Germany GmbH and Co. KG	Polymeric mats and composites, and holding company	Glanzstoffstr. 1, 63906 Erlenbach, Germany	100.0
Low & Bonar Paris SARL	Polymeric mats and composites	12 Rue de la Renaissance 92160 Antony, France	100.0
Low & Bonar Inc	Polymeric mats and composites	National Registered Agents, Inc., 160 Greentree Dr. Ste 101, Dover, Kent, DE 19904, USA	100.0
Bonar Xeroflor GmbH	Green roofs	Glanzstoffstraße 1, 63906 Erlenbach a. Main, Germany	100.0
XF Technologies BV	Intellectual property	Westervoortsedijk 73, 6827AV Arnhem, The Netherlands	100.0
Low & Bonar Slovakia a.s	Woven and non-woven fabrics	Novozamocka 207, 951 12 Ivanka pri Nitre, Slovakia	100.0
Low & Bonar (Shanghai) Trading Company Limited	Woven fabrics	Unit 1581, 15F L'Avenue Shanghai, No.99 Xian Xia Road, Changing, Shanghai 200051, People's Republic of China	100.0
Bonar High Performance Materials (Changzhou) Co. Ltd	Polymeric mats	No. 9 Xingtang Road, Xinbei District, Changzhou, 213034 People's Republic of China	100.0
Low & Bonar Dundee Limited	Specialist yarns	Caldrum Works, St Salvador Street, Dundee, Tayside, DD3 7EU, Scotland	100.0*

37. Group companies continued

Subsidiary undertakings	Principal product areas	Registered address	%
Bonar Xirion NV	Specialist yarns	Industriestraat 39, 9240 Zele, Belgium	100.0
Bonar Technical Yarns Inc	Specialist yarns	160 Mine Lake Ct Ste 200, Raleigh, North Carolina, 27615, USA	100.0
Bonar Yarns BV	Specialist yarns	Eerste Bokslootweg 17, 7821 AT Emmen, The Netherlands	100.0
Walfloor Industries Inc	Rain screen and sound control	4820 Whitney Street, Bellingham, WA 98229, United States	100.0
Coated Technical Textiles			
Low & Bonar Logistics GmbH	Technical coated fabrics	Edelzeller Str. 44, 36043 Fulda, Germany	100.0
Low & Bonar GmbH	Technical coated fabrics	Rheinstraße 11, 41836 Hückelhoven, Germany	100.0
Low & Bonar Romania S.R.L.	Technical coated fabrics	Stefanestii de Jos, no.2 Linia de Centura Street C1/C1B, Ilfov, Romania	100.0
Low & Bonar Oldham Ltd	Technical coated fabrics	One Connaught Place, London, W2 2ET, England	100.0
Low & Bonar Italy S.r.l.	Technical coated fabrics	Via Enrico Fermi 52/A, Settimo Milanese Milano 20019, Italy	100.0
Low & Bonar Lyon SARL	Technical coated fabrics	Mehler Technologies Batiment A1, 3 Chemin De Cysises, 69340 Francheville France	100.0
Low & Bonar Martinsville Inc	Technical coated fabrics	220 B. Cabell Street, Martinsville, Virginia 24112 USA	100.0
Low & Bonar Czech s.r.o.	Technical coated fabrics	Slechtova 860, 51251 Lomnice nad Popelkou, Czech Republic	100.0
Low & Bonar Poland Sp. Z o.o.	Technical coated fabrics	Sosnowiec 41-200, ul. Mikołajczyka 31 a, Poland	100.0
Low & Bonar Turkey Teknik Tekstil Ticaret Limited Sirketi	Technical coated fabrics	Basaksehir San. sit. A Blok No: 22, 34490 Basaksehir, Istanbul, Turkey	100.0
Low & Bonar Latvia s.i.a.	Technical coated fabrics	Liepajas iela 3 d, LV-1002, Riga, Latvia	100.0
Low & Bonar Middle East Trading LLC	Technical coated fabrics	Office 1007, Sidra Tower, Sheikh Zayed Road, Dubai, United Arab Emirates	100.0
Low & Bonar Technical Textiles OOO	Technical coated fabrics	115035, Sadovnicheskaya embankment, 79, Moscow, Russia	100.0
Low & Bonar India Private Limited	Technical coated fabrics	205 CA Chambers, 18/12, W.E.A., Karol Bagh, New Delhi – 110005, Delhi, India	100.0
Low & Bonar Brasil Têxtil E Participações Ltda	Technical coated fabrics	Avenida Paulista 1079, Suite 81 Condomínio Edifício Torre João Salém Cerqueira César 01311-2007 Brazil	100.0
Group companies			
Bonar International Holdings Limited	Holding company	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Bonar International Sarl	Holding company	8-10 Avenue de la Gare, 1610, Luxembourg	100.0
LCM Construction Products Ltd	Holding company	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Low & Bonar Euro Holdings Limited	Finance company	One Connaught Place, London, W2 2ET, England	100.0
Low & Bonar Technical Textiles Holding BV	Holding company	Westervoortsedijk 73, 6827AV Arnhem, The Netherlands	100.0
Colbond Holding BV	Holding company	Westervoortsedijk 73, 6827AV Arnhem, The Netherlands	100.0
Low & Bonar Verwaltungs GmbH	Holding company	Glanzstoffstr. 1, 63906 Erlenbach am Main, Germany	100.0
Colbond (Nederland) BV	Holding company	Westervoortsedijk 73, 6827AV Arnhem, The Netherlands	100.0

