

Allegion plc

Annual Report
Financial year ended 31 December 2019

Allegion plc
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DIRECTORS' REPORT

Directors' report for the financial year ended 31 December 2019

The directors' present their report and audited Consolidated Financial Statements for the financial year ended 31 December 2019.

Principal Activities

Allegion plc (the "Parent Company"), through its subsidiaries (together with Allegion plc, referred as "Allegion," "we," "us," the "Group," or the "Company"), is a leading global provider of security products and solutions that keeps people and assets safe and secure in the places where they reside, work and thrive. We create peace of mind by pioneering safety and security with a vision of seamless access and a safer world. We offer an extensive and versatile portfolio of mechanical and electronic security products across a range of market-leading brands. Our experts across the globe deliver high-quality security products, services and systems, and we use our deep expertise to serve as trusted partners to end-users who seek customised solutions to their security needs.

We sell a wide range of security and access control solutions for end-users in commercial, institutional and residential facilities worldwide, including the education, healthcare, government, hospitality, commercial office and single and multi-family residential markets. Our leading brands include CISA®, Interflex®, LCN®, Schlage®, SimonsVoss® and Von Duprin®. We believe LCN, Schlage and Von Duprin hold the No. 1 position in their primary product categories in North America while CISA, Interflex and SimonsVoss hold the No.1 or No. 2 position in their primary product categories in certain European markets.

For the year ended 31 December 2019, we generated Turnover of \$2,854.0 million and Operating profit of \$563.3 million. For the year ended 31 December 2018, we generated Turnover of \$2,731.7 million and Operating profit of \$525.5 million.

History and Developments

We were incorporated in Ireland on 9 May 2013, to hold the commercial and residential security businesses of Ingersoll Rand plc ("Ingersoll Rand"). On 1 December 2013, we became a stand-alone public company after Ingersoll Rand completed the separation of these businesses from the rest of Ingersoll Rand via the transfer of these businesses from Ingersoll Rand to us and the issuance by us of ordinary shares directly to Ingersoll Rand's shareholders (the "Spin-off"). Our security businesses have long and distinguished operating histories. Several of our brands were established nearly 100 years ago, and many originally created their categories:

- Von Duprin, established in 1908, was awarded the first exit device patent;
- Schlage, established in 1920, was awarded the first patents granted for the cylindrical lock and the push button lock;
- LCN, established in 1926, created the first door closer;
- CISA, established in 1926, devised the first electronically controlled lock; and
- SimonsVoss, established in 1995, created the first keyless digital transponder.

We have built upon these founding legacies since our entry into the security products market through the acquisition of Schlage, Von Duprin and LCN in 1974. Today, we continue to develop and introduce innovative and market-leading products.

In addition, in 2018 we announced the formation of Allegion Ventures, a corporate venture fund that invests in and helps accelerate the growth of companies that have innovative technologies and products. Since its formation, Allegion Ventures has invested nearly \$10 million in several early-stage companies that share our pioneering vision and seek to find smart and innovative solutions that help keep people and assets safe and secure in the places where they reside, work and thrive.

Current developments

In March 2020, a global pandemic was declared by the World Health Organization ("WHO") related to the rapidly growing outbreak of the novel coronavirus ("COVID-19"). This pandemic has created significant uncertainties in the global economy. This situation is rapidly changing and future developments, including the duration and severity of the COVID-19 pandemic and its impact on the global economy, are highly uncertain and unpredictable. The Company has updated its Principal Risks and Going Concern sections on Pages 22 and 31, respectively, in light of the COVID-19 pandemic and its potential impact.

