

Hayward Tyler Group plc
Results for the year ended 31 March 2017

Hayward Tyler Group plc ("HTG", the "Company" or "Group"), the specialist engineering group, comprising the operating companies of Hayward Tyler and Peter Brotherhood, today announces its unaudited consolidated results for the year ended 31 March 2017.

Financial Highlights

	Year ended 31 March 2017	Year ended 31 March 2016
	£m	£m
Revenue	62.7	61.6
Gross profit	17.3	20.4
EBITDA	0.0	7.2
Trading (loss)/profit before tax	(3.7)	5.1
Basic (loss)/earnings per share (pence)	(7.07)p	4.89p
Order intake	68.3	61.4
Order book	49.8	36.1

- Overall Group revenue was slightly higher at £62.7 million (FY2016: £61.6 million) with the increase due to the full-year contribution from Peter Brotherhood;
- Hayward Tyler revenue was £46.5 million (FY2016: £49.1 million) and Peter Brotherhood revenue was £16.2 million (FY2016: £12.5 million);
- Underlying gross profit margin was strong at 43% (FY2016: 41%) ahead of the Group's KPI target of 35%. Like for like gross profit margin at 28% (FY2016: 33%), which is lower y-o-y due to the lower revenue levels relative to the cost structure;
- Order intake increased by 11% to £68.3 million, helped by a full year's contribution from Peter Brotherhood of £16.2 million thus meaning that overall the Group's order intake KPI target of 1.1x (ratio of order intake to historical revenue) was achieved;
- The strong second half order intake contributed to a record order book as at 31 March 2017 which stood at £49.8 million, an increase of 38% over the prior year
- As at 31 March 2017 net debt comprised term borrowings of £8.2 million (FY2016: £5.9 million), Finance leases of £3.6 million (FY2016: £1.6 million); and drawings under revolving credit facilities of £11.5 million (FY2016: £6.2 million), offset by cash of £1.2 million (FY2016: £5.1 million).

Operational Highlights

- Ended the year with a record order book and a clear strategy of how to drive further growth in order intake going into the new fiscal year;
- Revitalisation of Peter Brotherhood already achieving good progress with the brand resurrected, over forty new customer approvals achieved and the first major order won and first significant order shipped;
- Completion of the major investment in our global Centre of Excellence for specialist motor manufacture and the subsequent build, test and shipment of the world's first permanent magnet subsea motor;
- Created a new Group Commercial role and put in place a new structure to support the 'win-order' process;
- Continued to invest in research and development ("R&D") during the year spending £0.6 million and developing a new partnership with the University of Edinburgh to receive over £0.7 million of grant funding to support the development of a generator to harness wave energy and convert it to power;

- Hayward Tyler was shortlisted for the Apprentice of the Year, for People and Skills and for World Class Manufacturing and was successful in winning both the Smart Factory Award and also the Leadership & Strategy Award;
- Welcomed the Duke and Duchess of Cambridge to open the new facility and present Hayward Tyler with the Queen's Award for Export (International Trade).

Corporate Activity

- Announcement of recommended offer for the entire issued and to be issued share capital of HTG by Avingtrans PLC, a UK AIM listed engineering group.

Commenting on the performance, outlook and proposed acquisition, Ewan Lloyd-Baker, CEO, said:

“The last year was a challenging one, characterised by different conditions from one half to another. During the second half of the year, we began to see the benefit from the significant investment we have made over the past couple of years combined with improving market conditions beginning to be evident. Despite the first half loss, we have succeeded in communicating our improved service offering across HTG and this has resulted in the development of a healthy order book at £49.8 million.

I am pleased that in Avingtrans we have found a company that understands the long-term nature of our business and the significant opportunities for growth within Hayward Tyler and Peter Brotherhood on the back of our record order book and the improving market fundamentals. With the major investment in our Luton-based Centre of Excellence now complete, the Peter Brotherhood brand gaining strength, momentum building in our end markets and now the financial security of the Avingtrans balance sheet, we have a solid foundation on which to grow significant shareholder value whilst continuing to develop and improve our people, our products and our processes.

I am incredibly proud of the work that the HTG team has delivered over the past number of years. They have worked tirelessly to deliver quality services and products to our customers, and on behalf of the Board I would like to thank them sincerely.”

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Chairman's Statement

A DEMANDING YEAR

“The second half provides the platform for growth”

A mixed performance against challenging market conditions

“The Group had a mixed trading year based on a weak first half being offset by a strong second half performance and record order book entering the new fiscal year”

The Board

Key areas of focus for the Board in FY2018

These areas include *inter alia*:

- Evolution of our marketing and sales strategy;
- Further development of our people;
- Utilising the Centre of Excellence to its full potential;
- Enhancing the position of Peter Brotherhood in its end markets; and
- Completion of the announced transaction with Avingtrans plc.

Dear Shareholder

I am sorry to report on a mixed trading year albeit mitigated by a record order book as we move into the new financial year FY2018. Acknowledging the demanding trading period I would like to take this opportunity to thank the Executive Directors and all the team, on your behalf, for their contribution in a very challenging market and their tireless devotion in ensuring the long-term security of both Hayward Tyler and Peter Brotherhood.

Results Overview

The results for the year reflect a steady performance from the Hayward Tyler and Peter Brotherhood businesses at the gross contribution level but a lack of revenue particularly in the first half of FY2017 ultimately meant that we only achieved breakeven at the trading EBITDA level for the full year, which generated a reported loss for the year of £3.9 million (FY2016: profit of £2.4 million).

Against a backdrop of challenging end markets and continuing uncertain economic times, Hayward Tyler's performance was dampened in 1H2017 before recovering strongly in 2H2017 and we expect it to strengthen in FY2018. This strengthening will come from amongst others the improving prospects for Peter Brotherhood and the beneficial impact of the Centre of Excellence, which when utilised more fully will drive greater profitability. The major focus for HTG looking forward continues to be the development of the order pipeline and order book to create a significantly higher revenue business.

Further details of the trading performance are set out in the Chief Executive's Business Review and the Financial Review.

Dividend

Given the announced proposed acquisition of the Company by Avingtrans plc we do not intend to recommend the payment of a final dividend for FY2017. We understand that Avingtrans plc has a progressive dividend policy.

Corporate Governance

Please refer to the section on Corporate Governance.

Risk Management

Please refer to the section on Principal Risks and Uncertainties for details of how we manage risk.

Outlook

The expansion of the Group through the acquisition of Peter Brotherhood together with the continued focus on developing our Hayward Tyler business, by expanding our production capabilities and investing in research and development, means that the Group remains well placed to achieve the Board's growth ambitions provided it has the right capital structure in place.

This external driven growth is dependent *inter alia* on positive market conditions which we anticipate will improve during the current year. With a record order book as we enter FY2018 the Board remains confident in the underlying profitability, our ability to take excess cost out of the Group and the longer term prospects for the business.

It is clear that these prospects are well understood and appreciated by the directors of Avingtrans plc who have now made an offer to acquire the entire share capital of the Company.

Yours faithfully

John May
Non-Executive Chairman
29 June 2017

Chief Executive's Business Review

Investing through the cycle for the long-term

“With the investments made, this is now a business poised for growth”

“With the benefit of another year's worth of investment in Peter Brotherhood, the completion of our Centre of Excellence and the early signs of improvements in our end markets the Group is well positioned to capitalise on potential growth opportunities”

Setting HTG's priorities

Our FY2017 focus

- Continue to focus on implementing our strategy for growth through product and market development;
- Continue to increase order intake through improvements to the 'win-order' process across all markets;
- Re-establish Peter Brotherhood and embed the business in the Group; and
- Continue to look for wider opportunities to develop and grow the Group.

Achievements

- **Ended the year with a record order book and a clear strategy of how to drive further growth in order intake going into the new fiscal year;**
- **Continued to rebuild accreditations and customer relationships at Peter Brotherhood with our first major order won and first significant order shipped; and**
- **Created a new Group Commercial role, recruited a new person to the role and put in place a new structure to support the 'win-order' process.**
- **Completed the major investment in our world class Centre of Excellence for specialist motor manufacture**
- **Welcomed the Duke and Duchess of Cambridge to open our new facility and present us with the Queen's Award for Export (International Trade)**

Priorities for FY2018

- Secure a suitable funding structure to support the long term future of the Group to take advantage of the opportunities for both Peter Brotherhood and Hayward Tyler;
- Drive further growth in order intake reflecting the improving market conditions and the Group's competitiveness;
- Cut the Group's cost base to support a more flexible and profitable business; and
- Continue to deliver the operational improvements supported by the increased order book.

Introduction

When I wrote in last year's review that “provided recent economic and political uncertainty does not affect general industrial activity, the outlook for HTG is positive” I perhaps did not appreciate how prescient that comment might be.

From a financial perspective the year can be characterised using the sporting analogy, “a game of two halves”. The first half was disappointing but our second half was much more in

line with previous periods and more representative of the underlying Group and its future prospects. We increased the run rate on an annualised basis to over £80.0 million of revenues and over £8.0 million of EBITDA and achieved a record order book entering the current fiscal year. However, the loss in the first half combined with the order intake not happening quick enough to be fully reflected in second half revenue and profit meant that for the first time as Hayward Tyler Group plc we were not able to either meet or beat market expectations.

Win-Order Process – Ready to Deliver

Looking beyond the numbers the Group continued to make significant progress in positioning itself for the anticipated improvement in its end markets. A huge amount of time, effort and investment has gone into the 'front-end' of the business focused on marketing, sales and the 'win-order' process. Key to this action was the appointment of Dr Colin Elcoate to the newly created position of Chief Commercial Officer with responsibility for global commercial activity across the Group. Colin joined from Clyde Union Pumps and has previously held senior positions at Babcock and Rolls Royce. He is a Fellow of the Institute of Mechanical Engineers and a nuclear expert with over 25 years' experience, so it is great to have him on board at such an important time. Already positive changes have been made to the organisational and commercial structure to support our growth plans including:

- Specific roles for sales, business development, product management and marketing communications;
- Tightened bid/no-bid and contract review processes; and
- *Salesforce.com* roll-out and linking to our ERP systems.

The resurrection of the Peter Brotherhood name and brand has continued apace during the year with the re-engagement of past customers and the identification of our installed base being key. There is no doubt that the removal of the Peter Brotherhood name from the market and associated approved vendor lists by the previous owner of the business has made the challenge of resurrection more difficult but it is a gradual process and one to which the employees and wider stakeholders are responding well. In the past 12 months over forty customer approvals have been achieved, the first major order won and first significant order shipped so there is no doubt that the former pedigree of Peter Brotherhood is being brought back to life. Peter Brotherhood still has an enviable reputation in specific market niches and the challenge is to strengthen and broaden it. As an example, in the floating vessels market Peter Brotherhood has more steam turbine gensets on FPSOs than all of its competition combined. This clearly stands Peter Brotherhood in good stead when the anticipated pick-up in the floating vessels new build/retrofit market recovers. Peter Brotherhood also remains a key strategic supplier to Rolls Royce and ultimately the Royal Navy in the UK having provided all of the steam turbine gensets to the Astute boats. One of Peter Brotherhood's advantages is that it remains an 'independent' supplier and as such can be more flexible in terms of product offering and response times than many of its larger, global rivals.

The Group has continued to invest in numerous exhibitions globally to broaden the reach, particularly of Peter Brotherhood, to try to expand the brand to a wider global population. Over the past twelve months this has resulted in exhibitions and conferences in South Africa, the USA, China, India and the UK.

Order Intake and Order Book

Order intake increased by 11% to £68.3 million, helped by a full year's contribution from Peter Brotherhood, which contributed £16.2 million thus meaning that overall our order intake KPI target of 1.1x (ratio of order intake to historical revenue) was achieved. Hayward Tyler's order intake actually declined slightly by 4% to £52.1 million reflecting a slowdown in its end markets both in terms of new units but also, in particular, a slowdown in the shop-service activities of our US business as outages were postponed.

The strong second half order intake contributed to a record order book as at 31 March 2017 which stood at £49.8 million, an increase of 38% over the prior year. This represented an increase in both Hayward Tyler of 36% (from £26.7 million to £36.2 million) and Peter Brotherhood of 45% (from £9.4 million to £13.6 million). So despite the downturn in the

Group's end markets there was still a healthy split between both geography and sector. Key order wins for the period included KHNP in South Korea for nuclear replacement units, Eureka for submersible motors for offshore topside deployment, numerous power contract wins with key customers in China and India, and strategically important contracts with new customers in Peter Brotherhood.

Pipeline

Whilst the Group achieved its KPI target for order intake during the year the key challenge looking forward is how to maintain, develop and grow a greater level of order intake to 'feed' the newly invested and improved facilities.

Part of the investment made in the 'win-order' process highlighted above has been to pull together a universal and consistent approach to the pipeline of opportunities across the Group (both in terms of customer, market segment and geography). This has highlighted a pipeline of over £500 million worth of opportunities which has been ranked according to whether it is at the research, pre-bid, bid or negotiation stage. To support this constantly evolving pipeline specific opportunities are then highlighted and an active account-based marketing approach applied aimed at increasing the chances of conversion from pipeline to order intake.

Development and Future Growth

We continued to invest in research and development ("R&D") during the year spending £0.6 million of which £0.3 million was capitalised. Our focus has been on the development of the next generation of products and services in order to expand the potential addressable markets into which both Hayward Tyler and Peter Brotherhood can sell. Numerous projects are therefore on-going across both businesses but simplistically they can be split into the following growth categories:

- Product development – looking at opportunities to provide a 'motor above pump' package to increase our scope of supply to the offshore oil industry;
- Market development – developing and extending our range of compressors for the downstream refining market; and
- Diversification – developing our wet-wound motors to provide a generator for tidal applications.

Analysis of the expansion into new markets, new products and a combination of both opens up further opportunities for the Group's niche offerings by a significant factor representing billions of pounds worth of opportunity, addressable over the medium to long-term. Specific examples include:

- *Partnership with the University of Edinburgh*
Hayward Tyler has been working with the University of Edinburgh, to develop a generator to harness wave energy and convert it to power. The C-Gen Neptune generator has been developed to a working prototype and Hayward Tyler has now secured over £0.7 million of funding to support the manufacture and development of this technology at the recently completed Centre of Excellence.
- *Development of alliance agreement with FSubsea*
Hayward Tyler's motor and qualified penetrator technology has been selected for adoption to support the subsea deployment of the FSubsea Omnirise system. The prototype won this year's OTC Spotlight on New Technology Award and is due to be tested as a full-scale prototype of the world's most autonomous boosting system. This system has the potential to unlock single and multi-phase boosting solutions for a far wider number of subsea wells than can currently be economically accessed using existing technologies thus creating significant opportunities for Hayward Tyler.