Notes to the Accounts continued

37. Group companies continued

Subsidiary undertakings	Principal product areas	Registered address	%
Dormant companies			
Low & Bonar UK Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Bonar Offshore Canada Inc	Dormant	333 Bay Street, Suite 2400, Toronto ON M5H 2T6, Canada	100.0
Bonar Rotaform Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Bonar Silver Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Goldtide Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Lobex Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Lobo Nominees Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0
Low & Bonar Pension Scheme (1986) Trustee Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Low & Bonar Pension Trustees Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Platinum Prestige Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Rotaform Plastics Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Waddington Cartons Ltd	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Joint venture			
Bonar Natpet LLC	Geotextiles	Unit M01, Mezzanine Floor, Future Business Centre, Coast Guard Street, Jeddah 21533, Kingdom of Saudi Arabia	50.0
Associated undertakings			
CPW GmbH	Intellectual property	Kasinostr. 19-21, 42103 Wuppertal, Germany	33.3
Enka Water Control Corporation	Dormant	1301 Sand Hill Road, Enka, Bucombe County, North Carolina 28728-1057, USA	33.3

1 Unless otherwise stated, shares held are ordinary, common or unclassified.

2 The percentage of the nominal value of issued shares held is shown following the name of each company.

3 An asterisk* indicates that the percentage of share capital shown is held directly by the Company.

4 The companies listed were incorporated in the country shown against each of them and, with the exception of Bonar International Sarl which operates primarily in England, that country is also the principal country of operation.

5 The results, cash flows and balance sheets of all subsidiaries are consolidated in the Group financial statements. The results of the joint venture and associates are accounted for in accordance with the policy set out in Note 1.

6 All the companies listed have November year ends, except the entities registered in China which have December year ends and the entity registered in India which has a May year end.

37. Group companies continued

Companies struck off in the year

Subsidiary undertakings	Principal product areas	Registered address	%
A.G. Scott Textiles Limited	Dormant	Caldrum Works, St Salvador Street, Dundee, Tayside, DD3 7EU, Scotland	100.0
Bamber Carpets Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Bonar Nuway Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Bonar Pack Centre Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Bonar Plastics Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Bonar Systems Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Bonar Ventures Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0
Bryanston 955 Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0
Cole Group PLC	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Cupa Engineering Co Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Gaskell Carpet Tiles Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Leisurewear Africa Limited	Dormant	Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ, Scotland	100.0*
Modulus Flooring Systems Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*
Nuway Manufacturing Co. Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
Placell Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0
R.H.Cole Investments Limited	Dormant	Squire Patton Boggs UK LLP Rutland House, 148 Edmund Street, Birmingham, B3 2JR, England	100.0*

Notes to the Accounts continued

38. Alternative performance measures

The Group uses alternative performance measures as it believes they allow a better understanding of underlying business performance, are consistent with its communication with investors, and facilitates better comparison with peer companies.

These alternative performance measures are:

- Underlying operating profit, underlying profit before tax, and basic underlying EPS. These numbers are available on the face of the income statement
- Underlying segment operating profit is set out in Note 1
- Underlying operating margin/return on sales is set out in Note 1
- Adjusted earnings before interest, tax, depreciation, amortisation, IFRS 2 charge and pension administration costs (“adjusted EBITDA”)
- Net debt
- Return on capital employed
- Adjusted constant currency is calculated by retranslating comparative period results at current period exchange rates. For the period ended 30 November 2017, the results of the agro-textile business disposed of in October 2017 have been removed to present the figures on a consistent basis with the current period results.
- Constant currency which translates prior results at the current period’s rates of exchange

Adjusted EBITDA

Adjusted EBITDA is used in determining the Group’s gearing, and is calculated based on the definition set out in the Group’s banking covenants. A reconciliation is as follows:

	2018 £m	2017 £m
Underlying operating profit	22.2	35.5
Add backs: Depreciation (Note 2)	15.9	18.5
Amortisation of intangibles (Note 2)	4.1	4.8
Less: amortisation included as a non-underlying item (Note 5)	(2.8)	(3.7)
IFRS 2 (credit)/charge (Note 25)	(0.2)	0.7
Pension administration costs (Note 4)	0.5	0.7
Less: amount included as a non-underlying item (Note 5)	–	(0.2)
Annualisation of impact of acquisitions and disposals during the period	–	0.1
Other	0.3	–
Adjusted EBITDA	40.0	56.4

Net debt

Net debt is calculated as follows:

	2018 £m	2017 £m
Interest-bearing loans and borrowings	176.3	176.6
Less: Cash and cash equivalents	(47.8)	(38.2)
Net debt¹	128.5	138.4

¹ Net debt for covenant compliance purposes is retranslated at the average exchange rates for the year, to match the rates used to translate adjusted EBITDA. The resulting figure was £127.9 (2017: £137.9m).

