TI Fluid Systems plc - Half year results 2019

Released: 8 August 2019

TI Fluid Systems plc

Results for the six months ended 30 June 2019

TI Fluid Systems plc, a leading global manufacturer of automotive fluid storage, carrying and delivery systems for light vehicles announces its 2019 results for the six-month period ended 30 June 2019.

€m	**H1 2019***	H1 2018	**Change**	**% Change**	**% Change at constant currency**
Revenue	**1,708.1**	1,767.3	(59.2)	(3.3)%	(5.3)%
Adjusted EBITDA	**245.9**	256.3	(10.4)	(4.1)%	
Adjusted EBITDA Margin	*14.4%*	*14.5%*	*(0.1)%*		
Adjusted EBIT	**173.1**	200.8	(27.7)	(13.8)%	
Adjusted EBIT Margin	*10.1%*	*11.4%*	*(1.3)%*		
Profit for the Period	**59.9**	76.2	(16.3)	(21.4)%	
Adjusted Net Income	**64.5**	78.4	(13.9)	(17.7)%	
Adjusted Basic EPS (€ cents)	**12.4**	15.1	(2.7)	(17.9)%	
Adjusted Free Cash Flow	**16.8**	21.4	(4.6)	(21.5)%	
Dividend (€ cents)	**3.02**	3.02	—	—	

*Current year results include the impact of applying IFRS 16 whilst the prior year comparatives have not been restated.

Group Highlights:

- Successfully executing organic growth strategy in the fluid systems automotive market
  - Strategic investment in a new thermal products facility in Morocco to primarily supply electric vehicles (“EVs”)
  - Thermal product and system collaboration with key customers for EVs
  - First new business win with a Japanese customer using our fuel tank Integrated Transfer System (“ITS”) process technology for a large platform in North America
- Global light vehicle production volumes remain challenging
- Revenue was 5.3% lower period over period, at constant currency and outperformed global light vehicle production volumes by 1.4%
- Adjusted EBIT margin primarily impacted by lower volumes, particularly in Fluid Carrying Systems (“FCS”) with a weak China environment and cost increases in Europe
- Business strength through ongoing cash generation. Adjusted Free Cash Flow of €16.8 million
- Strong balance sheet. Secured term loan pay down with a €50 million voluntary payment in March 2019
- 2019 interim dividend of 3.02 euro cents per share, maintained at 2018 level, which could represent a full year pay-out in excess of our 30% of Adjusted Net Income dividend policy (and dividend cover of 4.1 x Adjusted Basic EPS)
- Capital Markets Event on 24 September 2019

William L. Kozyra, Chief Executive Officer and President, commented:

“The first six months of 2019 represent steady progress in our organic growth strategy for fluid systems with the award of a high volume fuel tank programme in North America. We also continue to invest in the business with our new thermal products facility in Morocco to primarily supply EVs. We are well positioned on EVs with new collaboration projects with key customers, including in China, to reduce weight, and maximise power density in the vehicle through thermal products and systems. The Group remains well positioned for the automotive megatrends of reduced emissions and electrification.

The Group continued to outperform global light vehicle production, however, the global automotive market remains challenging. We are confident in our strategy, business model, operating flexibility and strength in our ability to generate strong free cash flow in 2019.”

Outlook

For 2019, we expect revenue to outperform global light vehicle production volume levels excluding the impact of currency movements, although we expect this revenue outperformance for the year to be lower than the prior year.

Despite the challenging automotive environment and, with our excellent operating flexibility we expect our full year Adjusted EBIT margin to be in-line with, to slightly weaker than H1 2019. Additionally, we expect Adjusted Free Cash Flow to be strong but lower than the prior year.

We expect full year net leverage to be consistent with the prior year through strong free cash flow generation.

Results presentation

TI Fluid Systems plc will host a presentation for analysts and investors at 8:30am UK time on 8 August 2019 at the offices of FTI Consulting, 200 Aldersgate Street, London EC1A 4HD.

Analysts wishing to attend should contact FTI Consulting to register. Analysts unable to attend in person may listen to the presentation live by using the details below.

Conference Call Dial-In Details:
UK: +44 (0) 330 336 9105
Conference Code: 9822076

The presentation will be available at 7:00am UK time from www.tifluidsystems.com. An audio recording will be available on our website in due course.

Capital Markets Event

As a reminder, TI Fluid Systems plc is hosting a Capital Markets Event in London at 2:00pm UK time on 24 September 2019.

The event will be hosted by Bill Kozyra, CEO and Timothy Knutson, CFO, and will include product demonstrations as well as presentations from our Executive Vice Presidents of our two segments, Fluid Carrying Systems ("FCS") and Fuel Tank and Delivery Systems ("FTDS").

Enquiries

TI Fluid Systems plc
Alpna Amar
Investor Relations
Tel: +44 (0)1865 871824

FTI Consulting
Richard Mountain
Nick Hasell
Tel: +44 (0)20 37271340

Chief Executive Officer's review:

We are pleased to report a solid first half performance despite the challenging global vehicle production environment. The Group demonstrated its resilience to the prevailing automotive market conditions by maintaining financial performance with solid double-digit margins and positive cash flow.

The Group continued to execute on its organic growth strategy in fluid systems with the investment in a new FCS facility in Morocco primarily supplying EV platforms. We are also well positioned on EVs with new collaboration projects with key customers on thermal products and systems. In the FTDS segment, one of our key business awards was a large platform in North America with a global leading Japanese Original Equipment Manufacturer ("OEM") for the supply of fuel tanks, a significant number of which are for hybrid electric vehicles ("HEVs").

Half Year 2019 Performance

In the six months to 30 June 2019, global light vehicle production volumes continued to decline in all markets and reached 45.2 million vehicles, representing a 6.7% decrease compared to the first half of 2018. We continued to outperform global vehicle production volumes with a focus on operating flexibility, profitability and cash flow generation.

We generated revenue of €1,708.1 million (-5.3% at constant currency), Adjusted EBIT of €173.1 million (10.1% margin), Adjusted Net Income of €64.5 million and Adjusted Free Cash Flow of €16.8 million.

Strategy Update

The Group's strategic focus is to continue our success as a leading global manufacturer of highly engineered fluid storage, carrying and delivery systems for light vehicles. We continued to benefit from our operational flexibility during the first half of 2019 and had success in executing on our strategy.

We continue to invest in our global footprint. As the automotive industry develops in Morocco, the Group recently set up a new facility in Tangier, Morocco to supply global OEMs with thermal products primarily for EVs. The 7,700 square metre facility expands the Group's extrusion capabilities, expertise and capacity.

The new facility will support the launch of the two significant EV awards for the supply of thermal products that were announced in August 2018. As a reminder, the total lifetime revenue opportunity of the thermal awards with these two European OEMs is estimated at €700 million based on customer planning volumes. Production is expected to launch in 2020 for the first of these platforms.

The Group's investment in Morocco provides logistics savings as well as a competitive cost structure. Our expectation is that the business in Morocco will continue to grow with the strength of our longstanding global customers which value Morocco's competitive export focus and strategic location. The facility marks the Group's second location in Morocco.

The Group further advanced its strategic position with additional thermal collaboration projects with key customers for the design and engineering of thermal products for EVs. The projects are across different regions including China. We continue to work with the OEMs to reduce weight, and maximise power density in the vehicle through thermal product and systems.

These thermal products offer a flexible solution to customers that overall enhances vehicle performance and battery life. We will supply these thermal products to OEMs in various configurations including lightweight nylon. The multi-layer tubes will be engineered to customer specifications including vehicle routing requirements.

Our ongoing thermal collaboration work is further validating our electrification growth strategy with the increasing addressable market and ability to obtain strong market share positions as the EV market develops.

The Group also recently won a notable programme with a Japanese OEM in North America for the supply of plastic fuel tanks, which utilise the Group's Integrated Transfer System ("ITS") technology. The ITS technology is used to support robustness, reduce slosh and integrate components into the tanks. The total lifetime units of these fuel tanks is estimated at 710,000 based on customer planning volumes. A significant number of these tanks are for HEVs.

The Group continues to invest in its fluid management portfolio to include advanced products that are required to reduce emissions and improve fuel economy in vehicles.