Product launches

Recent examples of successful product launches are illustrated in the table below:

Product	Brands	Year	Innovation
Residential Locks, Cylinders and Levers	Schlage, Bricard, Milre	2017/2018/2019	<p>Next-generation Schlage smart locks including the first WiFi enabled deadbolt to work with Key by Amazon and Ring devices with built-in connectivity (Schlage Encode); 4-in-1 lock with fingerprint sensors, smart card, code access or a physical key (SEL); Z-wave smart deadbolt and Zigbee-certified model compatible with Amazon Key and Ring devices (Schlage Connect). Expanded handlesets for Schlage's new universal functionality solution that allows homeowners to change from a doorknob to a lever and convert a non-locking door to lockable in minutes (Schlage Custom) and expanded ranges of cylinders and new aluminum trims for DIY customers (Bricard).</p> <p>Residential e-locks in Asia Pacific with improved biometric sensors, new designs and push-pull electronic locks with Bluetooth modules (Q6, X7, Milre). Asia-Pacific Schlage series with new lever designs and finishes (Medio and Form); new mechanism for faster door hardware installation (QuickFix); and door and window hardware for aluminum joinery (Schlage Kanso).</p>
Commercial Locks, Cylinders, Levers and Electronic Access Platforms	Schlage, CISA, SimonsVoss, Bricard	2017/2018/2019	<p>Enhancements to our comprehensive portfolio of globally available mechanical, wired electrified and wireless electronic solutions provide a common aesthetic and consistent user experience throughout a building (Schlage). Firmware releases for U.S. channel-partner readers to give new functionality and USB communication mode for readers (Schlage). Mobile credentials, new Bluetooth Low Energy and RFID technology and integrations between electronic locks and exit devices (CISA).</p> <p>New rim and mortice locks for Southeast Asia (S-series) and expanded cylinders for the European locksmith channel. Multipoint mortise locks and a new offering for two-door leaves (Bricard); multipoint self-locking system with remote-open capability and the highest European-standard security grade (CISA). New enhancements to the electronic Smart Handle (SimonsVoss).</p>
Exit Devices and Closers	Von Duprin, Falcon, CISA	2018/2019	<p>New award-winning and cost-effective retrofit exit device that allows for remote undogging and monitoring with partner software (Von Duprin); new fire-rated retrofit series (Falcon); and quiet exit solutions (Von Duprin).</p> <p>New range of asymmetric rack-and-pinion door closers and an entry-level high-efficiency option (CISA).</p>
Doors and Door Closers	TGP, AD Systems	2019	<p>First to the market surface mounted, top-hung single-leaf door that offers clean, modern aesthetic of sliding flush wood doors that achieve a 45-minute UL 10B fire rating (FireSlide).</p> <p>New fire-rated and impact safety-rated glass doors with a heat resistive perimeter frame, which features nearly colorless transitions between adjoining pieces of low-iron glass, eliminating the need for colored internal glass unit spacers or vertical frame mullions (Fireframes ClearView).</p>
Bike Lighting and Portable Locking Solutions	AXA, Kryptonite, Trelock	2017/2018/2019	<p>Broad range of innovation in bike safety from each of our Global Portable Security brands (AXA, Kryptonite and Trelock), ranging from compact dynamo and e-bike lights to USB, battery powered and rechargeable lights.</p> <p>Expanded lines of folding locks, integrated chains, ring locks and applications for bikes and motorcycles (AXA, Kryptonite, Trelock); new ergonomic cable and chain locks and expanded track-and-trace services (AXA).</p>
Software, Mobile and Web Applications	Allegion (Overtur, ENGAGE), Schlage, Briton, Interflex, ISONAS	2018/2019	<p>Cloud-based suite of tools for project teams to collaborate on specifications and the security design of doors and openings, which provides a centralized place to capture and maintain door hardware requirements and decisions with easy options to push information back to the design tools (Overtur).</p> <p>Multiple enhancements to the user experience include biometric login for the mobile app, simplified account and site set-up and gateway site survey (ENGAGE) and mobile apps (Briton and Schlage) let users lock, unlock, issue mobile keys, check status and more.</p> <p>New modules for visitor management, encouraging self-service and Microsoft Outlook functionality and managed service featuring a cloud-based solution of time recording (Interflex); updated cloud-hosted access control platform with real time events, alerting, and user-initiated door control (ISONAS).</p>

Review of Business Segments

We operate in and report financial results for three segments: Americas, Europe, Middle East, India and Africa (“EMEIA”) and Asia Pacific. These segments represent the level at which our chief operating decision maker reviews company financial performance and makes operating decisions.