The Smart Factory

Operationally we continued to drive improvements through all our facilities focused on the key headline metrics of right first time (“RFT”) and on time in full (“OTIF”). Our Peter Brotherhood facility in Peterborough is world-class and primed ready to support the anticipated uptick in the FPSO and steam turbine mechanical drive market. Our facility in Hayward Tyler, Colchester, has made significant strides along its lean journey over the past five years driving down lead times in its service value stream from over 25 weeks to less than 7 weeks whilst doubling on-time delivery to over 90%. In our Luton-based Centre of Excellence we were particularly proud to have recently won the UK prestigious “Smart Factory” of the year award ahead of the likes of Ricardo UK Ltd and Siemens plc (having already been shortlisted for World-Class Manufacturing). This is testament to the significant investment made in our ability to ship OTIF and RFT once we have won the orders. The Smart Factory represents the twenty-first century approach to linking seamlessly sales and operational planning. The linking of the process from customer order through design, manufacture, engineering, assembly, test, despatch and back through support, monitoring and full lifecycle maintenance and management, will continue to provide a real differentiator for the Group going forward.

Working Together, Succeeding Together

In addition to the focus on win-order and operational improvements the Group has also had a busy year in terms of gaining recognition amongst its peer group for its long-term development plans. At the recent Manufacturer MX Awards (supported by the UK’s Institution of Mechanical Engineers), Hayward Tyler was shortlisted for the Apprentice of the Year, for People and Skills and for World Class Manufacturing and was successful in winning both the Smart Factory Award as mentioned above and also the Leadership & Strategy Award.

We were also delighted to welcome the Duke and Duchess of Cambridge in August 2016 to open the Centre of Excellence and formally present the Queen’s Award for Enterprise (International Trade). Over 350 employees, family members, customers and local dignitaries joined us for this very prestigious and historic occasion and it marked another milestone in Hayward Tyler’s long and rich history.

Against some challenging market conditions these successes underpin the strength of the Hayward Tyler and Peter Brotherhood businesses, both of whom compete against some much larger corporations on a global scale. Their respective abilities to ‘punch above their weight’ is testament to the employees we have and our shared set of values which are; Pride, Innovation, Pace and Excellence. These shared values go to the heart of what unites us as an ever expanding Group. For this and for our employees’ continued fortitude, good humour and patience I thank-you with all sincerity for being part of two great engineering brands.

Outlook

I’ve written previously about the long-term nature of our growth plans and the market conditions which we’ve witnessed over the past year highlight how important it is to be able to invest through the cycle. Over the past five years we’ve seen the Group grow (both organically and through the acquisition of the Peter Brotherhood operations) from a revenue run rate of £32 million to over £80 million and increase in size to over 500 highly skilled, educated and motivated employees. We’ve seen the transformation of the main Luton facility into a world-class Centre of Excellence, the resurrection of the Peter Brotherhood name into a business that is getting back its ‘mojo’ and is hungry for growth and increased investment in our apprentice, graduate and employee training schemes.

This is why it is great to be able to confirm the recommended acquisition of the Group by Avingtrans plc, another UK AIM-listed engineering group that has the balance sheet strength and supportive shareholder base to be able to continue to invest in both Hayward Tyler and Peter Brotherhood and support the Group’s longer term growth plans.

The last few years have been incredibly exciting and I'm delighted to now pass on the baton to a group that is looking to significantly increase shareholder value over the medium to long-term using Hayward Tyler and Peter Brotherhood as its springboard.

Thank you

Ewan Lloyd-Baker
Chief Executive Officer
29 June 2017

1 Trading represents the underlying performance of the Group

2 Order intake represents contracts for which purchase orders were received from customers in the year to 31 March 2017

3 Order book represents contracts that had yet to be shipped to customers as at 31 March 2017

Financial Review

CASHFLOW AND FUNDING REMAIN THE KEY PRIORITIES

“We can support our growth aspirations with a reduced cost base”

“Our key priorities remain cash generation and long-term funding of the Group for the benefit of all stakeholders”

Our Focus and Achievements

Our FY2017 focus

- Continue to manage working capital and borrowings whilst growing and investing in the business;
- Continue to ensure that the Group has access to flexible and sufficient funding arrangements;
- Enhance systems and processes to roll out a common IT platform across the group facilities to enhance collaboration, knowledge sharing and communication; and
- Continue to develop risk management processes within the Group with a particular focus on contract risk and re-establishing the position of Peter Brotherhood.

Achievements

- **Maintained supportive banking relationship during difficult working capital constrained times;**
- **Continued the development of a common IT platform across the Group to enhance visibility and the speed of decision making; and**
- **Tightened bid/no-bid and contract review processes.**

Priorities for FY2018

- Complete the proposed acquisition by Avingtrans plc;
- Continue to manage working capital, borrowings and access to sufficient funding arrangements;
- Reduce fixed costs; and
- Further development of the common IT platform across the Group to provide seamless sales and operational planning.

Introduction

Revenue in FY2017 was too low to cover all of our fixed cost base, which had been geared-up to service significantly higher revenue. That led to breakeven trading EBITDA and a reported loss of £3.9 million (FY2016: profit of £2.4 million), which together with major capital expenditure and an increase in working capital led to substantially higher net debt that has been a significant challenge to the Group despite a strong recovery in EBITDA in the second half of the year.

Basis of Reporting

The Group financial statements in this report have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The auditor has not yet reported on the financial statements for the year ended 31 March 2017 and as such the information set out in this report does not constitute the Company’s statutory accounts.

Trading Operating Results

Revenue

We continue to operate two service lines within Hayward Tyler and Peter Brotherhood to deliver our products and services. These lines are original equipment manufacturing (“OE”) and aftermarket services (“AM”). OE revenue was lower across Hayward Tyler and Peter Brotherhood, however, there was a strong increase in AM revenue from Hayward Tyler, Colchester, driven by the Nuclear market, and Peter Brotherhood, driven by a full-year¹ contribution and the reinvigoration of the brand. These changes generated a revenue mix from OE and AM in FY2017 of 30%:70% (FY2016: 44%:56%).

Overall Group revenue was slightly higher at £62.7 million (FY2016: £61.6 million) with the increase due to a full-year’s contribution¹ from Peter Brotherhood. Our broad geographical coverage and diversity of markets whilst providing us with a degree of resilience were not enough to offset the adverse market conditions in Oil and Gas, the US aftermarket for Power and the China and India new build Power markets, which led to lower than expected order intake and thereby lower revenue. Hayward Tyler revenue was £46.5 million (FY2016: £49.1 million) and Peter Brotherhood revenue was £16.2 million (FY2016: £12.5 million), the increase resulting from a full year’s contribution¹ from Peter Brotherhood.

In terms of the total Group, Power was the largest sector at 44% of revenue (FY2016: 51%), down on prior year due to lower revenue from China, whilst both Nuclear and Oil and Gas were stronger. Nuclear represented 26% of revenue (FY2016: 21%), driven by OE and AM revenue from KHNP in South Korea, and Oil and Gas was 15% of revenue (FY2016: 11%) reflecting turnover from Peter Brotherhood and Hayward Tyler’s subsea units. Revenue from other markets that include chemical, defence, industrial and renewables was more or less level at 16% (FY2016: 17%). The largest geographical market was Asia Pacific (excluding China) at 32% of revenue (FY2016: 25%), of which South Korea was the single largest market reflecting nuclear sales. China was 6% (FY2016: 13%) reflecting sales of BCP new units and aftermarket services. The USA accounted for 24% of revenue (FY2016: 22%) followed by the UK at 13% of revenue (FY2016: 19%) and Europe excluding the UK 12% (FY2016: 10%).

Profit and Profit Margin

We increased the size of the Group in anticipation of achieving significantly higher revenues, however, revenue of £62.7 million for the year was too low to cover all of our factory overheads including labour, rent and utilities. This led to a gross profit margin of 28% (FY2016: 33%). See Table 1.

Table 1: Reported Gross Profit Margin

£m	Underlying	Unrecovered factory overheads	FY2017 Reported	FY2016 Reported
Revenue	62.7	-	62.7	61.6
Cost of sales	(36.0)	(9.4)	(45.4)	(41.2)
Gross profit	26.7	(9.4)	17.3	20.4
<i>Gross profit%</i>	<i>43%</i>	-	<i>28%</i>	<i>33%</i>

However, I am encouraged to report that the underlying gross profit margin² was strong at 43% (FY2016: 41%) noticeably ahead of our KPI target of 35% indicating that we are maintaining or improving our profit margins. The underlying gross profit margin of Hayward Tyler’s OE business was 34% continuing the upward trend of the last few years and a testament to the process of continuous improvement (particularly in operations) implemented throughout the Group. Peter Brotherhood’s OE business delivered an underlying gross loss margin of 7% as a result of a lack of work and therefore the tendency to ‘over-burden’ a small number of contracts with excess cost. The underlying gross profit margin in the AM business of Hayward Tyler and Peter Brotherhood were strong at 52% and 51% respectively. See Table 2.

¹ FY2016: Five months’ contribution (trade and assets acquired on 30 October 2015)

² Underlying gross profit margin represents the gross profit margin directly associated with the contracts that make-up the revenue that has been recognised

Table 2: Underlying Gross Profit Margin

£m	Peter Brotherhood		Hayward Tyler		Total	Total
	Original Equipment	Aftermarket	Original Equipment	Aftermarket	FY2017 Underlying	FY2016 Underlying
Revenue	5.6	10.6	13.0	33.5	62.7	61.6
Cost of sales	(6.0)	(5.2)	(8.6)	(16.2)	(36.0)	(36.1)
Underlying gross profit	(0.4)	5.4	4.4	17.3	26.7	25.6
<i>Underlying gross profit%</i>	<i>(7%)</i>	<i>51%</i>	<i>34%</i>	<i>52%</i>	<i>43%</i>	<i>41%</i>

Trading³ operating charges in the year excluding depreciation and amortisation were £17.3 million (FY2016: £13.2 million), of which Peter Brotherhood represented £2.8 million (FY2016: £1.2 million) and Hayward Tyler was £14.5 million (FY2016: £12.0 million). The increased charges in Peter Brotherhood were driven by the inclusion of a full-year¹ of costs whilst the increase in Hayward Tyler in FY2017 mainly reflects increased payroll costs, travel expenses and foreign exchange losses resulting from the weakening of sterling following the Brexit vote. Taken together with the gross profit of £17.3 million that delivered an overall breakeven trading EBITDA (earnings before interest, tax, depreciation and amortisation) in FY2017 (FY2016: £7.2 million).

Depreciation and amortisation was higher at £2.5 million (FY2016: £1.4 million) reflecting inclusion of a full-year¹ of Peter Brotherhood and the start of depreciation on the Centre of Excellence following the opening of the manufacturing facility in August 2016. As a result there was a trading operating loss of £2.5 million (FY2016: profit of £5.8 million). Trading³ loss before tax was £3.7 million (FY2016: profit of £5.1 million).

The Group is exposed to the US Dollar through its operating business in the USA and from UK exports to China. On a constant exchange rate⁴ basis revenue and operating profit in FY2016 would have been higher by £4.4 million and £1.9 million respectively.

Non-Trading⁵ Operating Results

Non-trading other income was £0.5 million (FY2016: £nil), which related to a positive legal settlement relating to the building contractor in Luton, and non-trading operating charges were £0.1 million (FY2016: £1.8 million), which represent the amortisation of the Peter Brotherhood order book and the final costs relating to the acquisition of that business.

Finance Charges

Trading finance costs in the year were £1.2 million (FY2016: £0.6 million) mainly reflecting higher debt levels during the year. Non-trading finance costs were £nil (FY2016: £0.4 million).

Tax

There was a trading tax charge for the year of £0.2 million (FY2016: £0.6 million), which represents tax payable on profits in the USA and China of £1.2 million (FY2016: £0.7 million) offset by £1.0 million tax credit on losses in the UK. The tax credit in the UK includes an additional benefit from research and development tax incentives together with the annual investment allowance deduction granted by HMRC. There was a non-trading tax charge of £0.4 million (FY2016: £41,000) representing a reduction in the deferred tax asset following the change in UK corporation tax rate from 18% to 17% (£292,000) together with a tax charge on the non-trading other income and operating charges (£75,000).

Net Profit

The loss for the year was £3.9 million (FY2016: profit of £2.4 million), which delivered a basic loss per share of 7.07 pence per share (FY2016: earnings per share of 4.89 pence) and diluted loss per share of 6.93 pence (FY2016: earnings per share of 4.89 pence).

³ Trading represents the underlying performance of the Group

⁴ Constant exchange rate is calculated by rebasing prior year figures at current year rates

⁵ Non-trading represents non-recurring items

Dividends

The Group paid its interim dividend of 0.58 pence per share in February 2017 at a total cost of £0.3 million. Given the announced proposed acquisition of the Company by Avingtrans plc we do not intend to recommend the payment of a final dividend for FY2017.

Capital Expenditure

Purchase of fixed assets and investment in research and development was £6.4 million in the year (FY2016: £11.6 million), of which £3.7 million (FY2016: £9.8 million) was invested in the Centre of Excellence, £1.7million (FY2016: £0.7 million) relates to expenditure in HT Colchester on new plant and equipment together with a revised layout of the shop floor to increase capacity, and £0.3 million (FY2016: £0.8 million) relates to capitalised development costs. In addition, the net expense on the Centre of Excellence was £1.6 million (FY2016: £0.9 million) representing costs of £1.9 million (FY2016: £1.2 million), which mainly related to depreciation and lease interest relating to the capital expenditure together with research, development and training, offset by grant income of £0.3 million (FY2016: £0.3 million).

Further details of the accounting treatment of the RGF programme are given in note 2.24 to these financial statements.

Peter Brotherhood Acquisition

On 30 October 2015 the Group acquired the trade and assets of Peter Brotherhood for a total consideration of £10.1 million (USD15.4 million) following an adjustment for working capital. Under IFRS 3 (Business Combinations) a buyer is required to consider the fair value of the assets and liabilities that it purchased during the first 12 months of ownership and, in the case of Peter Brotherhood the provisional fair value was determined to be £9.8 million, which gave rise to goodwill on acquisition of over £0.3 million. The final fair value was confirmed as £9.8 million during FY2017.