We believe the Group's customer relationships, global footprint and reputation as a leading fluid systems provider has contributed to thermal EV collaboration agreements, HEV and EV production contracts and will support continued growth in these markets. We look forward to making further progress in the remainder of 2019 and beyond.

Chief Financial Officer's Report:

The Group delivered a resilient performance in the first half of 2019 despite a softening light vehicle production environment. Revenues decreased by 5.3% period over period on a constant currency basis to €1.7 billion and exceeded the decline in global light vehicle production by 1.4%.

If we include the impact of currency, our revenue decreased by 3.3% period over period.

We generated Adjusted EBIT of €173.1 million with a margin of 10.1%, a reduction of 130 basis points from the prior period mainly due to lower volumes in FCS particularly in China as well as increased costs in Europe, which are yet to be offset. Profit for the period was €59.9 million compared to €76.2 million in the first half of 2018. We delivered Adjusted Net Income of €64.5 million for the half year, compared to €78.4 million in the comparative period. Adjusted Basic EPS was 12.4 euro cents, compared to 15.1 euro cents in the prior year. The Group also achieved positive Adjusted Free Cash Flow of €16.8 million, compared to €21.4 million in the first half of 2018.

Table 1: Key performance measures €m

	H1 2019	H1 2018	**Change**	**% Change**	**% Change at constant currency**
Revenue	**1,708.1**	1,767.3	(59.2)	(3.3)%	(5.3)%
Adjusted EBITDA	**245.9**	256.3	(10.4)	(4.1)%	
Adjusted EBITDA Margin	***14.4%***	*14.5%*	*(0.1)%*		
Adjusted EBIT	**173.1**	200.8	(27.7)	(13.8)%	
Adjusted EBIT Margin	***10.1%***	*11.4%*	*(1.3)%*		
Profit for the Period	**59.9**	76.2	(16.3)	(21.4)%	
Adjusted Net Income	**64.5**	78.4	(13.9)	(17.7)%	
Adjusted Basic EPS (€ cents)	**12.4**	15.1	(2.7)	(17.9)%	
Adjusted Free Cash Flow	**16.8**	21.4	(4.6)	(21.5)%	

The new accounting standard for Leases, IFRS 16, was adopted from 1 January 2019. The Group has applied the modified retrospective approach and therefore has not restated its comparative figures. Accordingly, some of the key performance measures presented above and in this report are not comparable with the prior year period. Table 8 details the impact of IFRS 16 on individual line items.

Automotive Markets

Global light vehicle production volume remains the most significant factor in our financial performance.

Global light vehicle production volumes continue to soften, and were down by 6.7% in the first half of 2019 to 45.2 million vehicles compared to the prior year as shown in table 2.

Table 2: Global light vehicle production volumes: millions of units

	H1 2019	% Change
Europe, including Middle East and Africa	**12.2**	(8.4)%
Asia Pacific	**22.8**	(7.5)%
North America	**8.5**	(2.5)%
Latin America	**1.7**	(3.1)%
Total global volumes	**45.2**	(6.7)%

Source: IHS Markit, July 2019 and Company estimates.
Change percentages calculated using unrounded data.

Revenue

Our revenue in each of the regions and by segment is included in table 3.

Table 3: Revenue by region and by segment €m

	H1 2019	H1 2018	Change	% Change	% Change at constant currency
Total Group Revenue	**1,708.1**	1,767.3	(59.2)	(3.3)%	(5.3)%
By Region					
Europe and Africa	**705.7**	735.5	(29.8)	(4.0)%	(3.9)%
Asia Pacific	**487.1**	505.7	(18.6)	(3.7)%	(4.7)%
North America	**480.9**	488.5	(7.6)	(1.6)%	(8.1)%
Latin America	**34.4**	37.6	(3.2)	(8.5)%	1.7 %
By segment					
Fluid Carrying Systems ("FCS")	**964.2**	1,042.8	(78.6)	(7.5)%	(9.5)%
Fuel Tank and Delivery Systems ("FTDS")	**743.9**	724.4	19.5	2.7 %	0.9 %

Group revenue in the first half of 2019 was €1.7 billion, a decrease of 5.3% period over period at constant currency and 1.4% above the reduction in global light vehicle production. Favourable exchange movements resulted in revenue being 3.3% lower than the first half of last year.

The weakness in the global vehicle production market in the second half of 2018, extended to the first half of 2019. It has impacted all major regions, including, most notably for us China. However, the Group continued to outperform global light vehicle production in this period. Our revenue outperformance was driven by new business awards and launches particularly in the FTDS segment.

In Europe and Africa, revenue at constant currency was 3.9% lower than the prior period and outperformed light vehicle production in the region by 4.5%. Europe and Africa light vehicle production declined by 8.4%. Revenue outperformance was primarily due to new business and favourable programme ramp impacts.

In Asia Pacific, revenue at constant currency declined by 4.7% and outperformed light vehicle production in the region by 2.8%. Asia Pacific light vehicle production declined by 7.5%. Volumes in China continued to decline in the first half of 2019. China accounted for 17% of the Group's revenue. The decline was particularly prevalent in the FCS segment where the Group has had a long-standing market position for multiple decades in its brake and fuel line business. This decline was partially offset by new fuel tank business in the FTDS segment.

In North America, revenue at constant currency was 8.1% lower than the prior period, or 5.6% below light vehicle production volume. North America light vehicle production declined by 2.5%. Revenue was adversely impacted by lower activity compared to the first half of 2018 and customer platform relocations, which has partially contributed to the market outperformance in other regions.

FCS revenue declined by 9.5% from the prior period to €964 million. The FCS segment was particularly impacted by the slowdown in China as well as the lower activity in North America. FTDS revenue increased by 0.9% to €744 million. With the increased regulations in China focussed on reducing emissions in certain cities, the segment was able to benefit from higher demand for reduced emission fuel tanks.

Currency exchange rates had a net favourable impact of €36 million on revenue compared to the prior period. This was mostly due to weakening of the Euro against a number of key currencies in countries where the Group manufactures. Accordingly, revenue declined by 3.3% to €1,708 million at reported rates. Table 5 sets out the movement in exchange rates.

Adjusted EBITDA*, Adjusted EBIT* and Profit for the Period

We use several financial measures to manage our business, including Adjusted EBITDA and Adjusted EBIT, which are non-IFRS measures, but are measures of profitability that have been used consistently by the Group and as metrics in certain of our compensation plans. Table 4 shows a reconciliation between Profit for the period, Adjusted EBITDA and Adjusted EBIT.

Table 4: Calculation of Adjusted EBITDA* and Adjusted EBIT* €m

	H1 2019	H1 2018
Profit for the period	**59.9**	76.2
Income tax expense	**33.5**	47.8
Profit before tax	**93.4**	124.0
Net finance expense	**30.1**	31.1
Share of profit of associates	**(0.1)**	(0.2)
Operating profit	**123.4**	154.9
Depreciation and impairment of PP&E	**67.4**	50.2
Amortisation and impairment of intangible assets	**49.0**	47.6
Share of profit of associates	**0.1**	0.2
EBITDA	**239.9**	252.9
Net foreign exchange (gains)/losses	**(0.9)**	2.4
Dividend received from associates	**0.5**	0.2
Restructuring costs	**6.5**	1.0
Share of profit of associates	**(0.1)**	(0.2)
Adjusted EBITDA	**245.9**	256.3
Less:		
Depreciation and impairment of PP&E	**(67.4)**	(50.2)
Amortisation and impairment of intangible assets	**(49.0)**	(47.6)
Add back:		
Depreciation uplift arising on purchase accounting	**7.5**	7.1
Amortisation uplift arising on purchase accounting	**36.1**	35.2
Adjusted EBIT	**173.1**	200.8

* See Non - IFRS measures

Our Adjusted EBITDA and Adjusted EBIT margins were both impacted by lower revenue. The adoption of IFRS 16 had a €17.5 million positive impact on Adjusted EBITDA.

Adjusted EBIT was €173 million (H1 2018: €201 million) and Adjusted EBIT margin was 10.1% (H1 2018: 11.4%). The Group continues to manage its costs in line with volumes in order to minimise the margin impact.

While we continued to see increases in costs especially in Europe, we were able to largely offset these with customer pricing and operational efficiencies. The Group continues to work on recovering costs including those related to trade tariffs.