Segment operating profit is the measure of profit and loss that our chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews and compensation. For these reasons, we believe that Segment operating profit represents the most relevant measure of Segment profit and loss. Our chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, to arrive at a Segment operating profit that is a more meaningful measure of profit and loss upon which to base our operating decisions. We define Segment operating margin as Segment operating profit as a percentage of the Segment’s turnover.

The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in Profit on ordinary activities before taxation. Our business segments are as follows:

Americas

Our Americas segment is a leading provider of security products and solutions in approximately 30 countries throughout North America, Central America, the Caribbean and South America. The segment sells a broad range of products and solutions including, locks, locksets, portable locks, key systems, door closers, exit devices, doors and door systems, electronic products and access control systems to end-users in commercial, institutional and residential facilities, including the education, healthcare, government, hospitality, commercial office and single and multi-family residential markets. This segment’s primary brands are LCN, Schlage, Steelcraft and Von Duprin.

Segment results for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018	% change
Turnover	2,114.5	1,988.6	6.3%
Segment operating profit	611.6	544.5	12.3%
Segment operating margin	28.9%	27.4%	

Turnover

Turnover for the year ended 31 December 2019, increased by 6.3%, or \$125.9 million, compared to the same period in 2018, due to the following:

Pricing	2.2 %
Volume	4.0 %
Acquisitions	0.3 %
Currency exchange rates	(0.2)%
Total	6.3 %

The increase in Turnover is primarily due to higher volumes, improved pricing and acquisitions during the prior year. These increases were partially offset by unfavorable foreign currency exchange rate movements. Turnover from non-residential products for the year ended 31 December 2019, increased high single digits compared to the prior year. Turnover from residential products for the year ended 31 December 2019, increased mid-single digits compared to the prior year.

Segment operating profit/margin

Segment operating profit for the year ended 31 December 2019, increased \$67.1 million, and Segment operating margin increased to 28.9% from 27.4% compared to the same period in 2018, due to the following:

<i>In millions (\$)</i>	Operating profit	Operating margin
31 December 2018	544.5	27.4 %
Pricing and productivity in excess of inflation	47.7	1.8 %
Volume / product mix	30.6	0.4 %
Currency exchange rates	(2.1)	(0.2)%
Investment spending	(9.6)	(0.5)%
Acquisitions	(0.7)	(0.1)%
Restructuring / acquisition costs	1.2	0.1 %
31 December 2019	611.6	28.9 %

DIRECTORS' REPORT (continued)

The increases were primarily due to pricing improvements and productivity in excess of inflation, favorable volume / product mix and decreased restructuring and acquisition costs. These increases were partially offset by increased investment spending, the impact of acquisitions made during 2018 and unfavorable foreign currency exchange rate movements.

EMEIA

Our EMEIA segment provides security products and solutions in approximately 85 countries throughout Europe, the Middle East, India and Africa. The segment offers end-users a broad range of products, services and solutions including, locks, locksets, portable locks, key systems, door closers, exit devices, doors and door systems, electronic products and access control systems, as well as time and attendance and workforce productivity solutions. This segment's primary brands are AXA, Bricard, Briton, CISA, Interflex and SimonsVoss. This segment also resells LCN, Schlage and Von Duprin products, primarily in the Middle East.

Segment results for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018	% change
Turnover	572.5	589.9	(2.9)%
Segment operating profit	34.3	49.3	(30.4)%
Segment operating margin	6.0%	8.4%	

Turnover

Turnover for the year ended 31 December 2019, decreased by 2.9%, or \$17.4 million, compared to the same period in 2018, due to the following:

Pricing	1.0 %
Volume	1.0 %
Acquisitions / divestitures	(0.1)%
Currency exchange rates	(4.8)%
Total	(2.9)%

The decrease in Turnover is primarily due to unfavorable foreign currency exchange movements and the impact of acquisitions and divestitures. These decreases were partially offset by higher volumes and improved pricing in the current year.