Cash Generation and Working Capital

Net cash used in operating activities was £5.4 million (FY2016: net cash generated £5.1 million). This use mainly reflects the net change in working capital.

Net working capital increased from £7.2 million at 31 March 2016 to £12.0 million at 31 March 2017 driven by high revenues in March that led to an increase of £3.5 million in trade receivables. This, together with capital expenditure in the year of £6.4 million led to a reduction in undrawn borrowing facilities to £1.7 million (FY2016: £5.1 million). Details of cash, borrowings and related interest rates are given in notes 23 and 29 to the financial statements.

Funding

During FY2017 we arranged a number of borrowing and ancillary facilities to support the Group's on-going business including:

- A £2.4 million short-term increase to the UK committed revolving credit facility;
- A £3.0 million increase in equipment finance leases to help fund the purchase of new plant and machinery; and
- A £2.7 million increase in drawings under the loan note programme to replace short-term borrowings that had been used to fund the completion of the Centre of Excellence.

The relationship that we have with our banking partners and the support that they have given the Group have been very valuable. The Group continues to have constructive discussions with its bank, Royal Bank of Scotland ("RBS"), regarding a suitable long-term financing structure to support the prospects of the business. RBS has granted four 30-day extensions with respect to repayment of the £2.4 million short-term increase in facilities noted above and the annualised measurement of the financial covenants, both of which have most recently been extended from 30 June 2017 to 28 July 2017. The Directors have therefore been seeking a longer term funding solution that can deliver the record order book and underpin the longer term prospects for the Group and remove the short-term uncertainty surrounding the capital structure. Accordingly, it is encouraging to report that the proposed acquisition of

the Group by Avingtrans plc provides the balance sheet strength and funding capacity to support the future growth of the Group.

Borrowings

Net debt increased from £8.6 million at 31 March 2016 to £22.1 million at 31 March 2017 mainly driven by breakeven EBITDA, capital expenditure and the increase in working capital.

At 31 March 2017 net debt comprised:

- Term borrowings of £8.2 million (FY2016: £5.9 million);
- Finance leases of £3.6 million (FY2016: £1.6 million); and
- Drawings under revolving credit facilities of £11.5 million (FY2016: £6.2 million) offset by cash £1.2 million (FY2016: £5.1 million).

Going Concern

The Directors have considered the Group's budget for the coming year and its projections through to 2020 together with its long-term financing arrangements as part of an enlarged group following the proposed acquisition of the Company by Avingtrans plc, and concluded that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company continues to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 March 2017. More detail on Going Concern is contained in Note 2.1 of the financial statements.

Pensions

Within the UK, the Group operates a defined benefit plan, with benefits linked to final salary, and a defined contribution plan ("DCP"). With effect from 1 June 2003 the defined benefit plan was closed to future service accruals and new UK employees offered membership of the DCP. A full actuarial valuation of the defined benefit plan is produced every three years, the last one being as at 1 January 2014. The next full actuarial valuation as at 1 January 2017 is due by 31 March 2018 at the latest.

A valuation is prepared at each financial year end for the purposes of the report and accounts by independent qualified actuaries. The net surplus increased during the financial year to £1.0 million at 31 March 2017 (FY2016: £0.2 million) mainly due to higher investment returns and contributions by the Company exceeding the increase in scheme liabilities as a result of actuarial assumptions.

Details of pensions and employee obligations are given in note 28 to the financial statements.

Statement of Financial Position

Total equity reduced by £3.4 million to £22.4 million mainly as a result of the loss of £3.9 million and the payment of dividends in the year of £0.8 million offset by the gain on the translation of overseas subsidiaries of £0.8 million and the net gain in value of the pension scheme of £0.5 million.

Outlook

I would mirror Ewan's view that the last few years have been very fulfilling as we have led the transformation of the business into a Group capable of achieving a considerable role in its chosen markets. With that in mind I am encouraged by the proposed acquisition of the Company by Avingtrans plc, the strength of whose balance sheet presents the opportunity for significant growth in shareholder value, based on the performance of Hayward Tyler and Peter Brotherhood, as well as being in the interests of all our stakeholders.

Nick Flanagan
Chief Financial Officer
29 June 2017

Statements of Financial Position

	Notes	Group		Company	
		At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Non-current assets					
Goodwill	16	2,573	2,573	-	-
Other intangible assets	17	1,553	1,586	-	-
Investments	18	-	-	11,884	9,723
Property, plant and equipment	19	29,560	25,302	-	-
Deferred tax assets	22	2,839	2,726	(17)	(17)
Other debtors	21	-	180	-	-
Trade and other receivables	21	-	-	14,027	3,806
Pension and other employee obligations	28	1,040	167	-	-
		<u>37,565</u>	<u>32,534</u>	<u>25,894</u>	<u>13,512</u>
Current assets					
Inventories	20	7,792	6,626	-	-
Trade and other receivables	21	23,311	20,414	125	10,673
Other current assets	22	3,402	2,308	14	12
Current tax assets	13	467	207	-	-
Cash and cash equivalents	23	1,235	5,135	2,636	1,550
		<u>36,207</u>	<u>34,690</u>	<u>2,775</u>	<u>12,235</u>
Total assets		<u>73,772</u>	<u>67,224</u>	<u>28,669</u>	<u>25,747</u>
Current liabilities					
Trade and other payables	24	15,612	15,178	62	97
Borrowings	31.4	15,188	7,418	2,153	(70)
Provisions	26	3,284	3,542	-	-
Current tax liabilities	13	997	755	-	-
Other liabilities	25	3,637	3,426	104	142
Derivatives	31.2	302	292	-	-
		<u>39,020</u>	<u>30,611</u>	<u>2,319</u>	<u>169</u>
Net current (liabilities)/assets		<u>(2,813)</u>	<u>4,079</u>	<u>456</u>	<u>12,066</u>
Total assets less current liabilities		<u>34,752</u>	<u>36,613</u>	<u>26,350</u>	<u>25,578</u>
Non-current liabilities					
Borrowings	31.4	8,161	6,356	3,419	2,941
Other creditors	25	4,213	4,449	-	-
		<u>12,374</u>	<u>10,805</u>	<u>3,419</u>	<u>2,941</u>
Net assets		<u>22,378</u>	<u>25,808</u>	<u>22,931</u>	<u>22,637</u>

	Notes	Group		Company	
		At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Equity					
Called-up share capital	34	554	554	554	554
Share premium account	34	36,677	36,677	36,677	36,677
Merger reserve		14,502	14,502	20,667	20,667
Reverse acquisition reserve		(19,973)	(19,973)	-	-
Share based payment reserve		131	93	131	93
Other equity		18	18	18	18
Foreign currency translation reserve		1,022	375	-	-
Retained earnings		(10,553)	(6,438)	(35,116)	(35,372)
Total equity		<u>22,378</u>	<u>25,808</u>	<u>22,931</u>	<u>22,637</u>



Consolidated Income Statement

	Notes	Year to 31 March 2017			Year to 31 March 2016		
		£000 Trading	£000 Non- trading	£000 Total	Trading	Non- trading	Total
Revenue	6	62,719	-	62,719	61,648	-	61,648
Cost of sales		(45,413)	-	(45,413)	(41,223)	-	(41,223)
Gross profit		17,306	-	17,306	20,425	-	20,425
Other income	2.5	-	535	535	-	-	-
Operating charges	2.5	(19,835)	(159)	(19,994)	(14,659)	(1,777)	(16,436)
Operating (loss)/profit	7	(2,529)	376	(2,153)	5,766	(1,777)	3,989
Finance income		9	-	9	-	-	-
Finance costs	2.5 & 11	(1,185)	-	(1,185)	(619)	(382)	(1,001)
(Loss)/profit before tax		(3,705)	376	(3,329)	5,147	(2,159)	2,988
Taxation	2.5 & 12	(165)	(367)	(532)	(597)	(41)	(638)
(Loss)/profit for the year		(3,870)	9	(3,861)	4,550	(2,200)	2,350
Basic earnings per share (pence)	14	(7.09)	0.02	(7.07)	9.47	(4.58)	4.89
Diluted earnings per share (pence)	14	(6.93)	0.01	(6.92)	9.47	(4.58)	4.89



Consolidated Statement of Comprehensive Income

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
(Loss)/profit for the year	(3,861)	2,350
Other comprehensive income/(loss):		
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of net defined benefit liability	643	138
Income tax relating to items not reclassified	(116)	(28)
Items that will be reclassified subsequently to profit and loss		
Gain on translation of overseas subsidiaries	647	137
Other comprehensive income for the year net of tax	1,174	247
Total comprehensive (loss)/profit for the year	(2,687)	2,597
Attributable to		
Equity shareholders of the Company	(2,687)	2,597



Consolidated Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Merger Reserve £000	Reverse Acquisition Reserve £000	Treasury Stock Reserve £000	Share Based Payment Reserve £000	Other Equity £000	Foreign Currency Translation Reserve £000	Retained Earnings £000	Total £000
Balance at 1 April 2015	455	28,705	14,502	(19,973)	(274)	-	18	238	(8,230)	15,441
Dividends	-	-	-	-	-	-	-	-	(668)	(668)
Issue of share capital	99	7,902	-	-	-	-	-	-	-	8,001
Sale of shares	-	70	-	-	274	-	-	-	-	344
Employee share based compensation	-	-	-	-	-	93	-	-	-	93
Transactions with owners	99	7,972	-	-	274	93	-	-	(668)	7,770
Profit for the year	-	-	-	-	-	-	-	-	2,350	2,350
Actuarial gain for the year on pension scheme (see note 28)	-	-	-	-	-	-	-	-	138	138
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	-	(28)	(28)
Gain on translation of overseas subsidiaries	-	-	-	-	-	-	-	137	-	137
Total comprehensive income	-	-	-	-	-	-	-	137	2,460	2,597
Balance at 31 March 2016	554	36,677	14,502	(19,973)	-	93	18	375	(6,438)	25,808
Dividends	-	-	-	-	-	-	-	-	(781)	(781)
Issue of share capital	-	-	-	-	-	-	-	-	-	-
Sale of shares	-	-	-	-	-	-	-	-	-	-
Employee share based compensation	-	-	-	-	-	38	-	-	-	38
Transactions with owners	-	-	-	-	-	38	-	-	(781)	(743)
Loss for the year	-	-	-	-	-	-	-	-	(3,861)	(3,861)
Actuarial gain for the year on pension scheme (see note 28)	-	-	-	-	-	-	-	-	643	643
Deferred tax on actuarial movement on pension scheme	-	-	-	-	-	-	-	-	(116)	(116)
Gain on translation of overseas subsidiaries	-	-	-	-	-	-	-	647	-	647
Total comprehensive income	-	-	-	-	-	-	-	647	(3,334)	(2,687)
Balance at 31 March 2017	554	36,677	14,502	(19,973)	-	131	18	1,022	(10,553)	22,378



Company Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Merger Reserve £000	Treasury Stock Reserve £000	Other Equity £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 1 April 2015	455	28,705	20,667	(274)	18	-	(35,321)	14,250
Dividends	-	-	-	-	-	-	(668)	(668)
Issue of share capital	99	7,902	-	-	-	-	-	8,001
Sale of shares	-	70	-	274	-	-	-	344
Employee share based compensation	-	-	-	-	-	93	-	93
Transactions with owners	99	7,972	-	274	-	93	(668)	7,770
Profit for the year	-	-	-	-	-	-	617	617
Balance at 31 March 2016	554	36,677	20,667	-	18	93	(35,372)	22,637
Dividends	-	-	-	-	-	-	(781)	(781)
Issue of share capital	-	-	-	-	-	-	-	-
Sale of shares	-	-	-	-	-	-	-	-
Employee share based compensation	-	-	-	-	-	38	-	38
Transactions with owners	-	-	-	-	-	38	(781)	(759)
Profit for the year	-	-	-	-	-	-	1,037	1,037
Balance at 31 March 2017	554	36,677	20,667	-	18	131	(35,116)	22,931



Cash Flow Statement

	Notes	Group		Company	
		£	£	£	£
Operating activities					
Trading profit/(loss) before tax		(3,705)	5,147	101	230
Non-cash adjustment	35	3,539	1,995	(538)	(350)
Net changes in working capital	35	(4,880)	116	253	(4,244)
Contributions to defined benefit plan		(221)	(210)	-	-
Payment of non-trading items		376	(1,359)	-	-
Taxes paid		(530)	(548)	-	-
Net cash from operating activities		(5,421)	5,141	(184)	(4,364)
Investing activities					
Purchase of property, plant and equipment		(6,105)	(10,803)	-	-
Proceeds from finance leases to purchase property, plant and equipment		3,027	1,578	-	-
Purchase of intangible assets		(336)	(765)	-	-
Interest received		-	-	853	825
Disposal of property, plant and equipment		13	7,460	-	-
Acquisition of trade and assets		-	(10,132)	-	-
Investment in subsidiary		-	-	(2,161)	(2,000)
Dividends received		-	-	952	387
Net cash used in investing activities		(3,401)	(12,662)	(356)	(788)
Financing activities					
Proceeds from borrowings		7,977	15,665	2,700	9,865
Repayment of borrowings		(432)	(12,760)	-	(10,217)
Re-banking costs		22	(258)	-	(258)
Proceeds from issue of share capital		-	8,001	-	8,001
Dividends paid		(781)	(668)	(781)	(668)
Sale of treasury shares		-	344	-	344
Repayment of finance leases		(1,019)	(631)	-	-
Interest paid		(1,025)	(411)	(293)	(365)
Grant income received		180	1,605	-	-
Net cash from financing activities		4,922	10,887	1,626	6,702
Net change in cash and cash equivalents		(3,900)	3,366	1,086	1,550
Cash and cash equivalents at beginning of year		5,135	1,769	1,550	-
Cash and cash equivalents at end of year		1,235	5,135	2,636	1,550



Notes to the Unaudited Financial Statements

1. General information

Hayward Tyler Group PLC is incorporated and resident in the Isle of Man. The Company's registered office is Peregrine Corporate Services Limited, Burleigh Manor, Peel Road, Douglas, Isle of Man, IM1 5EP. The Company's principal place of business is 1 Kimpton Road, Luton, UK, LU1 3LD. Hayward Tyler Group PLC's shares are listed on the Alternative Investment Market (AIM).

Hayward Tyler Group PLC is the ultimate parent company of the Group and these consolidated financial statements are presented in Pounds Sterling (£), which is its functional currency. These unaudited consolidated financial statements have been approved for release by the Board of Directors on 30 June 2017. Given the announced proposed transaction with Avingtrans plc we do not intend to propose a year-end dividend.