By segment, FCS Adjusted EBIT was €100 million with Adjusted EBIT margin of 10.4%. FCS continues to achieve strong double digit margins in difficult market conditions. The period over period decline of 2.2% reflected the volume reduction primarily in China where the segment is strongly positioned with global OEMs. In addition, FCS was impacted by increased costs in Europe which have yet to be offset.

FTDS Adjusted EBIT increased by €4 million to €73 million with Adjusted EBIT margin of 9.8%. The slight increase in margin reflects the strong operational performance and mix as well as the increasing complexity of products being launched to meet more stringent emission requirements.

Profit for the period decreased by €16 million to €60 million, because of lower revenue.

Table 5: Exchange Rates

Table 5 shows the movement in exchange rates for currencies most relevant to our operations:

Key euro exchange rates	**H1 2019 Average**	H1 2018 Average	% Change	**30 June 2019 period end**	30 June 2018 period end	% Change
US dollar	**1.130**	1.210	(6.6)%	**1.137**	1.169	(2.7)%
Chinese renminbi	**7.664**	7.707	(0.6)%	**7.804**	7.737	0.9 %
South Korean won	**1,294**	1,303	(0.7)%	**1,313**	1,303	0.8 %

Net Foreign Exchange Gains/(Losses)

Net foreign exchange gains were €0.9 million in the first half of 2019 compared to losses of €2.4 million in the first half of 2018. Foreign exchange gains include non-trade items related to foreign currency translation and fair value movement in foreign exchange forward contracts. We aim to naturally hedge our operational transactions by earning revenues and incurring costs in the same currency to the extent possible, but will engage in forward foreign exchange contracts to the degree necessary to mitigate our exposure.

Net Finance Expense

Net finance expense for the period was €30.1 million, a decrease of €1.0 million, or 3.2% compared with the prior period. This was due to the interest savings following the repayment of the 8.75% unsecured senior notes in July

2018, and the repayment of a further €50 million in March 2019. This decrease was offset by €4.9 million of interest on lease liabilities, which has been recognised following the adoption of IFRS 16.

Taxation

Income tax expense before exceptional items was €33.5 million, a year over year decrease of €14.3 million primarily due to a year over year decrease in profit and the release of provisions for specific uncertain tax positions during the period. There was a partial release in both 30 June 2018 and 30 June 2019 with a greater amount released in 30 June 2019.

The H1 2019 Adjusted Effective Tax Rate is 31.0% (2018: 30.4%). The Adjusted Effective Tax Rate was calculated by adjusting for the impact of UK book losses and the prior year tax adjustments.

In the six months to 30 June 2019 there was no material impact on the income tax charge due to the adoption of IFRS 16.

Adjusted Net Income*

Adjusted Net Income is a component of the Adjusted Basic EPS calculation and is also used to guide our dividend calculation. The calculation of Adjusted Net Income is shown in table 6a.

Table 6a: Adjusted Net Income* €m

	H1 2019	H1 2018
Adjusted EBITDA (see table 4)	**245.9**	256.3
Less:		
Net finance expense before exceptional items	**(30.1)**	(31.1)
Income tax expense before exceptional items	**(33.5)**	(47.8)
Depreciation and impairment of PP&E	**(67.4)**	(50.2)
Amortisation and impairment of intangible assets	**(49.0)**	(47.6)
Non-controlling interests share of profit	**(1.4)**	(1.2)
Adjusted Net Income	**64.5**	78.4

Table 6b: Reconciliation of Profit for the Period to Adjusted Net Income* €m

	H1 2019	H1 2018
Profit for the period	**59.9**	76.2
Less:		
Non-controlling interests share of profit	**(1.4)**	(1.2)
Net foreign exchange (gains)/losses	**(0.9)**	2.4
Add back:		
Restructuring costs	**6.5**	1.0
Associate income less dividend received	**0.4**	—
Adjusted Net Income	**64.5**	78.4

*See Non-IFRS measures

Adjusted Net Income was €64.5 million in the first half of 2019, a decrease of 17.7% from €78.4 million in the first half of 2018, primarily driven by lower profit for the period, arising from lower revenue. The Group incurred restructuring costs of €6.5 million in the period primarily related to operations in Europe and North America.

Adjusted Basic EPS*

Adjusted Basic Earnings per Share ("EPS") calculation is based on Adjusted Net Income and the 520.3 million shares in issue at 30 June 2019 (H1 2018: 519.4 million).

Accordingly, the Adjusted Basic EPS in the first half of 2019 was 12.4 euro cents per share, compared to 15.1 euro cents in the first half of 2018.

*See Non-IFRS measures

Dividend

The Board's dividend policy has been to target an annual dividend of approximately 30% of Adjusted Net Income, one third payable following half year results and two thirds following the Group's final results.

The Board has considered the 2019 interim dividend and in view of the continued strong cash generation and business confidence in the Group, the Board has decided to maintain the 2019 interim dividend of 3.02 euro cents per share at the same level as the 2018 interim dividend. This amounts to €15.7 million and could represent a full year pay-out in excess of the 30% of Adjusted Net Income dividend policy. This also represents a dividend cover of 4.1 x Adjusted Basic EPS.

The interim dividend will be paid on 27 September 2019 to shareholders on the register on 15 August 2019. The dividend will be converted to Sterling at a fixed rate on 16 August 2019, the Dividend Record Date.

Adjusted Free Cash Flow*

We also use Adjusted Free Cash Flow as an operating measure of our cash flows.

Table 7a: Adjusted Free Cash Flow* €m

	H1 2019	H1 2018
Net cash generated from operating activities	**106.2**	88.8
Net cash used by investing activities	**(86.3)**	(70.5)
Free Cash Flow	**19.9**	18.3
Add back:		
IPO costs (included in net cash generated from operations)	**—**	3.1
Deduct:		
Cash received on settlement of derivatives	**(2.8)**	—
Amounts received in cash from Financial Assets at FVTPL (included in net cash generated from operations)	**(0.3)**	—
Adjusted Free Cash Flow	**16.8**	21.4

Table 7b: Reconciliation of Adjusted EBITDA to Adjusted Free Cash Flow* €m

	H1 2019	H1 2018
Adjusted EBITDA (see note 2)	**245.9**	256.3
Less:		
Net cash interest paid	**(30.8)**	(28.5)
Cash taxes paid	**(45.6)**	(46.7)
Payment for property, plant and equipment	**(59.5)**	(49.0)
Payment for intangible assets	**(28.5)**	(22.5)
Movement in working capital	**(56.6)**	(89.9)
Movement in retirement benefit obligations	**(0.7)**	(1.0)
Exceptional cash paid (IPO and restructuring)	**—**	3.1
Movement in provisions and other	**(4.3)**	(3.5)
Free Cash Flow	**19.9**	18.3
Add back:		
IPO cash costs in Net Cash from Operations	**—**	3.1
Less:		
Cash received on settlement of derivatives	**(2.8)**	—
Amounts received in cash from Assets at FVTPL	**(0.3)**	—
Adjusted Free Cash Flow	**16.8**	21.4

*See Non-IFRS measures

In the first half of 2019, we generated Adjusted Free Cash Flow of €16.8 million, a decrease of €4.6 million on the prior year. The adoption of IFRS had a positive €12.6 million impact on Adjusted Free Cash Flow. The Adjusted EBITDA generated by the Group was used to fund increased investment in capital equipment and intangibles. There was a €10.5 million increase in property, plant and equipment expenditure compared to the first half of 2018. This primarily related to investment in our EV strategy as well as supporting the Group's launch activity plans. The increase was offset by lower working capital outflows due to lower revenue and an increased focus on working capital management.

Retirement Benefits

We operate funded and unfunded defined benefit schemes across multiple jurisdictions with the largest being the US pension and retiree healthcare schemes. We also have significant schemes in the UK, Canada and Germany. While all of our significant plans are closed to new entrants, a few allow for future accruals. Our schemes are subject to periodic actuarial valuations. Our net unfunded position increased by €3.6 million to €151.8 million at the end of June 2019 principally due to a decrease in discount rates and increase in service costs.

Net Debt and Net Leverage

Net debt as at 30 June 2019 was €854.0 million, an increase of €32.5 million from 31 December 2018. In March 2019, the Group made a voluntary payment of $56.5 million (€50.0 million) against its USD term loan using cash from operations. The Group's net leverage ratio, which was reduced to 1.7 times Last Twelve Months ("LTM") Adjusted EBITDA in December 2018, increased slightly to 1.8 times as at 30 June 2018.