Segment operating profit/margin

Segment operating profit for the year ended 31 December 2019, decreased \$15.0 million, and Segment operating margin decreased to 6.0% from 8.4% compared to the same period in 2018, due to the following:

<i>In millions (\$)</i>	Operating profit	Operating margin
31 December 2018	49.3	8.4 %
Pricing and productivity in excess of inflation	2.1	0.3 %
Volume / product mix	1.5	0.2 %
Currency exchange rates	(5.1)	(0.6)%
Investment spending	(0.5)	(0.1)%
Acquisitions / divestitures	(0.1)	— %
Restructuring / acquisition costs	(11.3)	(1.9)%
Impairment of trade name	(1.6)	(0.3)%
31 December 2019	34.3	6.0 %

Operating profit decreased due to unfavorable foreign currency exchange rate movements, the impact of acquisitions and divestitures, increased investment spending, year-over-year increases in restructuring and acquisitions costs and a trade name impairment charge recorded during 2019. These decreases were partially offset by pricing improvements and productivity in excess of inflation and favorable volume / product mix.

Operating margin decreased due to unfavorable foreign currency exchange rate movements, increased investment spending, year-over-year increases in restructuring and acquisitions costs and a trade name impairment charge recorded during 2019. These decreases were partially offset by pricing improvements and productivity in excess of inflation and favorable volume / product mix.

Asia Pacific

Our Asia Pacific segment provides security products, services and solutions in approximately 15 countries throughout the Asia Pacific region. The segment offers end-users a broad range of products, services and solutions including, locks, locksets, portable locks, key systems, door closers, exit devices, electronic products and access control systems. This segment's primary brands are Brio, Briton, FSH, Gainsborough, Legge, Milre and Schlage.

Segment results for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018	% change
Turnover	167.0	153.2	9.0 %
Segment operating profit	0.5	6.9	(92.8)%
Segment operating margin	0.3%	4.5%	

Turnover

Turnover for the year ended 31 December 2019, increased by 9.0%, or \$13.8 million, compared to the same period in 2018, due to the following:

Pricing	(0.3)%
Volume	(5.2)%
Acquisitions	19.1 %
Currency exchange rates	(4.6)%
Total	9.0 %

The increase in Turnover was due to an acquisition in the prior year. This increase was partially offset by unfavorable foreign currency exchange rate movements and lower volumes and pricing.

Segment operating profit/margin

Segment operating profit for the year ended 31 December 2019, decreased \$6.4 million and Segment operating margin decreased to 0.3% from 4.5% compared with the same period in 2018, due to the following:

<i>In millions (\$)</i>	Operating profit	Operating margin
31 December 2018	6.9	4.5 %
Pricing and productivity in excess of inflation	2.1	1.4 %
Volume / product mix	(3.4)	(2.1)%
Currency exchange rates	(0.3)	— %
Investment spending	(1.1)	(0.6)%
Acquisitions	0.6	(0.4)%
Impairment of trade name	(4.3)	(2.5)%
31 December 2019	0.5	0.3 %

Operating profit decreased due to unfavorable volume / product mix, foreign currency exchange rate movements, increased investment spending and a trade name impairment charge recorded during 2019. These decreases were partially offset by pricing improvements and productivity in excess of inflation, which includes a \$1.1 million recovery of previously remitted non-income taxes, and an acquisition during the prior year.

Operating margin decreased due to unfavorable volume / product mix, increased investment spending, lower margins from an acquisition during the prior year and a trade name impairment charge recorded during 2019. These decreases were partially offset by pricing improvements and productivity in excess of inflation.

Trends and Economic Events

The security products industry has benefited from accelerated growth in institutional, commercial and residential end-markets in recent years. We also expect the security products industry will benefit from favorable long-term demographic trends such as continued urbanisation of the global population, increased concerns about safety and security and technology-driven innovation.

In recent years, growth in electronic security products and solutions continues to outperform mechanical products, and we expect growth in the global electronic security product and solution categories we serve to continue to outperform growth in mechanical products and solutions, as end-users adopt newer technologies in their facilities and homes.