The Group includes both the Hayward Tyler and Peter Brotherhood businesses, which together provide around 350 years of engineering experience, heritage and pedigree. The Group is focused on delivering performance-critical solutions for the most demanding requirements to meet current and future global energy needs. Hayward Tyler is a market leader in the design, manufacture and servicing of performance-critical motors and pumps for the harshest of environments. Peter Brotherhood is a market leader in the design, manufacture and servicing of performance-critical steam turbines, turbo gen-sets, compressors and combined heat and power systems. The end markets served by the Group include oil and gas (topside and subsea), power generation (conventional and nuclear), the chemical and industrials sectors, the marine market and the sugar industry.

In addition to the head office in Luton (England), Hayward Tyler has manufacturing and service support facilities in Kunshan (China), Delhi (India), East Kilbride (Scotland) and Colchester (USA) together with a sales office in Shanghai (China). Peter Brotherhood has its manufacturing and servicing facility in Peterborough (England). These facilities and staff provide cover 24 hours 7 days a week for maintenance, overhaul and repair.



2. Summary of significant accounting policies

2.1 Going concern

The unaudited consolidated financial statements have been prepared on a going concern basis. The Directors have taken note of the guidance issued by The Financial Reporting Council on Going Concern Assessments in determining that this is the appropriate basis of preparation of the financial statements and have considered a number of factors.

After making due enquiry, and having considered the Group's budget for the coming year and its projections through to 2020 together with its long-term financing arrangements as part of an enlarged group following the proposed acquisition of the Company by Avingtrans plc, the Directors confirm that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Further detail can be found in the significant management judgements in section 4. Accordingly, the Company continues to adopt the going concern basis of accounting in preparing these unaudited financial statements for the year ended 31 March 2017.

2.2 Basis of preparation

The unaudited company and consolidated financial statements for the year ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Isle of Man Companies Act 1931-2006. The financial statements have been prepared under the historical cost basis for the purposes of inclusion in this document with the exception of some financial instruments which are carried at fair value (see note 31) and freehold properties which are held at revalued amounts (see note 19). The accounting policies set out below have been consistently applied to all the periods presented. In accordance with the exemption provided by the Isle of Man Companies Act 2006 no separate Income Statement or Statement of Comprehensive Income is presented for the Company.

The financial information set out in this report does not constitute the Company's statutory accounts for the years ended 31 March 2017 or 2016 but is derived from the 2017 accounts. The auditor has not yet reported on the 2017 accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered in due course.

2.3 Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries as of 31 March 2017. Subsidiaries are all entities over which the Company is exposed to, or has rights to, variable returns from its involvement, and has the ability to affect those returns through its power over the subsidiary in accordance with IFRS10 – Consolidated Financial Statements. All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of



subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal as applicable.

2.4 Business combinations

For business combinations occurring since 1 January 2010, the requirements of IFRS 3R have been applied. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

2.5 Trading and non-trading

The consolidated income statement reports the results for the year under the headings Trading and Non-trading. Trading represents the underlying performance of Hayward Tyler and Peter Brotherhood together with head office costs. Non-trading represents non-recurring items. There was non-trading other income in the year of £0.5 million which relates to a compensation claim relating to damage to equipment in the Centre of Excellence. There were also non-trading operating charges in the year of £0.2 million. These charges relate to cost of the acquisition of the Peter Brotherhood business and amortisation of the Peter Brotherhood order book. Non-trading tax charges of £0.4 million relate to a reduction in the deferred tax asset of £0.3 million following the change in the enacted UK corporation tax rate from 20% to 17% plus a tax charge on non-trading other income and operating charges of £0.1 million.

2.6 Segmental reporting

In identifying its operating segments, management follows the Group's service lines, which represent the main products and services provided by the Group. The activities undertaken by the original equipment manufacturing segment ("OE") includes the design and manufacture of motors, pumps and steam generators. The aftermarket segment ("AM") provides a comprehensive range of aftermarket services and spares supporting the Group's own product range as well as those of other original equipment manufacturers. Each of these operating segments is managed separately as they require different resources and have a different customer base, including sales and marketing approach. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements, except that:

- Centre of Excellence expenses net of grant income
- expenses relating to share-based payments; and
- unallocated central costs

are not included in arriving at the operating profit of the operating segments. In addition, corporate assets which are not directly attributable to the business activities of any operating



segment are not allocated to a segment. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.7 Foreign currency translation

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional currency.

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). In the Group's financial statements, all assets, liabilities and transactions of the Group entities, with a functional currency other than the Pound Sterling (the Group's presentation currency) are translated into Pounds Sterling upon consolidation. The functional currencies of the entities in the Group have remained unchanged during the reporting period.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not re-translated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

(c) Foreign subsidiaries

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the reporting date. Income and expenses are translated at the average rate. The exchange differences arising from the re-translation of the opening net investment in subsidiaries are recognised in other comprehensive income and accumulated in the "Foreign Currency Translation Reserve" in equity. On disposal of a foreign operation the cumulative translation differences are reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

2.8 Property, plant and equipment

Land held for use in production or administration is stated at historical cost. As land is considered to have an unlimited useful life, related carrying amounts are not depreciated. Buildings for use in production or administration are initially recognised at acquisition cost and subsequently measured using the cost model, cost less accumulated depreciation and impairment losses.



Property and equipment held under finance leases are capitalised and included in property, plant and equipment. Such assets are depreciated on a straight line basis over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter. Buildings are stated at cost or revaluation less depreciation and impairment losses. Equipment, furniture and fittings are stated at cost less depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost or revaluation of fixed assets, less their estimated residual value, over their expected useful lives. The following useful lives are applied:

Buildings	-	25 years
Plant and machinery	-	5-10 years
Fixtures and fittings	-	3-5 years
Short leasehold improvements	-	over period of lease

Material residual value estimates and estimates of the useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within "other income" or "other expenses".

2.9 Leased assets

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments, less finance charges, which are expensed as part of finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2.10 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. Goodwill is considered to have an indefinite useful life. Refer to Note 2.12 for a description of impairment testing procedures.



2.11 Other intangible assets

Other intangible assets include capitalised development costs of the Hayward Tyler businesses incurred in the development of new pump and motor technology and product and process development. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life. Management assess the useful life of group intangible assets to be in the range of five to ten years.

Costs that are directly attributable to the development phase of technology are recognised as an intangible asset, provided they meet the following recognition requirements:

- completion of the intangible asset to the end of the development phase is technically feasible, so that it will be available for use or sale;
- the Group intends to complete the intangible asset and use or sell it;
- the Group has the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there be a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits;
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on the development along with an appropriate portion of relevant overheads. Development costs recognised as an intangible asset are subject to the same subsequent measurement method. However, until completion of the development project, the assets are subject to impairment testing only as described below in the note on impairments.

In addition, other intangible assets include the fair value of intangible assets acquired in a business combination at their acquisition date less any amortisation of such assets. In the case of Peter Brotherhood, these assets include the value of the order book at the acquisition date less the value of the orders that had traded during the period from the acquisition date to 31 March 2017.

2.12 Impairment testing of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill. Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of



disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.13 Investments

Investments in subsidiaries are recorded at fair value of consideration paid less impairment.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the direct purchase price, including all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The foreign currency translation reserve represents differences arising on the re-translation of net investments in overseas subsidiary undertakings, based on the rate of exchange ruling at the balance sheet date.

The merger reserve of £14.5 million includes £9.9 million arising as a result of the acquisition of Southbank in January 2010. The merger reserve represents the difference between the nominal value of the share capital issued by Hayward Tyler Group PLC and its fair value at 20 January 2010, the date of the acquisition.

Treasury stock reserve represents the cost of stock issued and subsequently reacquired.

The reverse acquisition reserve arises as a result of the method of accounting for the acquisition of Southbank by Hayward Tyler Group PLC. In accordance with IFRS 3 *Business Combinations* (Revised 2008) the acquisition has been accounted for as a reverse acquisition.



Share based payment reserve comprises the fair value of options and restricted shares recognised as an expense less the nominal value of restricted shares which is presented in share capital. Upon exercise of options or performance share rights, any proceeds received are credited to share capital.

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in “other liabilities” when the dividends have been approved in a general meeting prior to the reporting date.

2.17 Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group’s forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax liabilities are generally recognised in full, although IAS 12 ‘Income Taxes’ specifies limited exemptions. As a result of these exemptions the Group does not recognise deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries.

2.18 Post-employment benefits, short-term employee benefits and share-based employee remuneration

Post employee benefits

The Group provides post-employment benefits through defined benefit plans as well as various defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The contributions are recognised as an employee benefit expense when they are due.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. Under the Group’s defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee’s length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The asset recognised in the statement of financial position for defined benefit plans is the present value of the fair value of plan assets less the defined benefit obligation (DBO) at the reporting date. The net surplus at the end of the year is £1.0 million (FY2016: £0.2 million).

Management estimates the DBO annually with the assistance of independent actuaries. This is based on standard rates of inflation, salary growth rate and mortality. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.



Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in finance costs. Gains and losses resulting from remeasurements of the net defined benefit liability are included in other comprehensive income.

Short-term benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its key management personnel. None of the Group's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period.

The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

2.19 Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted to a customer, legal disputes or onerous contracts. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.



Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

2.20 Revenue recognition

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured at the fair value of consideration received or receivable and represents amounts obtained through trading activities, net of value added tax and trade discounts. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales or service transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

(a) Original equipment manufacture

The Group provides pumps, motors, turbo gen-sets, compressors and steam turbines specifically customised to each customer. The contracts for the sale of these goods specify a fixed price for their development and installation.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the Group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of the contract costs incurred and to the extent that such costs are recoverable. Contract costs are recognised in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised immediately in profit or loss.

The stage of completion of any contract is assessed by management by taking into consideration all information available at the reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. The gross amount due from customers for contract work is presented as an asset within "trade and other receivables" for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within "trade and other payables" for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

(b) Aftermarket

Revenue comprises the sale of spare parts and other aftermarket services, which is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services supplied. Significant risks and rewards are



generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods and services.

(c) *Interest income*

Interest income is recorded on an accrual basis using the effective interest method.

2.21 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin. Expenditure for warranties is recognised and charged against the associated provision when the related revenue is recognised.

2.22 Borrowing costs

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. All other borrowing costs are expensed in the period in which they are incurred and reported within "finance costs".

2.23 Financial instruments

Financial assets and liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition - loans and receivables.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within "finance costs" or "finance income", except for impairment of trade receivables, which is presented within "other expenses".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted



where the effect of discounting is immaterial. The Group's cash and cash equivalents and trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The impairment loss is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities other than derivatives are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "finance costs" or "finance income".

Derivative financial instruments

Derivatives are financial assets or financial liabilities classified as held for trading and recorded at fair value through profit and loss.

Due to certain customer contracts being settled in foreign currencies, the Group enters into forward exchange contracts and swaps in order to reduce the exposure to foreign currency risk.

2.24 Government Grants

A government grant is recognised only when there is reasonable assurance that (a) the Group will comply with any conditions attached to the grant and (b) the grant will be received.

A grant is recognised as income in the income statement over the period necessary to match it with the expense, to which it relates, on a systematic basis. For reporting purposes the grant income is deducted from the related expense. A grant relating to assets is presented as deferred income in the consolidated statement of financial position, and released over the life of the asset in line with depreciation.

In the year ended 31 March 2015, Hayward Tyler Limited ("HTL"), based in Luton, UK, was awarded a £3.5 million grant from the Regional Growth Fund ("RGF"). In the year ended 31 March 2017 the Group has concluded that there is reasonable assurance that it will be able to comply with the RGF grant conditions. The grant is conditional upon HTL achieving a job target of 231 full time jobs at the Luton business by 2024 and defraying £21.6 million on eligible spending by 2020. This eligible spending relates to the extension to the existing factory, plant and machinery, training, and research and development. Failure to hit either target could result in the repayment of part of the grant. Accordingly, at inception of the grant the Group recognised a receivable for the full grant amount of £3.5 million, presented as an other debtor, and a deferred income liability of £3.5 million, presented as an other creditor. In the year ended 31 March 2017 the group received the remaining debtor of £0.2 million (2016: £1.9 million). Also in the year ended 31 March 2017, the deferred income liability was reduced to £2.6 million by £0.3 million of grant income (2016: £0.3 million) that is recognised in the consolidated income statement. This grant income is included in operating charges as a deduction from related research, development and training expenses.



3 Changes in accounting policies

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information. At this stage the main areas of expected impact are as follows:

- the classification and measurement of the Group's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed
- an expected credit loss-based impairment will need to be recognised on the Group's trade receivables it will no longer be possible to measure equity investments at cost less impairment and all such investments will instead be measured at fair value. Changes in fair value will be presented in the profit or loss unless the Group makes an irrevocable designation to present them in other comprehensive income; and if the Group continues to elect the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent those changes relate to the Group's own credit risk.

The Group has no financial liabilities classified as '*Available for Sale or Held to Maturity*'

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts' and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities.

During the year, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

Presently contract revenues and expenses are recognised by reference to the stage of completion of contract activity where the outcome can be estimated reliably, otherwise revenue



is recognised only to the extent of recoverable contract costs incurred. Current guidance indicates we are only able to recognise revenue over time where an entity's performance does not create an asset with an alternative use and the entity has an enforceable right to payment for performance. Due to the bespoke nature of contracts the Group will continue recognising contract revenue and expenses over time, however, IFRS 15 criteria will be taken into consideration when identifying the correct treatment for each new contract.

The Group, from the preliminary assessment undertaken, considers that the impact of IFRS 15 will not result in a significant change in the revenue and margin recognised for each accounting period when compared with the current application of IAS 18 and IAS 11

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- performing a full review of all agreements to assess whether any additional contracts will now become a lease under IFRS 16's new definition
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing their current disclosures for finance leases (Note 27) and operating leases (Note 27) as these are likely to form the basis of the amounts to be capitalised and become right-of-use assets
- determining which optional accounting simplifications apply to their lease portfolio and if they are going to use these exemptions
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 15 and IFRS 9 so the Group only have to undergo one set of system changes
- assessing the additional disclosures that will be required

4 Significant management judgements in applying accounting policies

The following are significant management judgements in applying accounting policies of the Group that have the most effect on the financial statements.