The Group excludes IFRS 16 lease liabilities from its net debt and net leverage ratio. If the IFRS 16 lease liabilities were to be included, the Group's net debt would be €1.0 billion and net leverage ratio would be 2.1 times LTM Adjusted EBITDA.

Liquidity and Going Concern

Our principal sources of liquidity have historically been cash generated from operating activities and amounts available under our credit facilities, that currently consist of a revolving facility under our cash flow credit agreement of $125 million (€109.9 million) and an asset backed loan ("ABL") facility of $100 million (€87.9 million). The availability under both facilities as of 30 June 2019 was €191.2 million.

The directors have concluded after reviewing the future funding requirements for the Group over the next 12 months by reference to the headroom on the committed banking facilities and the expected performance of the Group, that it is appropriate for the financial statements to be prepared on a going concern basis.

Principal Risks and Uncertainties

The Directors consider that the nature of the principal risks and uncertainties, which may have a material effect on the Group's performance during the remainder of the financial year, remain unchanged from those identified in the 2018 Annual Report and Accounts available on our website www.tifluidsystems.com.

Non-IFRS Measures

In addition to the results reported under IFRS, we use certain non-IFRS financial measures to monitor and measure performance of our business and operations and the profitability of our divisions. In particular, we use Adjusted EBIT, Adjusted EBITDA, Adjusted Net Income, Adjusted Basic EPS, Adjusted Free Cash Flow and Adjusted Effective Tax Rate. These non-IFRS measures are not recognised measurements of financial performance or liquidity under IFRS, and should be viewed as supplemental and not replacements or substitutes for any IFRS measures. Such measures are also utilised by the Board of Directors as targets in determining compensation of certain executives and key members of management.

Adjusted EBITDA is defined as profit for the period adjusted for income tax expense, net finance expense, depreciation, amortisation and impairment of PP&E and intangible assets, net foreign exchange gains/(losses), restructuring costs and adjustment for associate income.

Adjusted EBIT is defined as Adjusted EBITDA less depreciation (including PP&E impairment) and amortisation (including intangible impairment) arising on tangible and intangible assets before adjusting for any purchase price adjustments to fair values arising on acquisitions.

Adjusted Net Income is defined as Adjusted EBITDA less net finance expense before exceptional items, income tax expense before exceptional items, depreciation and amortisation (including PP&E and intangible asset impairments) and non-controlling interests share of profit.

Adjusted Basic EPS is defined as Adjusted Net Income divided by the number of shares outstanding at the reference date.

Adjusted Free Cash Flow is defined as cash generated from operating activities, less cash used by investing activities, adjusted for acquisitions, movements in financial assets at fair value through the profit and loss, cash payments related to IPO costs and cash received on settlement of derivatives.

Adjusted Income Tax before Exceptional items is defined as Income tax before Exceptional Items adjusted for the tax impact of prior year tax provisions and adjustments.

Adjusted Profit before Income Tax is defined as profit before income tax adjusted for UK losses.

Adjusted Effective Tax Rate is defined as Adjusted Income Tax before Exceptional Items as a percentage of Adjusted Profit before Income Tax.

Cautionary Statement

Impact of adopting IFRS 16: Leases

Reconciliations of key performance metrics have been shown where appropriate to demonstrate the underlying performance on a like-for-like basis.

Table 8: Impact on 2019 results from adopting IFRS 16 €m

	Pre-IFRS Basis	IFRS 16 Basis	Net Impact
Income statement			
Revenue	—	—	—
Depreciation and impairment of PP&E	—	(14.7)	(14.7)
Uncapitalised lease costs	(22.3)	(4.8)	17.5
Operating profit	(22.3)	(19.5)	2.8
Net finance expense	—	(4.9)	(4.9)
Profit before income tax	**(22.3)**	**(24.4)**	**(2.1)**
Balance Sheet			
Right-of-use assets	—	147.2	147.2
Borrowings	(2.0)	—	2.0
Lease liabilities	—	(149.9)	(149.9)
Total Balance Sheet Impact	**(2.0)**	**(2.7)**	**(0.7)**
Cash Flow Statement			
Operating profit	(22.3)	(19.5)	2.8
Depreciation and impairment of PP&E	—	14.7	14.7
Interest paid	—	(4.9)	(4.9)
Lease principal repayments	(0.2)	(12.8)	(12.6)
Total cash outflow	**(22.5)**	**(22.5)**	**—**
Other Key performance measures			
Adjusted EBITDA	228.4	245.9	17.5
Adjusted EBITDA margin	13.4%	14.4%	1.0%
Adjusted EBIT	170.3	173.1	2.8
Adjusted EBIT Margin	10.0%	10.1%	0.1%
Adjusted Net Income	66.6	64.5	(2.1)
Adjusted Basic Earnings per Share (€ cents)	12.8	12.4	(0.4)
Adjusted Free Cash Flow	4.2	16.8	12.6

Report on the consolidated interim financial statements

Our conclusion

We have reviewed TI Fluid Systems plc's consolidated interim financial statements (the "interim financial statements") in the interim report of TI Fluid Systems plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and IFRS as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
7 August 2019

Directors' Responsibility Statement

The Directors of the Company confirm that these half year condensed group financial statements have been prepared in accordance with the basis of preparation (Note 1.1) and that they include a fair review of the information required, namely:

- An indication of important events that have occurred during the first six months and their impact on the half year condensed group financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report for the year ended 31 December 2018.

By order of the Board

William L Kozyra
President and CEO
7 August 2019

Timothy J Knutson
Chief Financial Officer
7 August 2019

TABLE OF CONTENTS

Half Year Condensed Group Financial Statements

Consolidated Income Statement

For the half year ended 30 June

Continuing operations	Notes	Unaudited 2019 €m	Unaudited 2018 €m
Revenue	2	**1,708.1**	1,767.3
Cost of sales		**(1,460.9)**	(1,478.6)
Gross profit		**247.2**	288.7
Distribution costs		**(47.5)**	(52.8)
Administrative expenses		**(84.6)**	(82.2)
Other income		**7.4**	3.6
Net foreign exchange gains/(losses)		**0.9**	(2.4)
Operating profit		**123.4**	154.9
Finance income	3	**6.0**	3.9
Finance expense	3	**(36.1)**	(35.0)
Net finance expense	3	**(30.1)**	(31.1)
Share of profit of associates		**0.1**	0.2
Profit before income tax		**93.4**	124.0
Income tax expense	4	**(33.5)**	(47.8)
Profit for the period		**59.9**	76.2
Profit for the period attributable to:			
Owners of the Parent Company		**58.5**	75.0
Non-controlling interests		**1.4**	1.2
		59.9	76.2
Total earnings per share (euro cents)			
Basic	5	**11.25**	14.51
Diluted	5	**11.24**	14.45

Consolidated Statement of Comprehensive Income

For the half year ended 30 June

	Notes	**Unaudited 2019 €m**	Unaudited 2018 €m
Profit for the period		**59.9**	76.2
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
– Re-measurements of retirement benefit obligations	12	**(1.5)**	19.4
– Income tax expense on retirement benefit obligations	4	**—**	(4.7)
		(1.5)	14.7
Items that may be subsequently reclassified to profit or loss			
– Currency translation		**6.8**	12.5
– Cash flow hedges		**1.9**	(2.0)
– Net investment hedges		**4.5**	1.2
		13.2	11.7
Other comprehensive income for the period, net of tax		**11.7**	26.4
Total comprehensive income for the period		**71.6**	102.6
Attributable to:			
– Owners of the Parent Company		**70.8**	101.7
– Non-controlling interests		**0.8**	0.9
Total comprehensive income for the period		**71.6**	102.6