DIRECTORS' REPORT (continued)

The economic conditions discussed above and a number of other challenges and uncertainties that could affect our businesses are described under "Principal Risks".

Financial Performance Review

Turnover

Turnover for the year ended 31 December 2019, increased by 4.5%, or \$122.3 million, compared to the same period in 2018, due to the following:

Pricing	1.8 %
Volume	2.8 %
Acquisitions / divestitures	1.3 %
Currency exchange rates	(1.4)%
Total	4.5 %

The increase in Turnover was primarily driven by higher volumes, improved pricing and incremental Turnover from the acquisitions, less divestitures, discussed below. These increases were partially offset by unfavorable foreign currency exchange rate movements.

Costs of sales

For the year ended 31 December 2019, Cost of sales as a percentage of Turnover decreased to 56.1% from 57.0% due to the following:

Pricing and productivity in excess of inflation	(1.6)%
Volume / product mix	0.2 %
Acquisitions / divestitures	0.2 %
Currency exchange rates	0.1 %
Restructuring / acquisition costs	0.2 %
Total	(0.9)%

Costs of sales as a percentage of Turnover for the year ended 31 December 2019, decreased due to pricing and productivity in excess of inflation. This decrease was partially offset by the impact of volume / product mix, the impact of the acquisitions and divestitures discussed below, unfavorable foreign currency exchange rate movements and increased restructuring and acquisition costs.

Distribution costs and Administrative expenses

For the year ended 31 December 2019, Distribution costs and Administrative expenses as a percentage of Turnover increased to 24.1% from 23.7% due to the following:

Inflation in excess of productivity	0.4 %
Volume leverage	(0.7)%
Acquisitions / divestitures	0.1 %
Investment spending	0.4 %
Currency exchange rates	(0.1)%
Restructuring / acquisition costs	0.1 %
Impairment of trade names	0.2 %
Total	0.4 %

Distribution costs and Administrative expenses as a percentage of Turnover for the year ended 31 December 2019, increased primarily due to inflation in excess of productivity benefits, the impact of the acquisitions and divestitures discussed below, increased investment spending, higher restructuring and acquisition costs and trade name impairment charges recorded during 2019. These increases were partially offset by favorable leverage due to increased volume and foreign currency exchange rate movements.

Operating profit/margin

Operating profit (excluding Other operating expenses, discussed in Note 5 to the Consolidated Financial Statements) for the year ended 31 December 2019, increased \$39.3 million from the same period in 2018, and Operating margin increased to 19.8% from 19.2% due to the following:

DIRECTORS' REPORT (continued)

<i>In millions (\$)</i>	Operating profit	Operating margin
31 December 2018	525.8	19.2 %
Pricing and productivity in excess of inflation	41.3	1.1 %
Volume / product mix	28.7	0.5 %
Currency exchange rates	(7.4)	— %
Investment spending	(11.3)	(0.4)%
Acquisitions / divestitures	(0.2)	(0.2)%
Restructuring / acquisition costs	(5.9)	(0.2)%
Impairment of trade names	(5.9)	(0.2)%
31 December 2019	565.1	19.8 %

Operating profit increased due to pricing and productivity in excess of inflation and favorable volume / product mix. These increases were partially offset by unfavorable foreign currency exchange rate movements, the impact of acquisitions and divestitures discussed below, increased investment spending, higher restructuring and acquisition costs and trade name impairment charges recorded during 2019.

Operating margin increased primarily due to pricing and productivity in excess of inflation and favorable volume / product mix. These increases were partially offset by the impact of acquisitions and divestitures discussed below, increased investment spending, higher restructuring and acquisition costs and trade name impairment charges recorded during 2019.

Interest payable and similar charges

Interest payable and similar charges for the year ended 31 December 2019, increased \$2.0 million compared to the same period of 2018, primarily due to a \$2.7 million charge related to the write-off of previously deferred financing costs related to our Term Facility as defined on Page 13. This charge was recognised in conjunction with a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance in 2019.

Loss on divestitures

During the year ended 31 December 2019, we recorded a Loss on divestitures of \$30.1 million related to the divestitures of our business operations in Colombia and Turkey.