Going concern

The Group's principal bank borrowing facilities and loan notes contain change of control clauses that are activated by an acquisition of the Company, which provide the lender with the opportunity to be prepaid or continue to lend to the Company. The proposed acquisition of the Company by Avingtrans plc ("Avingtrans Transaction") is expected to activate these clauses. Management has considered, together with the executive directors of Avingtrans plc, the funding arrangements of the enlarged group created by the Avingtrans Transaction and the working capital report prepared by independent reporting accountants, and has determined that they have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.



Internally generated development costs

Management monitors progress of internal research and development projects by using a project management system. Significant judgement is required in distinguishing research from the development phase. Development costs are recognised as an asset when all the criteria are met, whereas research costs are expensed as incurred.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Group's management also monitors whether the recognition requirements for development costs continue to be met and an assessment made of its recoverability. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition. Further information on intangible assets is contained in note 17.

Revenue recognition – original equipment manufacture

The stage of completion of a contract is assessed by management taking into consideration all information available at the reporting date. In this process management carries out significant judgements about milestones, actual work performed and the estimated costs to complete the work. Further information on the Group's accounting policy for contracts is contained in note 2.20.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. All unused tax losses and credits have been recognised in the year as management believes that use of the deferred tax asset created is probable.

Leases

In applying the classification of leases in IAS 17, management considers its leases of equipment as finance lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. Further information on the Group's leases are contained in note 27.

Property leases are split between land and the building to assess whether they are operating or finance leases. Land is almost always an operating lease due to its long life but judgment is required to assess the classification between operating and finance lease for buildings which are assessed individually against the criteria in IAS 17.10.



When preparing financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Original equipment revenue

The stage of completion of any contract is assessed by management by taking into consideration all information available at the reporting date. In this process management formulates estimates regarding actual work performed and the estimated costs to complete the work.

Deferred tax asset – refer to note 22

The extent to which deferred tax assets can be recognised is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Defined benefit pension liability – refer to note 28

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit pension gross liability of £13.8 million (FY2016: £13.2 million) is based on standard rates of inflation and mortality. The estimate does not include anticipation of future salary increases as there are no members with benefits related to future salary progression. Discount factors are determined close to each period end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit pension obligations. The value of the defined benefit pension asset at 31 March 2017 was £1.0 million (FY2016: £0.2 million).

Provisions – refer to note 26

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience, current knowledge and future expectation that defects may arise. The value of warranty provisions at 31 March 2017 was £0.9 million (FY2016: £0.8 million).

The amount recognised for restoration is a management estimate in relation to the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood's Peterborough property.

Goodwill – refer to note 16

Management carry out impairment tests at each reporting date and indicate present values of future cash flows in respect of both the OE and AM divisions are far in excess of the carrying values of the associated assets including goodwill such that management considers the likelihood of any impairment arising to be remote.

6 Segment information



Management currently identifies the Group's two service lines, OE and AM, as operating segments. The activities undertaken by the OE segment include the manufacture of pumps, motors and steam turbines. The activities of the AM division include the servicing of, and provision of spares for, a wide range of goods.

Segment information can be analysed as follows for the reporting periods under review:

	OE £000	AM £000	Total £000
Year to 31 March 2017			
Segment revenues from:			
External customers	18,569	44,150	62,719
Other segments	-	-	-
Segment revenues	<u>18,569</u>	<u>44,150</u>	<u>62,719</u>
Cost and expenses	(24,158)	(36,033)	(60,191)
Segment operating profit	<u>(5,589)</u>	<u>8,117</u>	<u>2,528</u>

	OE £000	AM £000	Total £000
Year to 31 March 2016			
Segment revenues from:			
External customers	27,274	34,374	61,648
Other segments	-	-	-
Segment revenues	<u>27,274</u>	<u>34,374</u>	<u>61,648</u>
Cost and expenses	(26,403)	(26,753)	(53,156)
Segment operating profit	<u>871</u>	<u>7,621</u>	<u>8,492</u>

The Group's revenues from external customers are divided into the following geographical areas:

	31 March 2017 £000	31 March 2016 £000
Africa & Middle East	5,754	3,212
Americas & Caribbean (excl. USA)	2,866	4,170
Asia Pacific (excl. China)	20,221	15,326
China	3,476	7,762
Europe (excluding UK)	7,316	6,008
United Kingdom	7,860	11,628
United States of America	15,226	13,542
	<u>62,719</u>	<u>61,648</u>

Revenues from external customers in the Group's domicile, United Kingdom, as well as its major markets, have been identified on the basis of the customers' geographical location.

No customer represented greater than 10% of Group revenue in the year to 31 March 2017 or in the year to 31 March 2016.

The totals presented for the Group's operating segments reconcile to the entity's key financial figures as presented in its financial statements as follows:

Year to Year to



	31 March 2017 £000	31 March 2016 £000
Segment revenues		
Segment revenues	62,719	61,648
Elimination of inter-segmental revenues	-	-
	<u>62,719</u>	<u>61,648</u>
Segment profit		
Segment operating profit	2,528	8,492
Centre of Excellence expenses net of grant income	(1,631)	(896)
Other operating costs not allocated	(2,236)	(1,503)
Foreign currency exchange differences	(1,190)	(327)
Trading operating profit	(2,529)	5,766
Non-trading items (see note 2.5)	376	(1,777)
Operating profit after exceptional items	(2,153)	3,989
Finance income	9	-
Finance costs	(1,175)	(961)
Fair value on derivatives	(10)	(40)
Group profit before tax	<u>(3,329)</u>	<u>2,988</u>

7 Operating profit

Operating profit is stated after charging:

	Year ended 2017	Year ended 2016
Depreciation of owned assets	1,753	961
Depreciation of assets held under finance leases	409	183
Amortisation of other intangible assets	416	675
Auditor's remuneration:		



Fees payable to the Company's auditor for the audit of the Company's annual accounts	53	58
Fees payable to the Company's auditor for other services:		
– Audit of the accounts of subsidiaries	102	117
– Tax compliance services	-	-
– Other assurance services	-	10
Rentals under operating leases:		
– Land and buildings	251	199
– Plant and equipment	316	262
Foreign currency exchange differences – loss	1,294	327
Research and developments costs	409	304

Foreign currency exchange differences relate to realised losses on receipts and payments together with an unrealised loss arising on the re-translation of net current assets.



8 Employee remuneration

Employee benefits expense

The employee benefit expense during the year was as follows:

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Wages and salaries	23,356	17,674
Social security costs	2,125	1,661
Share based payments	38	106
Redundancy costs	30	68
Pension costs	887	880
	<u>26,436</u>	<u>20,389</u>

The average numbers of employees during the year were as follows:

	Year to 31 March 2017	Year to 31 March 2016
OE and AM	334	241
General and administration	144	146
Selling	48	35
	<u>526</u>	<u>422</u>

Key management personnel

Key management of the Group are members of the Board of Directors in Hayward Tyler Group PLC.

Remuneration in respect of the Directors including employer's national insurance cost was as follows:

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Short-term employee benefits	542	702
Post-employment benefits	-	-
Share-based payment benefits	26	76
Employer's National Insurance Contributions	57	81
	<u>625</u>	<u>859</u>

The amounts set out above include remuneration in respect of the highest paid Director as follows:



	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Short-term employee benefits	253	344
Post-employment benefits	-	-
Share-based payment benefits	17	47
Employer's National Insurance Contributions	33	46
	303	437

None of the Directors participate in the Group's defined benefit plan. Details of related party transactions are given in note 32 to the financial statements.

Share-based employee remuneration

As at 31 March 2017, the Group maintained three share-based payment schemes as long-term incentive plans that align management's interest with those of shareholders. The plans are the Total Shareholder Return Long-Term Incentive Plan ("TSR LTIP"), the Peter Brotherhood Limited Long-Term Incentive Plan ("PBL LTIP"), and the Company Share Option Plan (CSOP). All the schemes will be settled in equity.

In both LTIP schemes there are options and restricted shares. Participants awarded restricted shares pay only the nominal value of the shares and the shares are subject to clawback if performance conditions are not met. The dates and performance conditions are identical on restricted shares and options, however on vesting, only restricted shares are entitled to receive any accrued dividends on the underlying shares during the vesting period. Those granted restricted shares are required to pay the nominal value of the shares at the commencement of the vesting period creating share capital. Subsequently, the accounting treatment for the restricted shares is the same as the share options.

In total, £38,000 (2016: £106,000) of employee remuneration expense (all of which related to equity-settled share-based payment transactions) net of related deferred tax has been included in the income statement and credited to share-based payment reserve.

TSR LTIP

The TSR LTIP is part of the remuneration package of the Executive Directors and certain senior managers ("Executives"). Options and restricted shares under this programme will vest only if the total shareholder return achieved by the Company over the three year vesting period is greater or equal to the TSR of the median company in a defined comparator group of companies over that period. The percentage of the award that vests operates on a sliding scale with 0% below the median, 20% at the median and 100% in the upper quartile. In addition, participants in this programme have to be employed until the end of the agreed vesting period. Upon vesting, each option allows the holder to purchase one ordinary share at a nominal value of £0.01 up to 10 years from the grant date. Total expense included in the income statement relating to the TSR LTIP is £69,000 (2016: £53,000).

The TSR LTIP options and restricted shares together with their related exercise prices were as follows for the reporting period:

Restricted shares	Share options
--------------------------	----------------------



	Number	Exercise price per share (pence)	Number	Exercise price per share (pence)
Outstanding at 1 April 2016	294,118	1	426,917	1
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding at 31 March 2017	294,118	1	426,917	1
Exercisable at 31 March 2017	-	-	-	-

Fair values have been determined by a Monte Carlo model. The following principal assumptions were used in the valuation:

Grant date	23 June 2015
Vesting period ends	23 June 2018
Share price at date of grant (pence)	79
Volatility	44.00%
Option life (years)	3
Dividend yield ¹	1.70%
Risk-free investment rate	1.04%
Option fair value at grant date (pence)	28
Restricted shares fair value at grant date (pence)	30
Exercise price at grant date (pence)	1
Exercisable from	23 June 2018
Exercisable to	23 June 2025
Remaining contractual life (years)	8.2

¹ Dividend yield for restricted shares is 0.00%

The underlying expected volatility was determined by reference to historical share price of the Company over the same period as the expected life of the awards that were granted.

Weighted average fair value of options granted during the period is 28 pence, and weighted average fair value of restricted shares granted is 30 pence.

PBL LTIP

The PBL LTIP is part of the remuneration package of the Group's Executives. Options and restricted shares under this programme were to vest only if Peter Brotherhood Limited (a subsidiary of Hayward Tyler Group PLC) delivered an operating profit (before intercompany charges) of £1.6 million or higher, and/or revenues of £27.5 million or higher, in its audited results for the year ended 31 March 2017. At present, Management do not believe Peter Brotherhood will achieve the requisite vesting conditions and the options and restricted shares will be forfeited upon signing of the statutory accounts. Failure to achieve the vesting conditions resulted in a credit in the period of £53,000 (2016: expense of £53,000).

The PBL LTIP options and restricted shares together with their exercise prices were as follows for the reporting period:

Restricted shares	Share options
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	Number	Exercise price per share (pence)	Number	Exercise price per share (pence)
Outstanding at 1 April 2016	250,000	1	250,000	1
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Outstanding at 31 March 2017	250,000	1	250,000	1
Exercisable at 31 March 2017	-	-	-	-

Fair values have been determined using a Black Scholes option pricing model. The following principal assumptions were used in the valuation:

Grant date	19 November 2015
Vesting period ends	1 June 2017 ³
Share price at date of grant (pence)	91
Volatility	31.00%
Option life (years)	1.53
Dividend yield ²	1.50%
Risk-free investment rate	0.56%
Option fair value at grant date (pence)	88
Restricted shares fair value at grant date (pence)	90
Exercise price at grant date (pence)	1
Exercisable from	1 June 2017
Exercisable to	1 June 2025
Remaining contractual life (years)	8.2

² Dividend yield for restricted shares is 0.00%

³ Options vest as at the later of 1 June 2017 or the date that the audited accounts are published

Company Share Option Plan

The CSOP is part of the remuneration package of the Executive Directors and certain senior managers ("Executives"). Options under this programme will vest if individuals remain employees of the Group 3 years from the option grant date. Upon vesting, each option allows the holder to purchase one ordinary share at a price of £0.795 for up to 10 years from the grant date. Total expense included in the income statement relating to the CSOP is £22,000 (2016: £nil)

	Share options
Number of shares	Exercise price per share (pence)



Outstanding at 1 April 2016	-	-
Granted	106,915	79.5
Forfeited	-	-
Exercised	-	-
Outstanding at 31 March 2017	<u>106,915</u>	<u>79.5</u>
Exercisable at 31 March 2017	<u>-</u>	<u>-</u>

Grant date	7 July 2016
Vesting period ends	7 July 2019
Share price at date of grant (pence)	80
Volatility	42%
Option life (years)	3
Dividend yield ²	1.73%
Risk-free investment rate	0.98%
Option fair value at grant date (pence)	111.3
Exercise price at grant date (pence)	79.5
Exercisable from	7 July 2016
Exercisable to	7 July 2026
Remaining contractual life (years)	9.3

9 Trading EBITDA

Trading earnings before interest, tax, depreciation and amortisation are as follows:

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Trading operating profit	(2,529)	5,766
Depreciation and amortisation	2,534	1,401
Trading EBITDA	<u>5</u>	<u>7,167</u>

10 Finance Income

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Finance income from pension	<u>9</u>	<u>-</u>

11 Finance costs

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Trading:		



Interest payable on bank borrowing	1,034	371
Finance charges – re-banking	63	206
Finance costs of pensions	-	2
Unwinding of discounts on provision	78	-
Loss arising on fair value of derivative contracts	10	40
	<u>1,185</u>	<u>619</u>
Non-trading:		
Finance charges – prepayment	-	382
	<u>1,185</u>	<u>1,001</u>

12 Income tax expense

(a) Analysis of total tax charge

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Current tax		
UK corporation tax at 20% (FY2016: 20%)	(173)	-
Amounts over provided in prior years	(249)	-
Overseas taxation	1,200	840
Adjustment in respect of prior year	-	(110)
Total current tax charge	<u>778</u>	<u>730</u>



12 Income tax expense (continued)

Deferred tax

Accelerated capital allowances	70	238
Gains available for offset against future taxable income	(1,053)	(311)
Retirement benefit obligations	160	69
Less movement recorded in other comprehensive income	(116)	(28)
Other temporary differences	-	(103)
Derivatives	(2)	(8)
Effect of change in tax rate	292	253
Amounts (over)/under provided in prior years	403	(202)
Total deferred tax (credit)	<u>(246)</u>	<u>(92)</u>
Tax charge reported in the income statement	<u>532</u>	<u>638</u>

(b) Reconciliation of profit before tax total to tax charge

The relationship between the expected tax expense based on the domestic effective tax rate of Hayward Tyler Group PLC at 20% (FY2016: 20%) and the reported tax expense in the income statement is set out below, which also shows the major components of tax expense:

	Y16	Y16
(Loss)/profit before tax	329	3
Domestic tax rate for Hayward Tyler Group PLC	20%	20%
Expected tax charge	<u>(666)</u>	<u>598</u>
Adjustment for tax-rate differences in foreign jurisdictions	581	220
Deferred tax not recognised and effect of tax rate change	278	(234)
Amounts over provided in prior years	154	(312)
Adjustment for non-deductible expenses	<u>185</u>	<u>366</u>
Tax charge	<u>532</u>	<u>638</u>

Note 22 provides information on the entity's deferred tax assets and liabilities, including the amounts recognised directly in the income statement.