Consolidated Balance Sheet

	Notes	Unaudited 30 June 2019 €m	31 December 2018 €m
Non-current assets			
Intangible assets	7	**1,201.1**	1,229.8
Right-of-use assets	9	**147.2**	—
Property, plant and equipment	8	**701.1**	706.5
Investments in associates		**18.7**	19.6
Derivative financial instruments	11	**6.4**	5.4
Deferred income tax assets		**30.8**	34.9
Trade and other receivables		**15.8**	14.8
		2,121.1	2,011.0
Current assets			
Inventories		**393.0**	352.8
Trade and other receivables		**595.8**	578.3
Current income tax assets		**6.1**	4.4
Derivative financial instruments	11	**7.0**	8.5
Financial assets at fair value through profit and loss		**0.9**	1.2
Cash and cash equivalents		**285.3**	360.1
		1,288.1	1,305.3
Total assets		**3,409.2**	3,316.3
Equity			
Share capital		**6.8**	6.8
Share premium		**2.2**	1.4
Other reserves		**(112.5)**	(126.3)
Accumulated profits		**1,204.3**	1,175.7
Equity attributable to owners of the Parent Company		**1,100.8**	1,057.6
Non-controlling interests		**22.6**	22.5
Total equity		**1,123.4**	1,080.1
Non-current liabilities			
Trade and other payables		**13.5**	17.1
Borrowings	10	**1,137.8**	1,179.3
Lease liabilities	9	**111.6**	—
Derivative financial instruments	11	**28.6**	45.3
Deferred income tax liabilities		**130.8**	141.6
Retirement benefit obligations	12	**151.8**	148.2
Provisions	13	**4.9**	4.9
		1,579.0	1,536.4
Current liabilities			
Trade and other payables		**584.5**	608.4
Current income tax liabilities		**56.3**	60.2
Borrowings	10	**2.4**	4.4
Lease liabilities	9	**38.3**	—
Derivative financial instruments	11	**2.8**	2.8
Provisions	13	**22.5**	24.0
		706.8	699.8
Total liabilities		**2,285.8**	2,236.2
Total equity and liabilities		**3,409.2**	3,316.3

Consolidated Statement of Changes in Equity

For the half year ended 30 June

(Unaudited)	**Ordinary shares €m**	**Share premium €m**	**Other reserves €m**	**Accumulated profits €m**	**Total €m**	**Non-controlling interests €m**	**Total equity €m**
Balance at 1 January 2019	**6.8**	**1.4**	**(126.3)**	**1,175.7**	**1,057.6**	**22.5**	**1,080.1**
Profit for the period	**—**	**—**	**—**	**58.5**	**58.5**	**1.4**	**59.9**
Other comprehensive income/(expense) for the period	**—**	**—**	**13.8**	**(1.5)**	**12.3**	**(0.6)**	**11.7**
Total comprehensive income for the period	**—**	**—**	**13.8**	**57.0**	**70.8**	**0.8**	**71.6**
Share-based expense	**—**	**—**	**—**	**2.5**	**2.5**	**—**	**2.5**
Dividends paid	**—**	**—**	**—**	**(30.9)**	**(30.9)**	**(0.7)**	**(31.6)**
Shares issued	**—**	**0.8**	**—**	**—**	**0.8**	**—**	**0.8**
Balance at 30 June 2019	**6.8**	**2.2**	**(112.5)**	**1,204.3**	**1,100.8**	**22.6**	**1,123.4**

(Unaudited)	Ordinary shares €m	Share premium €m	Other reserves €m	Accumulated profits €m	Total €m	Non-controlling interests €m	Total equity €m
Balance at 1 January 2018	6.8	404.3	(130.5)	640.9	921.5	20.3	941.8
Profit for the period	—	—	—	75.0	75.0	1.2	76.2
Other comprehensive income/(expense) for the period	—	—	12.0	14.7	26.7	(0.3)	26.4
Total comprehensive income for the period	—	—	12.0	89.7	101.7	0.9	102.6
Share-based expense	—	—	—	1.3	1.3	—	1.3
Dividends paid	—	—	—	(6.8)	(6.8)	(0.2)	(7.0)
Capital reduction	—	(404.3)	—	404.3	—	—	—
Balance at 30 June 2018	6.8	—	(118.5)	1,129.4	1,017.7	21.0	1,038.7

Consolidated Statement of Cash Flows

For the half year ended 30 June

	Notes	**Unaudited 2019 €m**	Unaudited 2018 €m
Cash flows from operating activities			
Cash generated from operations	14	**183.5**	164.9
Interest paid		**(31.7)**	(29.4)
Income tax paid		**(45.6)**	(46.7)
Net cash generated from operating activities		**106.2**	88.8
Cash flows from investing activities			
Payment for property, plant and equipment		**(59.5)**	(49.0)
Payment for intangible assets		**(28.5)**	(22.5)
Proceeds from the sale of property, plant and equipment		**0.8**	0.1
Interest received		**0.9**	0.9
Net cash used by investing activities		**(86.3)**	(70.5)
Cash flows from financing activities			
Fees paid on proceeds from new borrowings		**(0.3)**	—
Voluntary repayments of borrowings		**(50.0)**	—
Scheduled repayments of borrowings		**(2.2)**	(3.0)
Lease principal repayments		**(12.8)**	—
Dividends paid		**(30.9)**	(6.8)
Dividends paid to non-controlling interests		**(0.7)**	(0.2)
Net cash used by financing activities		**(96.9)**	(10.0)
(Decrease)/increase in cash and cash equivalents		**(77.0)**	8.3
Cash and cash equivalents at the beginning of the period		**360.1**	287.2
Currency translation on cash and cash equivalents		**2.2**	3.7
Cash and cash equivalents at the end of the period		**285.3**	299.2

1. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these half year condensed group financial statements are the same as those applied in the audited consolidated financial statements for the year ended 31 December 2018, other than in relation to the adoption of IFRS 16 "Leases", which is described in further detail below.

1.1. Basis of Preparation

These half year condensed group financial statements have been prepared on the going concern basis as set out within the directors' statement of responsibilities section of the Group's annual report for the year ended 31 December 2018. These half year condensed group financial statements do not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2018 have been filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. These half year condensed group financial statements have been reviewed, not audited.

These half year condensed group financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Conduct Authority.

1.2. Going Concern

After making enquiries, the Directors are of the opinion that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of these half year condensed group financial statements. The Group therefore continues to adopt the going concern basis in preparing its half year condensed group financial statements. Further information on the Group's borrowings is given in Note 10.

1.3. New and Revised IFRS Affecting Amounts Reported in the Current Period (and/or Prior Periods)

IFRS 16 'Leases'

The Group has applied IFRS 16 'Leases' for the first time in these consolidated financial statements, from its mandatory adoption date of 1 January 2019. IFRS 16 'Leases' replaces the existing guidance in IAS 17 'Leases' and IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' and eliminates the dual accounting model for lessees. The standard removes the accounting distinction between finance and operating leases and requires that right-of-use assets and liabilities be created for all leases on the balance sheet, unless the lease term is twelve months or less, or the underlying asset has a low value.

Under the new standard, operating lease charges have been replaced with interest payable and depreciation charges. On an individual lease basis, this will result in higher expenses in the Income Statement earlier in the lease term, and correspondingly lower expenses later in the lease term. The standard will affect primarily the accounting for the Group's operating leases.

The Group has elected to apply IFRS 16 Leases in accordance with the simplified transition approach permitted in the standard. The new rules have been adopted in the current period only, with the cumulative effect of initially applying the new standard recognised on 1 January 2019. The Group has not restated comparative amounts for the year ended 31 December 2018.

The Group has elected to measure right-of-use assets at the amount of the lease liability on adoption after adjusting for any prepaid or accrued lease expenses.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is a lease, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group has relied on its assessment made when applying IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

The Group is also applying the expedient which allows payments associated with short-term leases and leases of low-value assets to be recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less, or those leases, which regardless of their original lease term, ended on or before 31 December 2019.

The Group set up a project team which reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between a lease liability principal repayment and a lease interest payment. The lease interest payable is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate or the interest rate implicit in the lease, if that rate can be determined.

Right-of-use assets are measured at cost comprising the following: the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the Group's control.

Until the adoption of IFRS 16 on 1 January 2019, leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership were classified as finance leases, see previous policy Note 1.9 of the audited consolidated financial statements for the year ended 31 December 2018.

The Group's activities as a lessor are not significant and the adoption of IFRS 16 'Leases' has not had any impact on the consolidated financial statements from that activity.

1.4. New and Revised IFRS in issue but not yet effective

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning on or after 1 January 2019, or are not yet effective because they have not yet been endorsed by the EU. These have not been applied in preparing the consolidated financial statements.