Return on capital employed (ROCE)

ROCE is one of the Group’s key measures for assessing its performance. It is calculated as follows:

	2018 £m	2017 £m
Underlying operating profit	22.2	35.5
Divided by capital employed	256.0	318.7
ROCE	8.7%	11.1%

	2018 £m	2017 £m
Net debt	128.5	138.4
Net assets	127.5	180.3
Capital employed	256.0	318.7

38. Alternative performance measures continued

Adjusted constant currency analyses – agro-textile business

For the year ended 30 November 2017 the results of the agro-textile business disposed of in October 2017 have been removed to present the figures on a consistent basis as the current period results.

The tables below show the impact of the removal of the agro-textile business on the 2017 figures, after the restatement for the transfer of the Enka business (Note 36):

	Year ended 30 November 2017			Adjusted Constant currency £m
	Restated £m	Agro-textile adjustment £m	Adjusted £m	
Revenue				
Building & Industrial	108.2	(18.3)	89.9	89.0
Civil Engineering	79.7	–	79.7	80.6
Coated Technical Textiles	138.3	–	138.3	137.7
Interiors & Transportation	120.3	–	120.3	118.1
Total	446.5	(18.3)	428.2	425.4
Underlying profit before tax from continuing operations				
Building & Industrial	13.0	(1.1)	11.9	11.6
Civil Engineering	(0.5)	–	(0.5)	(0.5)
Coated Technical Textiles	9.3	–	9.3	9.4
Interiors & Transportation	19.1	–	19.1	18.7
Unallocated central	(5.4)	–	(5.4)	(5.4)
Total	35.5	(1.1)	34.4	33.8

Five Year History

	2018 £m	2017 £m	2016 £m	2015 (restated) £m	2014 £m
Revenue					
Continuing operations	431.9	446.5	400.0	362.1	410.6
Discontinued operations	–	–	22.3	33.7	–
Total (including discontinued operations)	431.9	446.5	422.3	395.8	410.6
Underlying operating profit					
Continuing operations	22.2	35.5	34.7	31.8	31.7
Discontinued operations	–	–	1.8	1.0	–
Total (including discontinued operations)	22.2	35.5	36.5	32.8	31.7
Operating (loss)/profit					
Continuing operations	(36.4)	(14.9)	31.4	25.8	23.2
Discontinued operations	–	–	(0.6)	(7.2)	–
Total (including discontinued operations)	(36.4)	(14.9)	30.8	18.6	23.2
Underlying profit before tax					
Continuing operations	16.7	30.7	29.2	27.4	25.2
Discontinued operations	–	–	0.5	(0.8)	–
Total (including discontinued operations)	16.7	30.7	29.7	26.6	25.2
(Loss)/profit before tax					
Continuing operations	(42.2)	(19.7)	25.9	21.4	16.7
Discontinued operations	–	–	(4.1)	(9.0)	–
Total (including discontinued operations)	(42.2)	(19.7)	21.8	12.4	16.7
Reconciliation to statutory measures					
Continuing operations					
Underlying operating profit	22.2	35.5	34.7	31.8	31.7
Non-underlying items	(58.6)	(50.4)	(3.3)	(6.0)	(8.5)
Operating (loss)/profit (statutory)	(36.4)	(14.9)	31.4	25.8	23.2
Underlying profit before tax	16.7	30.7	29.2	27.4	25.2
Non-underlying items	(58.9)	(50.4)	(3.3)	(6.0)	(8.5)
(Loss)/profit before tax (statutory)	(42.2)	(19.7)	25.9	21.4	16.7
Capital Structure					
Net debt	128.5	138.4	111.0	102.1	88.0
Total equity	127.5	180.3	202.4	172.0	148.7
Total	256.0	318.7	313.4	274.1	236.7
Per Ordinary Share					
Basic earnings per share (including discontinued operations) (pence)	(14.25)	(5.86p)	4.22	1.73	3.76
Dividends declared per share (pence)	1.4	3.1	3.0	2.8	2.7

2015 results were restated for the disposal of the grass yarns business. Earlier years' results have not been restated.

Company information and advisors

Company Secretary

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Advisors

Registrar

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Auditor

KPMG LLP

Solicitors

Freshfields Bruckhaus Deringer LLP
Squire Patton Boggs LLP

Principal bankers

HSBC

ING Bank NV

Citibank

Bank of Ireland

Comerica Bank

Corporate finance advisors

NM Rothschild & Sons Limited

Brokers

Peel Hunt LLP

Financial calendar

Annual General Meeting 5 April 2019

Announcements for results for the year ending 30 November 2019

Half year July 2019

Full year January 2020

Final dividend payment for the year ended 30 November 2018

Ordinary Shares 10 April 2019

First, second and third
cumulative preference stock 1 March 2019 and 1 September 2019

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