13 Income tax asset/(liability)

	At 31 March 2017 £000	At 31 March 2016 £000
Current tax assets	467	207
Current tax liabilities	(997)	(755)
	<hr/>	<hr/>
Income tax payable	(530)	(548)
	<hr/>	<hr/>

14 Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post-tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

	Year to 31 March 2017	Year to 31 March 2016
Adjusted Earnings per share calculations based on Trading (Loss)/Profit		
Trading (Loss)/Profit for the year (£000)	(3,870)	4,550
Weighted average number of shares used for basic earnings per share	54,608,885	48,047,956
Shares deemed to be issued for no consideration in respect of share based payments	1,204,659	8,017
	<hr/>	<hr/>
Weighted average number of shares used in diluted earnings per share	55,813,544	48,055,973
	<hr/>	<hr/>
Basic earnings per share (pence)	(7.09)	9.47
	<hr/>	<hr/>
Diluted earnings per share (pence)	(6.93)	9.47
	<hr/>	<hr/>

Year to 31 March	Year to 31 March
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	2017	2016
Earnings per share calculations based on Total (Loss)/Profit		
(Loss)/Profit for the year	(3,861)	2,350
Weighted average number of shares used for basic earnings per share	54,608,885	48,047,956
Shares deemed to be issued for no consideration in respect of share based payments	1,204,659	8,017
	<hr/>	<hr/>
Weighted average number of shares used in diluted earnings per share	55,813,544	48,055,973
	<hr/>	<hr/>
Basic earnings per share (pence)	<u>(7.07)</u>	<u>4.89</u>
Diluted earnings per share (pence)	<u>(6.92)</u>	<u>4.89</u>

Dividends

An interim dividend of 0.58 pence per ordinary share was declared during the year representing a total of £321,231 (FY2016: £305,723).

15 Dividends

	Year to 31 March 2017		Year to 31 March 2016	
	Pence per share	£000	Pence per share	£000
Paid in the year				
Interim dividend – current year	0.58	321	0.552	306
Final dividend – in respect of prior year	0.83	460	0.790	362
Total	<u>1.41</u>	<u>781</u>	<u>1.342</u>	<u>668</u>

Given the announced proposed acquisition of the Company by Avingtrans plc a final dividend will not be paid.

16 Goodwill

The net carrying amount of goodwill can be analysed as follows:

Group	At	At
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	31 March 2017 £000	31 March 2016 £000
Gross carrying amount		
Carrying amount at start of year	2,573	2,219
Acquired through business combinations	-	354
Carrying amount at end of year	<u>2,573</u>	<u>2,573</u>

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill rises, as follows:

	At 31 March 2017 £000	At 31 March 2016 £000
OE	416	416
AM	2,157	2,157
Carrying amount at end of year	<u>2,573</u>	<u>2,573</u>

The recoverable amount of each segment was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using a declining growth rate determined by management. The recoverable amount of each operating segment is set below:-

	At 31 March 2017 £000	At 31 March 2016 £000
OE	19,231	23,539
AM	125,861	94,467

The key assumptions used in the calculations were:

- the forecast operating cash flows for the next three years and a terminal value of such flows based on approved budgets and plans. These budgets and plans are based on past performance, the strength of the order book at 31 March 2017, the strength of the pipeline of future orders and expectations for the market development of the CGU, taking into account the current economic climate and forecast assumptions (both internal and external where appropriate) around the relevant product markets;
- an estimate of the long-term growth rate for the CGU representing management's best estimate of future long-term growth in the respective divisions, taking into account both internal and external projections for the markets in which they operate. The growth rate used for the first three years was 10% for OE and 10% for AM which has been based on forecasts provided by each of the business units. The terminal growth rate used was 2%, which is based on the UK's long-term consumer price index growth rate; and
- a discount rate of 9.97% was used to discount future cash flows and reflects management's estimate of the weighted average cost of capital of the Group.

Impairment tests are carried out at each reporting date and indicate present values of future cash flows in respect of both the OE and AM divisions are far in excess of the carrying values



of the associated assets including goodwill. In the case of OE, the result of the impairment test is sensitive to a change in the assumptions made. Despite its relatively low carrying value, OE has significant intrinsic value to the AM division, which derives most of its revenue from original equipment that has been designed and manufactured by the Group. Taking all of these elements together, including the close alignment of AM to OE, management considers the likelihood of any impairment arising to be remote.

17 Other intangible assets

The Group's other intangible assets comprise (1) internally generated development costs and (2) the order book acquired on acquisition of Peter Brotherhood (see note 2.11). The net carrying amounts for the reporting periods under review can be analysed as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Gross carrying amount		
Balance at start of year	3,386	2,159
Additions	336	765
Acquisition through business combinations	-	462
Exchange gain/(loss)	47	-
Balance at end of year	3,769	3,386
Accumulated amortisation and impairment		
Balance at start of year	1,800	1,125
Amortisation	416	675
Balance at end of year	2,216	1,800
Carrying amount at end of year	1,553	1,586

The amortisation charge for the year is included within operating charges and disclosed in note 7.

The main material asset included above is the development of the subsea motor that underpins the investment in the Centre of Excellence as well as the support of key and potential future customers, which has a carrying value of £662,521 at 31 March 2017. The remaining amortisation period of the subsea is between 1-5 years varying on the different elements.

18 Investments

The Company had the following investments in subsidiary undertakings:

Gross value of investments	At 31 March 2017 £000	At 31 March 2016 £000
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Balance at start of year	29,916	27,916
Additions	2,161	2,000
Balance at end of year	<u>32,077</u>	<u>29,916</u>
Provision for impairment		
Balance at start of year	20,193	20,193
Impairment in year	-	-
Balance at end of year	<u>20,193</u>	<u>20,193</u>
Net book value at end of year	<u>11,884</u>	<u>9,723</u>

On 29 March 2017, the Company subscribed for 100 ordinary shares in Peter Brotherhood Limited, which have a nominal value of £0.01 per share and a share premium of £21,599.99 per share. This arrangement allowed Peter Brotherhood Limited to repay borrowings owed to the Company.



18 Investments (continued)

The Company owns more than 20% of the following companies:

Name of company	Place of incorporation	%ownership/ votingpower	Principal activity
Southbank UK Limited	England & Wales	100	Holdings
Redglade Associates Limited	England & Wales	100	
Redglade Investments Limited	England & Wales	100	
Hayward Tyler Group Limited	England & Wales	100	Holdings
Hayward Tyler Limited	England & Wales	100	
Hayward Tyler (UK) Limited	England & Wales	100	
Varley Pumps Limited	England & Wales	100	
Hayward Tyler Solutions Limited	England & Wales	100	
Hayward Tyler Holdings Limited	England & Wales	100	Holdings
Hayward Tyler Holding Inc	USA	100	Holdings
Hayward Tyler Inc	USA	100	
Hayward Tyler Pumps (Kunshan) Co Limited	China	100	
Hayward Tyler India PTE Limited	India	100	
Appleton & Howard Limited	England & Wales	100	
Hayward Tyler Fluid Dynamics Limited	England & Wales	100	
Hayward Tyler Fluid Handling Limited	England & Wales	100	
Hayward Tyler Services Limited	England & Wales	100	
Specialist Energy Group Trustee Limited	England & Wales	100	Asset Management
Hayward Tyler Pension Plan Trustees Limited	England & Wales	100	Management
Sumo Pumps Limited	England & Wales	100	
Hayward Tyler Engineered Products Limited	England & Wales	100	
Capital Engineering Services Limited	England & Wales	100	
Credit Montague Limited	England & Wales	100	
Mullins Limited	England & Wales	100	
Nviro Cleantech Limited	England & Wales	100	Holdings
Nviro Cleantech Inc	USA	100	Holdings
Vertus Technologies US LLC	USA	100	Holdings
Vertus Technologies Industrial LLC	USA	100	Management
Vertus Technologies Limited	Cayman Islands	100	Holdings
Nviro Cleantech Limited	Cayman Islands	100	Holdings
Peter Brotherhood Limited	England & Wales	100	

All companies are owned indirectly by Hayward Tyler Group PLC except for Southbank UK Limited, Specialist Energy Group Trustee Limited, Nviro Cleantech Limited and Peter Brotherhood Limited, which are owned directly, and the results for all companies have been included within the consolidated results for the Group.



19 Property, plant and equipment

The Group's property, plant and equipment comprise primarily land, buildings, plant and machinery, and fixtures and fittings. The carrying amount can be analysed as follows:

Group	Freehold land and buildings £000	Short leasehold improvements £000	Plant and machinery, fixtures and fittings £000	Assets under construction £	Total £000
Gross carrying amount					
Balance at 1 April 2016	9,480	4,371	19,401	8,075	41,327
Exchange adjustments	109	73	907	-	1,089
Additions	-	1,292	4,755	58	6,105
Reclassification/adjustments	7,618	(196)	372	(7,618)	176
Disposals	-	-	(68)	-	(68)
Balance at 31 March 2017	17,207	5,540	25,367	515	48,629
Depreciation and impairment					
Balance at 1 April 2016	3,140	1,240	11,645	-	16,025
Exchange adjustments	-	100	660	-	760
Reclassification/adjustments	(653)	653	176	-	176
Disposals	-	-	(55)	-	(55)
Charge for the year	325	383	1,455	-	2,163
Balance at 31 March 2017	2,812	2,376	13,881	-	19,069
Carrying amount at 31 March 2017	14,395	3,164	11,486	515	29,560
Gross carrying amount					
Balance at 1 April 2015	8,814	1,982	13,779	1,702	26,277
Exchange adjustments	-	37	161	-	198
Additions	666	2,434	3,417	6,373	12,891
Reclassification	-	-	-	-	-
Acquisition through business combinations	5,317	-	2,329	-	7,646
Disposals	(5,317)	(82)	(286)	-	(5,685)
Balance at 31 March 2016	9,480	4,371	19,401	8,075	41,327
Depreciation and impairment					
Balance at 1 April 2015	3,048	1,100	10,841	-	14,989
Exchange adjustments	-	17	127	-	144
Reclassification	-	(2)	2	-	-
Disposals	-	-	(252)	-	(252)
Charge for the year	92	125	927	-	1,144
Balance at 31 March 2016	3,140	1,240	11,645	-	16,025
Carrying amount at 31 March 2016	6,340	3,131	7,756	8,075	25,302



19 Property, plant and equipment (continued)

The category "Assets in course of construction" in the fixed asset table relates to the work being carried out at the Centre of Excellence in Luton. The work for phase one was completed during FY2017. A valuation of the freehold land and buildings relating to the Luton property will be carried out by an independent valuer once the phase two construction is completed.

The Group's freehold land and buildings were valued by independent valuers for the financial statements for the year ended 31 December 2011 and an impairment charge was made at that date. The Directors believe that there has been no further impairment of the property since that date. Fair value of freehold land and buildings do not have quoted prices and have been determined based on professional appraisals that would be classified as Level 3 of the fair value hierarchy as defined in IFRS 13 "Fair Value Measurement".

If the cost model had been used, the carrying amount of land and buildings would be £6,020,824 (FY2016: £6,165,105). Revaluation previously has only ever resulted in a decrease arising, as a consequence there is no revaluation surplus.

All depreciation charges are included within operating charges and disclosed in note 7.

The Group's land and buildings have been pledged as security for term loans.

Additions in the year includes investment in the Centre of Excellence. This is made up of £1,128,946 of building improvements and £2,539,670 of new plant and machinery.

The carrying value of assets under finance leases included in plant and machinery amounted to £4,884,057 (FY2016: £2,227,459). The depreciation charged to the financial statements in the year in respect of finance leased assets amounted to £409,103 (FY2016: £182,735).

20 Inventories

Inventories recognised in the statement of financial position can be analysed as follows:

Group	At	At
	31 March 2017 £000	31 March 2016 £000
Raw materials and consumables	3,079	3,092
Work in progress	2,859	1,908
Finished goods and goods for resale	1,854	1,626
	<u>7,792</u>	<u>6,626</u>

In the year ended 31 March 2017, total inventory included in expenses amounted to £25,129,000 (FY2016: £24,839,000).



21 Trade and other receivables

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Current				
Trade receivables	15,929	15,860	-	-
Less: provision for impairment of receivables	(164)	(167)	-	-
Trade receivables – net	15,765	15,693	-	-
Gross amounts due from customers	7,403	4,222	-	-
Other receivables	143	499	3	12
Other debtors	-	-	-	-
Due from Group undertakings	-	-	122	10,661
Trade and other receivables	23,311	20,414	125	10,673
Prepayments	3,211	1,668	3	-
VAT recoverable	191	640	11	12
Other current assets	3,402	2,308	14	12
Total current trade and other receivables	26,712	22,722	139	10,685
Non current				
Due from Group undertakings	-	-	14,027	3,806
Other debtors	-	180	-	-
Trade and other receivables	-	180	14,027	3,806
Total non current trade and other receivables	-	180	14,027	3,806

The Directors believe that the carrying amounts of trade and other receivables approximate their fair values. The receivables are short-term and non-interest bearing in the Group. Receivables are long-term interest bearing loans to subsidiaries in the Company.



21 Trade and other receivables (continued)

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses of £0.2 million (FY2016: £0.2 million) has been made.

The movement in the provision for credit losses can be reconciled as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Balance at start of year	167	139
Charge for the year	130	189
Impairment reversals	(131)	(35)
Amounts utilised in the year	(2)	(126)
	164	167
Balance at end of year	164	167

An analysis of unimpaired trade receivables that are past due is given in note 29.