There are no standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

1.5. Critical Accounting Estimates and Judgements

In addition to the critical accounting estimates and judgements disclosed in Note 1.4 of the audited consolidated financial statements for the year ended 31 December 2018, the application of 'IFRS 16 Leases', effective from 1 January 2019, also requires a higher degree of judgement around determination of the lease term and calculation of the incremental borrowing rate.

Judgement is required to determine whether periods covered by an option to extend a lease are reasonably certain to be exercised and whether periods covered by an option to terminate a lease are reasonably certain not to be exercised, when assessing the lease term. In making this assessment, the Group applies judgement to all relevant facts and circumstances that create an economic incentive for the Group to exercise the option to extend or terminate the lease.

Under the new standard, the Group is also required to estimate the incremental borrowing rate used where the interest rate implicit in a lease cannot be readily determined, by estimating the rate of interest that it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

2. Segment Reporting

The Group’s segment reporting is based on information regularly provided to the Chief Executive Officer and the Chief Financial Officer. Accordingly, the Group's segments comprise the operating divisions: Fluid Carrying Systems ("FCS") and Fuel Tank and Delivery Systems ("FTDS"). Performance of the Company’s segments is primarily evaluated on the basis of revenue, Adjusted EBITDA, and Adjusted EBIT, both non-IFRS measures.

	Unaudited Half year 2019 €m	Unaudited Half year 2018 €m
Revenue		
– FCS - External	**964.2**	1,042.9
- Inter-segment	**41.2**	42.8
	1,005.4	1,085.7
– FTDS - External	**743.9**	724.4
- Inter-segment	**2.3**	0.1
	746.2	724.5
Inter-segment elimination	**(43.5)**	(42.9)
Total consolidated revenue	**1,708.1**	1,767.3
Adjusted EBITDA		
– FCS	**135.1**	156.5
– FTDS	**110.8**	99.8
	245.9	256.3
Adjusted EBITDA % of revenue		
– FCS	**14.0%**	15.0%
– FTDS	**14.9%**	13.8%
Total	**14.4%**	14.5%
Adjusted EBIT		
– FCS	**100.2**	131.5
– FTDS	**72.9**	69.3
	173.1	200.8
Adjusted EBIT % of revenue		
– FCS	**10.4%**	12.6%
– FTDS	**9.8%**	9.6%
Total	**10.1%**	11.4%

3. Finance Income and Expense

	Notes	Unaudited Half year 2019 €m	Unaudited Half year 2018 €m
Finance income			
Interest on short-term deposits, other financial assets and other interest income		**0.9**	0.9
Fair value gain on derivatives and foreign exchange contracts not in hedged relationships		**5.1**	3.0
Finance income		**6.0**	3.9
Finance expense			
Interest payable on term loans including expensed fees		**(28.7)**	(23.5)
Interest payable on unsecured senior notes including expensed fees		**—**	(8.3)
Net interest expense of retirement benefit obligations	12	**(2.3)**	(2.1)
Fair value net losses on financial instruments: ineffectiveness		**—**	(0.4)
Interest payable on lease liabilities		**(4.9)**	—
Utilisation of discount on provisions and other finance expense		**(0.2)**	(0.7)
Finance expense		**(36.1)**	(35.0)
Total net finance expense		**(30.1)**	(31.1)

4. Income Tax

Income tax expense is recognised based on Management's estimate of the effective income tax rate expected for the full financial year in each jurisdiction in which the Group has operations.

This has resulted in an effective tax rate of 35.8% for the half year ended 30 June 2019 (38.6% for the half year ended 30 June 2018). The effective tax rate is impacted by the UK book loss of €24.5 million for the half year ended 30 June 2019 from a book loss of €36.1 million for the half year ended 30 June 2018, which is not tax effected due to the projected and historical tax loss position in the UK and therefore increases the effective tax rate.

The UK book loss incurred to 30 June 2019 is due to net interest and financing expense in the amount of €10.8 million (30 June 2018: €11.2 million); net foreign exchange gain of €(1.3) million (30 June 2018: net foreign exchange loss of €0.1 million) based on fluctuations in the US dollar to Euro exchange rates related to US dollar denominated intercompany loans and other operating expenses of €15.0 million (30 June 2018: €24.8 million).

When the UK book loss of €24.5 million for the half year ended 30 June 2019 (€36.1 million loss for the half year ended 30 June 2018) and the prior period tax adjustments are not considered, the effective tax rate is adjusted to 31.0% for the half year to 30 June 2019 (30.4% for the half year ended 30 June 2018).

The decrease in the effective tax rate discussed above is primarily due to the impact of the release of provisions for specific uncertain tax positions during the period (partial release in both 30 June 2018 and 30 June 2019 with a greater amount released in 30 June 2019), which had a beneficial impact on the effective tax rate for the first half of 2019.

5. Earnings Per Share

The calculation of earnings per share ('EPS') has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

€ (in cents)	**Unaudited Half year 2019**	Unaudited Half year 2018
Basic earnings per share	**11.25**	14.51
Diluted earnings per share	**11.24**	14.45

Profit attributable to ordinary shareholders

€m	**Unaudited Half year 2019**	Unaudited Half year 2018
Earnings used in basic EPS	**58.5**	75.0
Earnings used in diluted EPS	**58.5**	75.0

Weighted average number of ordinary shares (basic)

Number of shares (in millions)	**Unaudited Half year 2019**	Unaudited Half year 2018
Number of ordinary shares as at 1 January	**519.9**	516.8
Effect of new shares issued	**0.2**	0.1
Weighted average number of ordinary shares as at 30 June	**520.1**	516.9

Weighted average number of ordinary shares (diluted)

Number of shares (in millions)	**Unaudited Half year 2019**	Unaudited Half year 2018
Weighted average of ordinary shares (basic)	**520.1**	516.9
Effect of share options outstanding as at 30 June	**0.5**	2.1
Weighted average number of shares as at 30 June (diluted)	**520.6**	519.0

6. Share-based Expense

During the period the Company granted 7,074,214 conditional share awards to selected key executives of the Group.

These awards were made under the TI Fluid Systems plc Long Term Incentive Plan. For further information regarding the terms of the plan and performance conditions of the awards, please refer to the 2018 annual report.

The total charge for the period ended 30 June 2019 on share-based expense was €2.7 million, including €0.1 million of social security costs.

7. Intangible Assets

During the period the Group made intangible asset additions of €16.7 million (2018: €20.9 million). Assets with a carrying value of €0.4 million (2018: €0.9 million) were disposed of during the period.

8. Property, Plant and Equipment

During the period the Group made PP&E additions of €47.4 million (2018: €39.0 million). Assets with a carrying value of €1.2 million (2018: €0.4 million) were disposed of during the period.

9. Leases

As explained in Note 1.3 above, the Group has changed its accounting policy for leases and adopted IFRS 16 Leases in the period in accordance with the simplified transition approach permitted in the standard.

The new rules have been adopted in the current period only, with the cumulative effect of initially applying the new standard recognised on 1 January 2019. The Group has not restated comparative amounts for the year ended 31 December 2018.

9.1. The Group's leasing activities as lessee

The Group has a significant number of leases for land, buildings, plant, machinery and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

9.2. Amounts recognised in the balance sheet

On adoption of IFRS 16, the Group recognised right of use assets of €148.0 million and lease liabilities of €148.7 million on the transition date of 1 January 2019. Property, plant and equipment decreased by €1.4 million as a result of reclassifying leased assets that were previously treated as property, plant and equipment into right of use assets. Borrowings decreased by €2.0 million as a result of reclassifying finance lease liabilities that were previously treated as borrowings into lease liabilities. Prepayments also reduced by €0.3 million and accruals by €0.4 million. The net impact on retained earnings on 1 January 2019 of the adoption of IFRS 16 was €nil.

The balance sheet at 30 June 2019 shows the following amounts relating to leases:

	Unaudited 30 June 2019 €m
Right-of-Use Assets	**147.2**
Non-current liabilities	
Lease Liabilities	**111.6**
Current liabilities	
Lease Liabilities	**38.3**
Total Lease Liabilities	**149.9**

In the previous year, the Group only recognised lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. These were presented as part of the Group's borrowings see Note 10.