In June 2019, we closed our production facility in Turkey and subsequently sold certain of the production assets thereof for total proceeds of approximately \$4.1 million. We recorded a Loss on divestiture of \$24.2 million (\$25.5 million, net of tax), primarily driven by \$25.0 million of cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to the Profit and loss account upon sale.

Additionally, during the fourth quarter of 2019, we sold our interests in our Colombia operations for an immaterial amount. As a result of the sale, we recorded a Loss on divestiture of \$5.9 million, of which \$1.2 million relates to cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to the Profit and loss account upon sale.

Neither of these divestitures is expected to have a material impact on our future results of operations or cash flows.

Tax on profit on ordinary activities

On 22 December 2017, the President of the United States signed comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act"). The Tax Reform Act makes broad and complex changes to the U.S. tax code which impacted our years ended 31 December 2019 and 2018 respectively, including, but not limited to (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time transition tax on certain unrepatriated profits of foreign subsidiaries, and (3) requiring a review of the future realisability of deferred tax balances.

For the year ended 31 December 2019, our effective tax rate was 15.4%, compared to 8.4% for the year ended 31 December 2018. The increase in the effective tax rate was primarily driven by the favorable benefit related to the Tax Reform Act recorded in 2018 and the tax costs associated with divestitures in 2019.

See Note 12 to the Consolidated Financial Statements for further discussion of tax matters.

Industry and Competition

The global markets we serve encompass institutional, commercial and residential construction and remodeling markets throughout North America, EMEIA and Asia Pacific. In recent years, as end-users adopt newer technologies in their facilities and single and multi-family homes, including Internet of Things (IoT), growth in electronic security products and solutions continues to outperform growth in mechanical security products and solutions. We expect the security products industry will continue to benefit from favorable long-term demographic trends such as continued urbanisation of the global population, increased concerns about safety and security and technology-driven innovation.

DIRECTORS' REPORT (continued)

The security products markets are highly competitive and fragmented throughout the world, with a number of large multi-national companies and thousands of smaller regional and local companies. This high fragmentation primarily reflects local regulatory requirements and highly variable end-user needs. We believe our principal global competitors are Assa Abloy AB and dormakaba Group. We also face competition in various markets and product categories throughout the world, including from Spectrum Brands Holdings, Inc. in the North American residential market. As we move into more technologically-advanced product categories, we may also compete against new, more specialised competitors.

Our success depends on a variety of factors, including brand and reputation, product breadth, innovation, integration with popular technology platforms, quality and delivery capabilities, price and service capabilities. As many of our businesses sell through wholesale distribution, our success also depends on building and partnering with a strong channel network. Although price often serves as an important customer decision point, we also compete based on the breadth and quality of our products and solutions, our ability to custom-configure solutions to meet individual end-user requirements and our global supply chain.

Products and Services

We offer an extensive and versatile portfolio of mechanical and electronic security products across a range of market-leading brands:

- *Locks, locksets, portable locks and key systems and services:* A broad array of cylindrical and mortise door locksets, security levers and master key systems that are used to protect and control access and a range of portable security products, including bicycle, small vehicle and travel locks. We also offer locksmith services in select locations;
- *Door closers, controls and exit devices:* An extensive portfolio of life-safety products generally installed on fire doors and facility entrances and exits. Door controls include both mechanical door closers and automatic door operators. Exit devices, also known as panic hardware, provide rapid egress to allow building occupants to exit safely in an emergency;
- *Electronic security products and access control systems:* A broad range of electrified locks, access control systems, key card and reader systems and accessories, including IoT, Bluetooth Low Energy (BLE), Power over Ethernet and cloud-based solutions;
- *Time, attendance and workforce productivity systems:* Products and services designed to help business customers manage and monitor workforce access control parameters, attendance and employee scheduling. We offer ongoing aftermarket services in addition to design and installation offerings;
- *Doors and door systems:* A portfolio of hollow metal, glass, wood and specialty doors and door systems; and
- *Other accessories:* A variety of additional security and product components, including hinges, door pulls, door stops, bike lights, louvers, weather stripping, thresholds and other accessories, as well as certain bathroom fittings and accessibility aids.