22 Deferred tax assets

Deferred tax movements for the year arising from temporary differences and unused tax losses of the Group can be summarised as follows:

	At 31 March 2017 £000	At 31 March 2016 £000
Balance at start of year	2,726	2,555
Charge to income statement for the year (note 12)	246	92
Charge to other comprehensive income	(133)	(10)
Recognised in business combination	-	89
Balance at end of year	2,839	2,726
	2,839	2,726

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results and the future projected profitability of the Group. There are no losses for which a deferred tax asset has not been recognised (FY2016: nil).

Deferred tax assets



	1 April 2016 £000	Charge through profit or loss for the year £000	Recognised in other comprehensive income £000	Recognised in business combination £000	31 March 2017 £000
Accelerated tax depreciation	13	(103)	-	-	(90)
Retirement benefit obligations	(30)	(41)	(116)	-	(187)
Tax losses	2,806	437	-	-	3,243
Derivatives	58	2	-	-	60
Temporary differences	(121)	(49)	(17)	-	(187)
Total	2,726	246	(133)	-	2,839

	1 April 2015 £000	Charge through profit or loss for the year £000	Recognised in other comprehensive income £000	Recognised in business combination £000	31 March 2016 £000
Accelerated tax depreciation	(154)	(14)	-	181	13
Retirement benefit obligations	36	(38)	(28)	-	(30)
Tax losses	2,605	201	-	-	2,806
Derivatives	50	8	-	-	58
Temporary differences	18	(65)	18	(92)	(121)
Total	2,555	92	(10)	89	2,726



23 Cash and Cash equivalents

Cash and cash equivalents included the following components:

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Cash at bank and in hand:				
GBP	484	4,217	2,636	1,550
USD	484	453	-	-
EUR	41	117	-	-
Other	226	348	-	-
	<u>1,235</u>	<u>5,135</u>	<u>2,636</u>	<u>1,550</u>

At 31 March 2017 the Group had the following undrawn facilities:

Group

	£	
	0	
Revolving credit facilities	1,722	5,087
Corporate charge card facility	<u>279</u>	<u>344</u>

The bank revolving credit facilities and loans are secured by fixed and floating charges over the Group's assets.

The short-term bank borrowings under the revolving credit facilities have been classified under borrowings in Hayward Tyler Group PLC. A breakdown of cash and borrowings is set out below:

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Cash at bank and in hand	1,235	5,135	2,636	1,550
Short-term bank borrowings	(12,624)	(6,629)	-	-
Short-term bank loans	(411)	(859)	-	-
Short-term non-bank borrowings	(2,153)	70	(2,153)	70
Non-current bank borrowings	(2,502)	(1,212)	-	-
Non-current bank loans	(2,240)	(2,203)	-	-
Non-current non-bank borrowings	(3,419)	(2,941)	(3,419)	(2,941)
Net debt	<u>(22,114)</u>	<u>(8,639)</u>	<u>(2,936)</u>	<u>(1,321)</u>

The Directors consider that the carrying amount of the cash and cash equivalents approximates to their fair value.

24 Trade and other payables

Group

Company



	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Trade payables	9,666	10,376	62	91
Payments on account	5,400	3,863	-	-
Social security and other taxes	546	939	-	-
Due to Group undertakings	-	-	-	6
Trade and other payables	<u>15,612</u>	<u>15,178</u>	<u>62</u>	<u>97</u>

The carrying amounts of trade and other payables approximate to their fair values. All amounts shown above are short-term liabilities and accrue no interest.

25 Other liabilities

Other liabilities can be summarised as follows:

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Current				
Accruals	2,706	1,705	104	142
Other payables	931	1,721	-	-
	<u>3,637</u>	<u>3,426</u>	<u>104</u>	<u>142</u>

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Non current				
Other creditors – deferred income	4,213	4,449	-	-
	<u>4,213</u>	<u>4,449</u>	<u>-</u>	<u>-</u>

26 Provisions

Group	At 31 March 2017 £000	At 31 March 2016 £000
Warranty	890	773
Loss making contracts	-	351
Restoration	2,166	2,088
Other	228	330
	<u>3,284</u>	<u>3,542</u>

All provisions are considered current. The carrying amounts may be analysed as follows:



	Warranty £000	Loss making contracts £000	Restoration £000	Other £000	Total £000
Carrying amount at start of year	773	351	2,088	330	3,542
Exchange differences	76	-	-	16	92
Additional provisions	960	-	78	398	1,436
Unused amounts reversed	(266)	-	-	-	(266)
Amount utilised	(653)	(351)	-	(516)	(1,520)
Carrying amount at end of year	<u>890</u>	<u>-</u>	<u>2,166</u>	<u>228</u>	<u>3,284</u>

Warranty provision

Provisions for warranty work represent the estimated cost of work provided under the terms of the contracts with customers with reference to the length and unexpired portion of the terms provided.

Loss making contracts

Provisions for loss making contracts are the estimated total costs that exceed the total revenues from contracts that are in progress at the reporting date.

Restoration provision

Provisions for restoration represent the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood Limited's Peterborough property, which resulted from the sale and leaseback of the property.

Other provisions include:

- **Annual leave provision**
 Paid holidays are regarded as an employee benefit and are charged to the profit or loss as the benefit is earned. A provision is made at the balance sheet date to reflect the present value of the holidays earned but not taken.
- **Liquidated damages**
 Provisions for liquidated damages are the liabilities estimated to arise on the expected delay in shipment of contracts that have been shipped prior to 31 March 2017. There were minor expected delays in the year.
- **Post acquisition provision**
 Provision for incremental committed expenditure arising from the acquisition.



27 Leases

Finance leases

The Group leases various equipment under finance lease arrangements. The net carrying amount of the assets held under finance lease arrangements is £4,884,057 (FY2016: £2,227,459). The assets are included under "Plant and Machinery", which form an integral part of "property, plant and equipment" (see note 19).

The future aggregate minimum finance lease payments are as follows:

Group	At 31 March 2017		At 31 March 2016	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	£000	£000	£000	£000
No later than 1 year	1,316	1,145	517	429
Later than 1 year and no later than 5 years	2,608	2,394	1,288	1,212
Later than 5 years	113	110	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4,037	3,649	1,805	1,641
Less: Amounts representing finance charges	(388)	-	(164)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of minimum lease payments	3,649	-	1,641	-

The lease agreement for the equipment includes fixed lease payments and a purchase option at the end of the lease term. The agreement is non-cancellable but does not contain any further restrictions. No contingent rents were recognised as an expense in the reporting periods under review.

Operating leases

The Group leases various buildings, vehicles and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are:

Group	At	At
	31 March 2017	31 March 2016
	£000	£000
No later than 1 year	933	981
Later than 1 year and no later than 5 years	2,920	3,223
More than 5 years	5,175	6,679
	<hr/>	<hr/>
	9,028	10,883

Lease payments recognised as an expense during the period are shown in note 7.

28 Pensions and other employee obligations



Within the UK the Group operates a defined benefit plan with benefits linked to final salary and a defined contribution plan.

The defined benefit pension arrangement, called the Hayward Tyler Pension Plan (the "Plan"), provides benefits based on final salary and length of service on retirement, leaving service or death. With effect from 1 June 2003 the Plan was closed to new UK employees and to future service accrued for existing members who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements. The method used in assessing the Plan liabilities is the projected unit method. A full valuation of the Plan is produced every three years (the next one being as at 1 January 2017, which is due by 31 March 2018) and updated annually to 31 March 2017 by independent qualified actuaries.

The Plan is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Plan is carried out at least once every three years to determine whether the Statutory Funding Objective is being met. As part of the process the Company must agree with the trustees of the Plan the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Plan in these accounts.

The Plan is managed by a board of trustees appointed in part by the Company and in part from elections by members of the Plan. The board of trustees includes a professional trustee (Independent Trustee Services Limited). The trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Plan's assets. The trustees delegate some of these functions to their professional advisers where appropriate.

The Plan exposes the Company to a number of risks:

- **Investment risk**
The Plan holds investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- **Interest rate risk**
The Plan's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Plan holds assets such as equities the value of the assets and liabilities may not move in the same way;
- **Inflation risk**
A significant proportion of the benefits under the Plan are linked to inflation. Although the Plan's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging;
- **Longevity risk**
In the event that members live longer than assumed a deficit will emerge in the Plan; and
- **Concentration risk**
A significant proportion of the Plan's liabilities are in respect of a single pensioner member. The development of the liabilities over time will therefore depend heavily on the actual experience in respect of this member.

There were no plan amendments, curtailments or settlements during the period. The Group's defined benefit obligations and plan assets may be reconciled to the amounts presented on the face of the statement of financial position for each of the reporting periods under review as follows:



Group	At 31 March 2017 £000	At 31 March 2016 £000
Defined benefit obligation	(13,857)	(13,204)
Fair value of plan assets	14,897	13,371
Impact of asset ceiling	-	-
Net defined benefit asset	<u>1,040</u>	<u>167</u>

Scheme liabilities

The defined benefit obligations for the reporting periods under review are as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Defined benefit obligation at start of year	13,204	14,084
Interest cost	423	423
Changes to demographic assumptions	(382)	-
Changes to financial assumptions	1,781	(415)
Benefits paid	(1,169)	(888)
Defined benefits obligation at end of year	<u>13,857</u>	<u>13,204</u>

For determination of the pension obligation, the following actuarial assumptions were used:

Group	At 31 March 2017	At 31 March 2016
Discount rate	2.50%	3.35%
Expected rate of pension increases	2.25%	2.00%
Inflation assumption	3.25%	2.80%
Mortality assumption	S2PXA CMI	S2PXA CMI

S2PXA CMI – for males and females projected on a year of birth basis using CMI (2016) projections with a long-term rate of improvement of 1.25% per annum with a plus 2 year age rating. The mortality assumptions imply the following life expectancies:

- *Male retiring at age 65 in 2017* 20.4
- *Female retiring at age 65 in 2017* 22.2
- *Male retiring at age 65 in 2037* 21.8
- *Female retiring at age 65 in 2037* 23.7

These assumptions were developed by management under consideration of expert advice provided by Barnett Waddingham, independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

No assumption is made with regard to the expected rate of salary increases as there are no members with benefits related to future salary progression.



Scheme assets

The assets held by the pension fund can be reconciled from the opening balance to the reporting date as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Fair value of plan assets at start of year	13,371	13,905
Interest income	432	421
Return on plan assets (excluding amounts included in net interest)	2,042	(277)
Contributions by the Group	221	210
Benefits paid	(1,169)	(888)
Fair value of plan assets at end of year	<u>14,897</u>	<u>13,371</u>
Actual return on plan assets	<u>2,474</u>	<u>144</u>

The Group expects to pay contributions of £232,000 in the year to 31 March 2018 and the weighted average duration of the defined benefit obligation is around 14 years.

Plan assets do not include any investment in shares of the Company. Plan assets can be broken down into the following major categories of investments:

Group	At 31 March 2017		At 31 March 2016	
	£000	%	£000	%
Diversified growth funds	9,311	62.5	8,959	67
Gilts and LDI funds	5,422	36.5	4,412	33
Liquid funds	164	1	-	-
Total value of assets	<u>14,897</u>	<u>100</u>	<u>13,371</u>	<u>100</u>

All equity and debt instruments have quoted prices in active markets (Level 1). Fair values of real estate investments do not have quoted prices and have been determined based on professional appraisals that would be classified as Level 3 of the fair value hierarchy as defined in IFRS 13 'Fair Value Measurement'. Level 3 valuations are sensitive to unobservable inputs.

Scheme expenses

Net interest income resulting from the Group's defined benefit plans was £9,000 (FY2016: £2,000 expense). The employee benefits expense for the period is £nil (FY2016: £nil). In the period the actual return on plan assets was £2,474,000 (FY2016: £144,000).

The remeasurement recorded in other comprehensive income is as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
--------------	--	--



(Gain)/loss on scheme assets in excess of interest	(2,042)	277
Experience losses	-	-
Gain from changes to demographic assumptions	(382)	-
Loss/(gain) from changes to financial assumptions	1,781	(415)
Total (gain) recognised in other comprehensive income	(643)	(138)

Sensitivity of the value placed on the liabilities

Reduce discount rate by 0.1% p.a.	£186,000
Increase inflation and related assumption by 0.1% p.a.	£138,000
Increase a long-term rate of longevity improvement by 0.25 p.a	£97,000
Apply a 90% loading to the mortality base table (reduces probability of death by 10% at each age)	£616,000

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

Risk mitigation strategies

The trustees invest the Plan's assets in combination of Liability-Sensitive assets and Return-Generating assets. The Liability-Sensitive assets are invested in a variety of LDI (Liability-Driven Investment) Funds. These funds invest in a combination of interest rate and inflation rate swaps in order to mimic the movement in expected cashflows of the Plan caused by changes in interest and inflation rates.

Effect of the Plan on Company's future cashflows

The most recent comprehensive actuarial valuation was carried out as at 1 January 2014. The actuarial valuation as at 1 January 2017 is currently underway. The result of the 2014 valuation were updated to 31 March 2017 by allowing for cashflows in and out of the Plan and changes to assumptions over the period. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing schedule of contributions. Conversely, if the position is better than expected contributions may be reduced.



29 Financial instrument risk

The Group's activities expose it to a variety of financial risks; foreign currency risk, credit risk, liquidity risk, cash flow risk and interest rate risk. The Group's overall risk management programmes focus on both credit risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's risk management is co-ordinated at its headquarters, in close co-operation with the Board of Directors, and focuses on actively securing the Group's and the Company's short to medium-term cash flows by minimising the exposure to financial markets.

While the Group does use derivatives in order to economically hedge its exposure to foreign currency risk and cash flow interest rate risk (see below) it does not engage in the trading of derivatives for speculative purposes nor does it write options. The most significant financial risks to which the Group and the Company are exposed are described below.

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

Foreign currency sensitivity

The Group operates in overseas markets and is subject to currency exposures of transactions undertaken during the period. Management's overarching objective is to minimise the extent of the Group's exposure to currency risk. In respect of transactional foreign currency risk the Group maintains a policy that all exposures on material committed transactions should be economically hedged as far as possible. The Group prepares rolling 12 month currency cash flow forecasts to enable currency exposures to be identified and then subsequently hedged.

The Group uses forward exchange contracts to hedge the impact on receipts and payments of the volatility in exchange rates of US Dollar and Euro to Pound Sterling. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2017 were £8.5 million (FY2016: £5.9 million). Hedge accounting is not applied in respect of these hedged transactions.

Derivative contracts are measured at fair value in the statement of financial position with movements in that fair value being recognised in profit or loss.