The composition of right-of-use assets at 30 June 2019 was:

	Unaudited 30 June 2019 €m
Land and buildings	**135.2**
Plant, machinery and equipment	**12.0**
Net book value at end of period	**147.2**

9.3. Amounts recognised in the statements of profit or loss and cash flows

The statement of profit or loss includes the following amounts relating to leases:

	Notes	**Unaudited Half year 2019 €m**
Depreciation charge of right-of-use assets:		
Land and buildings		**12.1**
Plant, machinery and equipment		**2.6**
Interest payable on lease liabilities	3	**4.9**
Expense relating to short-term and low value leases		**4.8**

The statement of cash flows includes the following amounts relating to leases:

	Unaudited Half year 2019 €m
Cash paid for short-term and low value leases reported within cash generated from operations	**4.8**
Interest paid on lease liabilities reported within interest paid	**4.9**
Lease principal repayments reported separately in cashflows from financing activities	**12.8**
Total cash outflow for leases	**22.5**

10. Borrowings

	Unaudited 30 June 2019 €m	31 December 2018 €m
Non-current:		
Secured loans:		
Main borrowing facilities	**1,137.7**	1,179.1
Other loans	**0.1**	0.2
Total non-current borrowings	**1,137.8**	1,179.3
Current:		
Secured loans:		
Main borrowing facilities	**2.3**	2.3
Other loans	**0.1**	0.1
Finance leases	**—**	2.0
Total current borrowings	**2.4**	4.4
Total borrowings	**1,140.2**	1,183.7
Main borrowing facilities	**1,140.0**	1,181.4
Finance leases and other loans	**0.2**	2.3
Total borrowings	**1,140.2**	1,183.7

The main borrowing facilities are shown net of issuance discounts and fees of €20.0 million (2018: €23.8 million).

10.1. Movement in Total Borrowings

Unaudited	**Main borrowing facilities €m**	**Finance leases and other loans €m**	**Total borrowings €m**
At 1 January 2019	**1,181.4**	**2.3**	**1,183.7**
Change in accounting policy: adoption of IFRS 16	**—**	**(2.0)**	**(2.0)**
Restated at 1 January 2019	**1,181.4**	**0.3**	**1,181.7**
Accrued interest	**24.4**	**—**	**24.4**
Scheduled repayments	**(26.5)**	**(0.1)**	**(26.6)**
Fees expensed	**4.3**	**—**	**4.3**
Fees paid on proceeds from new borrowings	**(0.3)**	**—**	**(0.3)**
Voluntary repayments of borrowings	**(50.0)**	**—**	**(50.0)**
Currency translation	**6.7**	**—**	**6.7**
At 30 June 2019	**1,140.0**	**0.2**	**1,140.2**

The Group has adopted IFRS 16 from 1 January 2019 by applying the simplified transition approach, under which the comparatives for the 2018 reporting period are not restated see Note 1.3 and Note 9. As part of the adoption, finance lease liabilities at 1 January 2019 of €2.0 million have been reclassified from borrowings to lease liabilities.

On 11 March 2019 the Group made a voluntary repayment of $56.5 million (€50.0 million) against the US dollar tranche of its secured term loan.

	Term loan	Unsecured notes	Main borrowing facilities and unsecured notes	Finance leases and other loans	Total borrowings
	€m	€m	€m	€m	€m
At 1 January 2018	997.8	179.7	1,177.5	3.7	1,181.2
Accrued interest	45.2	8.9	54.1	0.5	54.6
Scheduled repayments	(49.2)	(8.9)	(58.1)	(1.9)	(60.0)
Fees expensed	6.5	0.4	6.9	—	6.9
New borrowings	150.0	—	150.0	—	150.0
Fees paid on proceeds from new borrowings	(2.2)	—	(2.2)	—	(2.2)
Voluntary repayments of borrowings	—	(188.4)	(188.4)	—	(188.4)
Fees expensed on voluntary repayments of borrowings	—	3.6	3.6	—	3.6
Currency translation	33.3	4.7	38.0	—	38.0
At 31 December 2018	1,181.4	—	1,181.4	2.3	1,183.7

10.2. Main Borrowing Facilities

The main borrowing facilities comprise a package of secured loans consisting of a term loan, an asset-backed loan, and a revolving credit facility.

The amounts outstanding under the agreements are:

	Unaudited **30 June 2019**	31 December 2018
	€m	€m
Principal outstanding:		
US term loan	**733.4**	776.4
Euro term loan	**426.6**	428.8
Main borrowing facilities: principal outstanding	**1,160.0**	1,205.2
Less: Issuance discounts and fees	**(20.0)**	(23.8)
Total main borrowing facilities	**1,140.0**	1,181.4

10.3. Movements in Net Borrowings and Lease liabilities

Unaudited	At 1 January 2019	Change in accounting policy: adoption of IFRS 16	Restated at 1 January 2019	Cash flows	Non-cash changes: New leases	Non-cash changes: Fees expensed	Non-cash changes: Currency translation	Non-cash changes: Remeasurement and other	At 30 June 2019
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Cash and cash equivalents	**360.1**	**—**	**360.1**	**(77.0)**	**—**	**—**	**2.2**	**—**	**285.3**
Financial assets at FVTPL	**1.2**	**—**	**1.2**	**(0.3)**	**—**	**—**	**—**	**—**	**0.9**
Borrowings	**(1,183.7)**	**2.0**	**(1,181.7)**	**52.5**	**—**	**(4.3)**	**(6.7)**	**—**	**(1,140.2)**
Total net borrowings	**(822.4)**	**2.0**	**(820.4)**	**(24.8)**	**—**	**(4.3)**	**(4.5)**	**—**	**(854.0)**
Lease liabilities	**—**	**(148.7)**	**(148.7)**	**12.8**	**(16.4)**	**—**	**0.7**	**1.7**	**(149.9)**
Net borrowings and Lease liabilities	**(822.4)**	**(146.7)**	**(969.1)**	**(12.0)**	**(16.4)**	**(4.3)**	**(3.8)**	**1.7**	**(1,003.9)**

	At 1 January 2018	Cash flows	Non-cash changes: Fees expensed	Non-cash changes: Currency translation	At 31 December 2018
	€m	€m	€m	€m	€m
Cash and cash equivalents	287.2	70.6	—	2.3	360.1
Financial assets at FVTPL	2.9	(1.7)	—	—	1.2
Borrowings	(1,181.2)	46.0	(10.5)	(38.0)	(1,183.7)
Total net borrowings	(891.1)	114.9	(10.5)	(35.7)	(822.4)
Lease liabilities	—	—	—	—	—
Net borrowings and Lease liabilities	(891.1)	114.9	(10.5)	(35.7)	(822.4)

Cash flows from financing activities arising from changes in financial liabilities are analysed below:

	Unaudited Half year 2019	Unaudited Half year 2018
	€m	€m
Fees paid on proceeds from new borrowings	**0.3**	—
Voluntary repayments of borrowings	**50.0**	—
Scheduled repayments of borrowings	**2.2**	3.0
Lease principal repayments	**12.8**	—
Cash flows from financing activities arising from changes in financial liabilities	**65.3**	3.0
Borrowings cash flows	**52.5**	3.0
Lease liabilities cash flows	**12.8**	—
Cash flows from financing activities arising from changes in financial liabilities	**65.3**	3.0

11. Fair Values of Financial Assets and Liabilities

11.1. Financial Instruments by Category

As of 30 June 2019:

Unaudited **Financial assets**	**Assets at amortised cost** **€m**	**Assets in hedged relationships** **€m**	**Assets at FVTPL** **€m**	**Total** **€m**
Cash and cash equivalents	**285.3**	**—**	**—**	**285.3**
Financial assets at FVTPL	**—**	**—**	**0.9**	**0.9**
Trade and other receivables excluding prepayments	**555.2**	**—**	**—**	**555.2**
Derivative financial instruments:				
- Forward foreign exchange contracts (cash flow hedges)	**—**	**9.7**	**1.4**	**11.1**
- Interest rate swaps (cash flow hedges)	**—**	**2.3**	**—**	**2.3**
Total at 30 June 2019	**840.5**	**12.0**	**2.3**	**854.8**

Unaudited **Financial liabilities**	**Liabilities at amortised cost** **€m**	**Liabilities in hedged relationships** **€m**	**Liabilities at FVTPL** **€m**	**Total** **€m**
Trade and other payables excluding deferred income	**(497.5)**	**—**	**—**	**(497.5)**
Borrowings	**(1,140.2)**	**—**	**—**	**(1,140.2)**
Lease liabilities	**(149.9)**	**—**	**—**	**(149.9)**
Derivative financial instruments:				
- Forward foreign exchange contracts (cash flow hedges)	**—**	**(15.5)**	**(1.5)**	**(17.0)**
- Forward foreign exchange contracts (net investment hedges)	**—**	**(12.7)**	**—**	**(12.7)**
- Interest rate floor	**—**	**—**	**(1.7)**	**(1.7)**
Total at 30 June 2019	**(1,787.6)**	**(28.2)**	**(3.2)**	**(1,819.0)**

As of 31 December 2018:

Financial assets	Assets at amortised cost (Loans and receivables under IAS 39) €m	Assets in hedged relationships €m	Assets at FVTPL €m	Total €m
Cash and cash equivalents	360.1	—	—	360.1
Financial assets at FVTPL	—	—	1.2	1.2
Trade and other receivables excluding prepayments	532.3	—	—	532.3
Derivative financial instruments:	—	—	—	—
- Forward foreign exchange contracts (cash flow hedges)	—	5.2	1.0	6.2
- Interest rate swaps (cash flow hedges)	—	7.7	—	7.7
Total at 31 December 2018	892.4	12.9	2.2	907.5

Financial liabilities	Liabilities at amortised cost €m	Liabilities in hedged relationships €m	Liabilities at FVTPL €m	Total €m
Trade and other payables excluding deferred income	(532.2)	—	—	(532.2)
Borrowings	(1,183.7)	—	—	(1,183.7)
Lease liabilities	—	—	—	—
Derivative financial instruments:				
- Forward foreign exchange contracts (cash flow hedges)	—	(26.0)	(2.3)	(28.3)
- Forward foreign exchange contracts (net investment hedges)	—	(17.2)	—	(17.2)
- Interest rate floor	—	—	(2.6)	(2.6)
Total at 31 December 2018	(1,715.9)	(43.2)	(4.9)	(1,764.0)

Fair value estimates of derivatives are based on relevant market information and information about the financial instruments, which are subjective in nature. The fair value of these financial instruments is estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the reporting date, which is a proxy for market price.

All derivative items reported are within Level 2 of the fair value hierarchy specified in IFRS 13 'Fair Value Measurement'; their measurement includes inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The fair values of non-derivative amounts are determined in accordance with generally accepted valuation techniques based on discounted cash flow analysis. For the non-derivative items reported above, it is assumed that by their nature their carrying value approximates their fair value.

12. Retirement Benefit Obligations

Balance Sheet

The net liability for defined benefit arrangements is as follows:

Unaudited **Net liability**	**US pensions €m**	**Other pensions €m**	**US healthcare €m**	**Other post-employment liabilities €m**	**Total €m**
Present value of retirement benefit obligations	**(231.9)**	**(87.6)**	**(32.7)**	**(84.1)**	**(436.3)**
Fair value of plan assets	**173.7**	**94.3**	**—**	**23.2**	**291.2**
Asset ceiling	**—**	**(6.7)**	**—**	**—**	**(6.7)**
Net liability at 30 June 2019	**(58.2)**	**—**	**(32.7)**	**(60.9)**	**(151.8)**

Net liability	US pensions €m	Other pensions €m	US healthcare €m	Other post-employment liabilities €m	Total €m
Present value of retirement benefit obligations	(231.0)	(86.2)	(33.1)	(83.4)	(433.7)
Fair value of plan assets	174.2	92.8	—	25.1	292.1
Asset ceiling	—	(6.6)	—	—	(6.6)
Net liability at 31 December 2018	(56.8)	—	(33.1)	(58.3)	(148.2)

Income Statement

Net (expense)/income recognised in the Income Statement is as follows:

Unaudited **Net expense**	**US pensions** **€m**	**Other pensions €m** **€m**	**US healthcare** **€m**	**Other post-employment liabilities** **€m**	**Total** **€m**
Current service cost	**(0.1)**	**(0.4)**	**—**	**(3.3)**	**(3.8)**
Net interest (expense)/income	**(1.2)**	**0.1**	**(0.7)**	**(0.5)**	**(2.3)**
Net expense period ended 30 June 2019	**(1.3)**	**(0.3)**	**(0.7)**	**(3.8)**	**(6.1)**

Net expense	US pensions €m	Other pensions €m	US healthcare €m	Other post-employment liabilities €m	Total €m
Current service cost	(0.1)	(0.8)	—	(2.7)	(3.6)
Net interest (expense)/income	(1.2)	0.1	(0.7)	(0.3)	(2.1)
Total expense period ended 30 June 2018	(1.3)	(0.7)	(0.7)	(3.0)	(5.7)

At 30 June 2019 the Group reviewed the discount rates relating to the most significant retirement benefit obligations and determined for US pension obligations: the discount rate was 3.5% and 4.2%, at 30 June 2019 and 31 December 2018, respectively.

Changes resulting from these US benchmark indexes in the first-half of 2019 were substantially offset by pension asset performance in the same period, and accordingly no adjustment was made. Such asset performance resulted from a shift in underlying asset class selections following the implementation of an asset-liability matching framework. The new asset allocation policy served to improve the liability hedge ratio for the plan while simultaneously improving the expected return.

13. Provisions

Movements in provisions are as follows:

Unaudited	**Product warranty €m**	**Restructuring €m**	**Other €m**	**Total €m**
At 1 January 2019	**18.4**	**4.4**	**6.1**	**28.9**
Provisions made during the period	**7.3**	**6.0**	**0.1**	**13.4**
Provisions used during the period	**(11.4)**	**(2.4)**	**(0.3)**	**(14.1)**
Provisions reversed during the period	**(0.8)**	**—**	**—**	**(0.8)**
At 30 June 2019	**13.5**	**8.0**	**5.9**	**27.4**

	Product warranty €m	Restructuring €m	Other €m	Total €m
At 1 January 2018	19.8	1.5	6.7	28.0
Provisions made during the year	6.6	5.0	0.8	12.4
Provisions used during the year	(6.9)	(1.8)	(1.0)	(9.7)
Provisions reversed during the year	(1.4)	(0.3)	(0.5)	(2.2)
Utilisation of discount	—	—	0.1	0.1
Currency translation	0.3	—	—	0.3
At 31 December 2018	18.4	4.4	6.1	28.9

14. Cash Generated from Operations

	Unaudited 2019 €m	2018 €m
Profit for the period	**59.9**	76.2
Income tax expense before exceptional items	**33.5**	47.8
Profit before income tax	**93.4**	124.0
Adjustments for:		
Depreciation, amortisation and impairment charges	**116.4**	97.8
Loss on disposal of PP&E and intangible assets	**0.2**	0.3
Share based expense	**2.7**	1.3
Net finance expense	**30.1**	31.1
Unremitted share of profit from associates	**0.4**	—
Net foreign exchange (gains)/losses	**(0.9)**	2.4
Changes in working capital:		
- Inventories	**(38.1)**	(33.5)
- Trade and other receivables	**(17.0)**	(59.8)
- Trade and other payables	**(1.5)**	3.4
Change in provisions	**(1.5)**	(1.1)
Change in retirement benefit obligations	**(0.7)**	(1.0)
Total	**183.5**	164.9

15. Commitments and Contingencies

Capital Commitments

Expenditure on non-current assets authorised and contracted for at the end of the period but not yet incurred is as below:

	Unaudited 2019 €m	2018 €m
Intangible assets	**9.6**	7.9
Property, plant and equipment	**66.9**	55.4
Total	**76.5**	63.3

16. Related Party Transactions and Controlling Parties

16.1. Transactions with Group Companies

Balances and transactions between Group companies have been eliminated on consolidation, except for subsidiaries that are not wholly owned, and associates. Transactions with those companies are made on the Group's standard terms of trade.

There have been no significant changes in the nature of transactions between subsidiaries that are not wholly owned, or associates, and other group companies that have materially affected the condensed group financial statements in the period.

16.2. Ultimate Controlling Party

The funds managed by Bain Capital have been the Company's ultimate controlling party since its incorporation.