Currency exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved. The significant currency risk arises from contracts raised in US Dollars.



29 Risk management objectives and policies (continued)

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in the US Dollar/Pound Sterling exchange rate of +/-10%. These changes are considered to be reasonably possible based on observation of recent volatility in the currency markets. The calculations are based on a change in average US Dollar/Pound Sterling exchange rate for each period and the foreign currency denominated financial instruments held at each reporting date that are sensitive to changes in the US Dollar/Pound Sterling exchange rate. All other variables are held constant.

	Change in exchange rate	
	+10%	-10%
	£000	£000
Impact on profit in a 12 month period based on financial instruments held at:		
31 March 2017	(762)	932
31 March 2016	(546)	667

There is no impact on equity arising from foreign exchange fluctuations as the Group does not use hedge accounting. Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

The Company does not have any currency exposures.

Interest rate sensitivity

The Group's borrowings include loans that carry variable rates of interest and thus expose the Group to cash flow risk. The Group's policy is to minimise interest costs and changes in the market value of debt. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate for the Group. The Group has chosen to maintain the majority of its borrowings as floating in order to benefit from low current interest rates.

The Group has term borrowings of £9.2 million that have an effective fixed rate of interest. These borrowings relate to finance lease agreements (£3.6 million) and loan notes (£5.6 million). The remaining term borrowings of £12.9 million have a floating rate of interest based on LIBOR.



29 Risk management objectives and policies (continued)

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. The interest rate profile of the financial assets and liabilities of the Group at 31 March 2017 is as follows:

Group Interest rate profile	Fixed £000	Floating £000	Zero £000	Total £000
Receivables				
Trade and other receivables	-	-	23,311	23,311
Payables				
Trade and other payables	-	-	15,612	15,612
Bank loans	-	2,651	-	2,651
Amounts due under revolving credit facilities	-	11,477	-	11,477
Amounts due under finance lease agreements	3,649	-	-	3,649
Amounts due under loan notes agreements	5,572	-	-	5,572
	9,221	14,128	15,612	38,961
Cash	-	(1,235)	-	(1,235)
	9,221	12,893	15,612	37,726

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates of +/-0.5%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in average market interest rate for each period and the financial instruments held at each reporting date that are sensitive to changes in interest rates (i.e. net floating rate debt). All other variables are held constant.

	Change in interest rate	
	+0.5% £000	-0.5% £000
Impact on profit in a 12 month period based on financial instruments held at:		
31 March 2017	(64)	64
31 March 2016	(21)	21

The Company has minimal exposure to interest rate risk. It has interest bearing liabilities that are matched with interest bearing assets. It is exposed to interest rate risk on its financial assets being its cash at bank balances. The interest rate receivable on these balances is less than 0.5%. The Company gave careful consideration to which organisation it should use for its banking services and interest rates available was one aspect of the decision. The Directors currently believe that interest rate risk is at an acceptable level.

Credit risk analysis

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.



29 Risk management objectives and policies (continued)

The Group's most significant exposure to credit risk is in respect of the possibility of any individual customer being unable to settle their debts as they fall due or as a result of changes in the political landscape that impact the Group's ability to collect debts from an individual jurisdiction. The credit risk associated with customers and jurisdictions is considered as part of the tender review process and is addressed initially via contract payment terms and, where appropriate, payment security. In certain circumstances it may lead to a decision by the Group to cease trading with individual customers or customers from certain jurisdictions.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Classes of financial assets – carrying amounts		
Trade and other receivables	23,311	20,414
Cash and cash equivalents	1,235	5,135

The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. None of the Group's financial assets are secured by collateral or other credit enhancements.

Some of the unimpaired trade receivables are past due as at the reporting date. Financial assets past due but not impaired can be shown as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Not more than 3 months	73	13
More than 3 months but less than 6 months	3	4
More than 6 but less than 12 months	3	146
More than 12 months	85	4
	164	167

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered to be negligible since the counterparties are reputable banks with high quality external credit ratings.



29 Risk management objectives and policies (continued)

The Company's credit risk arises principally from the Company's cash balances and the balances due to it from other Group undertakings. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The concentration of the Company's credit risk is considered by counterparty, geography and currency. During the year ended and as at 31 March 2017 the Company held minimal cash balances. In addition, as at 31 March 2017 the Company had provided long-term intercompany funding to its subsidiaries of £14.2 million (FY2016: £14.6 million), the Company's management consider that these financial assets that are not impaired are of good credit quality.

Liquidity risk analysis

The Group, together with the Company, manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis as well as on the basis of a rolling 60-day forecast and a rolling 15-week projection. Long-term liquidity needs for a 365-day lookout period are identified quarterly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls.

The Group and the Company maintain cash and headroom to meet their liquidity requirements for 60-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of credit facilities and the ability to sell long-term investment in subsidiaries.

As at 31 March 2017, the liabilities that have contractual maturities (including interest payments where applicable) are summarised below:

	Group		Company	
	Current (<1 year) £000	Non-current (> 1 year) £000	Current	Non-current (> 1 year) £000
31 March 2017				
Trade payables	9,666	-	62	-
Accruals and other payables	3,637	-	104	-
Short-term bank borrowings	11,477	-	-	-
Finance lease liabilities	1,147	2,502	-	-
Bank loans	411	2,240	-	-
Loan notes	2,153	3,419	2,153	3,419
Owed to Group undertakings	-	-	-	-
31 March 2016				
Trade payables	10,376	-	91	-
Accruals and other payables	3,426	-	142	-
Short-term bank borrowings	6,200	-	-	-
Finance lease liabilities	429	1,212	-	-
Bank loans	859	2,203	-	-
Loan notes	(70)	2,941	(70)	2,941
Owed to Group undertakings	-	-	6	-



29 Risk management objectives and policies (continued)

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date. Where the counterparty has a choice of when an amount is paid the liability has been included on the earliest date on which payment can be required. The Directors are of the view that the fair value of borrowings approximate to their carrying value.

30 Capital management objectives

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk. The Group funds itself through equity and debt, which is defined as bank borrowings, loan notes and finance leases.

The Group's capital is represented by the carrying amount of equity as presented on the face of the statement of financial position. The Group's long-term goal in capital management is to maintain a balance of capital to overall financing in the range 40% to 60% while maintaining net debt to trading EBITDA below the Group's target KPI of less than 2.0:1. At 31 March 2017 capital represented 50% of overall financing (FY2016: 75%) and the Board will continue to monitor developments in the Group's capital over FY2018. The capital and overall financing for the reporting periods under review is summarised as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Total equity	22,378	25,808
Total equity	22,378	25,808
Net borrowings	22,114	8,639
Overall financing	44,492	34,447



31 Financial assets and liabilities

31.1 Categories of financial assets and liabilities

The carrying amounts presented in the financial statements relate to the following categories of assets and liabilities:

	Group		Company	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Financial assets				
Current:				
Loans and receivables:				
– Trade and other receivables	23,311	20,414	125	10,673
– Cash and cash equivalents	1,235	5,135	2,636	1,550
Financial liabilities				
Current:				
Financial liabilities measured at amortised cost:				
– Trade payables	9,666	10,376	62	91
– Borrowings	15,188	7,418	2,153	(70)
Finance liabilities measured at fair value:				
– Derivatives	302	292	-	-
Non-current				
Financial liabilities measured at amortised cost:				
– Borrowings	8,161	6,356	3,419	2,941

See note 2.23 for a description of the accounting policies for each category of financial instrument. The fair values are presented in the related notes. A description of the Group's risk management objectives and policies for financial instruments is given in note 29.



31.2 Derivatives financial instruments

The fair value of forward foreign currency contracts is calculated by reference to current market rates for contracts with similar maturity profiles.

The derivative financial liabilities can be summarised as follows:

Group	At 31 March 2017 £000	At 31 March 2016 £000
Forward exchange contracts	302	292
Fair value of derivative financial liabilities	<u>302</u>	<u>292</u>

The Group uses forward exchange contracts to mitigate exchange rate exposure arising from forecast sales and purchases US Dollars and Euro respectively.

In the period a loss of £10,000 (2016: £40,000) was recognised in the consolidated income statements.

The fair value measurements of all of the above derivative financial liabilities fall into Level 2 of the fair value hierarchy. Valuation has been obtained from an external valuation report which compares the contractual deal rate with the spot rate at the 31 March 2017.

31.3 Financial results by category of financial instruments

The financial results by category of financial instruments can be summarised as follows:

	Group	Company	
	Year to 31 March 2016 £000	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Loans and receivables – interest received	-	-	-
Financial liabilities measured at amortised cost – interest paid	(1,032)	(293)	(365)
Fair value movements on derivative financial instruments	(10)	-	-
	<u>(1,042)</u>	<u>(293)</u>	<u>(365)</u>



31.4 Borrowings

Borrowings comprise the following financial liabilities:

Group	Current		Non-current	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Financial liabilities measured at amortised cost:				
Bank borrowings and loans	14,041	6,989	5,659	5,144
Finance lease liabilities	1,147	429	2,502	1,212
	<u>15,188</u>	<u>7,418</u>	<u>8,161</u>	<u>6,356</u>

Company	Current		Non-current	
	At 31 March 2017 £000	At 31 March 2016 £000	At 31 March 2017 £000	At 31 March 2016 £000
Financial liabilities measured at amortised cost:				
Bank borrowings and loans	2,153	(70)	3,419	2,941
	<u>2,153</u>	<u>(70)</u>	<u>3,419</u>	<u>2,941</u>

The bank borrowings and loans are secured by fixed and floating charges over the Group assets. The rates of interest on these borrowings and loans are detailed in note 29. The above bank loans contain terms and conditions that are normal for the commercial banking market. A breakdown of net debt is given in note 23.



32 Related party transactions

The Group's related parties include its key management, post-employment benefit plans for the Group's employees and subsidiaries.

Unless otherwise stated, none of the transactions incorporate special terms and conditions. Outstanding balances are usually settled in cash.

Transactions with key management personnel

During the year the Group undertook transactions with key management personnel as set out below. Members of the Board of Directors are considered to be key management personnel.

Remuneration with key management personnel are disclosed in note 8 and in the Remuneration Committee's report.

Nicholas Flanagan and Ewan Lloyd-Baker have subscribed to the Hayward Tyler Group PLC £10 million secured loan note programme. Loan notes issued in the programme have a term range of between 1 and 4 years, and a coupon of between 6.75% and 7.0%. In the year ended 31 March 2017 Nicholas Flanagan received interest of £5,250 (FY2016: £5,264) on his subscription of £75,000. Ewan Lloyd-Baker received interest of £1,412 (FY2016: £1,053) on his subscription of £50,000. Loan note subscriptions were made on an arm's length basis.

During the year, the Group ordered machinery from Severn Drives & Energy Limited and Severn Subsea Technologies Limited, both of which Maurice Critchley is a Director. The total value of orders placed was £41,511 (FY2016: £1,385,180) and the amount billed in the year was £786,505 (FY2016: £377,730). This machinery was provided on an arm's length basis.

Transactions with post-employment benefit plans

The defined benefit plan referred to in note 28 is a related party to the Group.

The Group's transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 28. The Group has not entered into other transactions with the pension scheme, neither has it any outstanding balances at the reporting dates under review.



Transactions with subsidiaries

Transactions and balances within the Group have been eliminated on consolidation. Balances between the Company and its subsidiaries at the year-end were as follows:

Company	At 31 March 2017 £000	At 31 March 2016 £000
Amounts due from subsidiary undertakings:		
– Southbank UK Limited	7,457	6,982
– Hayward Tyler Group Limited	-	112
– Hayward Tyler Limited	6,669	5,508
– Peter Brotherhood Limited	-	1,865
– Redglade Investments Limited	22	-
– Nviro Cleantech Limited	-	-
– Vertus Cayman	-	-
– Nviro Cleantech Inc	-	-
– Vertus Technologies Industrial	-	-
	14,148	14,467
Amounts owed to subsidiary undertakings:		
– Nviro Cleantech Limited	-	(1)
	-	(5)
– Peter Brotherhood Limited	-	-
– Hayward Tyler Group Limited	-	-
	-	(6)

Amounts due from subsidiary undertakings represent intercompany funding. In the case of Southbank UK Limited funding has been provided to finance working capital, particularly for Hayward Tyler, and to finance debt repayments. Funding has been provided to Hayward Tyler Limited to finance the Centre of Excellence and working capital. Funding was provided to Peter Brotherhood Limited to fund the acquisition and support working capital. Amounts owed to subsidiary undertakings relate to trading balances. From 1 April 2014 the intercompany funding has been converted to loans at market rates of interest with varying terms of between one to three years.

33 Commitments

Group	At 31 March 2017 £000	At 31 March 2016 £000
Contracted for but not provided for	217	2,274
	217	2,274



34 Equity

Share capital

The share capital of Hayward Tyler Group PLC consists of fully paid ordinary shares with a par value of 1 pence per share. Shares authorised and issued are summarised below.

	At 31 March 2017 £000		At 31 March 2016 £000	
Authorised share capital:				
80,000,000 ordinary shares of 1p	800		800	
	<u>800</u>		<u>800</u>	
	At 31 March 2017		At 31 March 2016	
	No.	£000	No.	£000
Issued share capital:				
Allotted, called-up and fully paid				
At start of year	55,384,856	554	45,507,404	455
Issued in the Year	-	-	9,877,452	99
At end of year	<u>55,384,856</u>	<u>554</u>	<u>55,384,856</u>	<u>554</u>

Share premium

Share premium consists of proceeds received in addition to the nominal value of the shares issued, net of transaction costs.



35 Non-cash adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cashflow.

	Group		Company	
	£	£	£	£
Non-cash adjustments:				
Amortisation of intangibles	416	257	-	-
Depreciation of property, plant and equipment	2,162	1,144	-	-
Finance costs	1,185	619	293	365
Interest income	(9)	-	(853)	(825)
Share based payment	38	110	22	110
Deferred tax	(253)	(253)	-	-
Loss on disposal of property, plant and equipment	-	118	-	-
Total adjustments	<u>3,539</u>	<u>1,995</u>	<u>(538)</u>	<u>(350)</u>
Net changes in working capital:				
Movement in inventories	(1,108)	5,152	-	-
Movement in trade and other receivables	(3,899)	(4,785)	277	(4,084)
Movement in trade and other payables	387	(820)	(24)	(160)
Movement in provisions	(260)	569	-	-
	<u>(4,880)</u>	<u>116</u>	<u>253</u>	<u>(4,244)</u>