Customers

We sell most of our products and solutions through distribution and retail channels, including specialty distribution, e-commerce and wholesalers. We have built a network of channel partners that help our customers choose the right solution to meet their security needs and help commercial and institutional end-users fulfill and install orders. We also sell through a variety of retail channels, including large do-it-yourself home improvement centers, multiple on-line and e-commerce platforms, as well as small, specialty showroom outlets. We work with our retail partners on developing marketing and merchandising strategies to maximise their sales per square foot of shelf space. Through our Interflex and API Locksmiths businesses and Global Portable Security brands, we also provide products and solutions directly to end-users.

Our 10 largest customers represented approximately 23% of our total Turnover in 2019. No single customer represented 10% or more of our total Turnover in 2019.

Sales and Marketing

In markets where we sell through commercial and institutional distribution channels, we employ sales professionals around the world who work with a combination of end-users, security professionals, architects, contractors, engineers and distribution partners to develop specific custom-configured solutions for our end-users' needs. Our field sales professionals are assisted by specification writers who work with architects, engineers and consultants to help design door openings and security systems to meet end-users' functional, aesthetic and regulatory requirements. Both groups are supported by dedicated customer care and technical sales-support specialists worldwide. We also support our sales efforts with a variety of marketing efforts, including trade-specific advertising, cooperative distributor merchandising, digital marketing and marketing at a variety of industry trade shows.

In markets in which we sell through retail and home-builder distribution channels, we have teams of sales, merchandising and marketing professionals who help drive brand and product awareness through our channel partners and to consumers. We utilise a variety of advertising and marketing strategies, including traditional consumer media, retail merchandising, digital marketing, retail promotions and builder and consumer trade shows, to support these teams.

DIRECTORS' REPORT (continued)

We also work actively with several industry bodies around the world to help promote effective and consistent safety and security standards. For example, we are members of Builders Hardware Manufacturers Association (BHMA), Construction Specification Institute, FiRa Consortium, Internet of Things Consortium (IoTC), Physical Security Interoperability Alliance (PSIA), Security Industry Association, Security Technology Alliance, ASSOFERMA (Italy), BHE (Germany) and UNIQ (France).

Raw Materials

We support our region-of-use production strategy with corresponding region-of-use supplier partners, where available. Our global and regional commodity teams work with production leadership, product management and materials management teams to ensure adequate materials are available for production.

We purchase a wide range of raw materials, including steel, zinc, brass and other non-ferrous metals, to support our production facilities. Where appropriate, we may enter into fixed-cost contracts to lower overall costs.

Seasonality

Our business experiences seasonality that varies by product line. Because more construction and do-it-yourself projects occur during the second and third calendar quarters of each year in the Northern Hemisphere, our security product sales related to those projects are typically higher in those quarters than in the first and fourth calendar quarters. However, certain other businesses typically experience higher sales in the fourth calendar quarter due to project timing. Turnover by quarter for the years ended 31 December 2019 and 2018, are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2019	23%	26%	26%	25%
2018	22%	26%	26%	26%

Research and Development

We are committed to investing in our research and development capabilities with a focus on technology innovations that will deliver growth through the introduction of new products and solutions. In addition, we invest in initiatives that continuously drive improvements in product cost, quality, safety and sustainability.

Our research and development team is managed as a global, collaborative group to identify and develop new technologies and worldwide product platforms. We organise our resources regionally to leverage expertise in local standards and configurations for the benefit of our customers. Further, we operate a global engineering design and technology center in Bangalore, India, to augment and support the regional engineering teams.

Intellectual Property

Intellectual property, inclusive of certain patents, trademarks, copyrights, know-how, trade secrets and other proprietary rights, is important to our business. We create, protect and enforce our intellectual property investments in a variety of ways. We work actively in the U.S. and internationally to try to ensure the protection and enforcement of our intellectual property rights. We use trademarks on nearly all of our products and believe such distinctive marks are an important factor in creating a market for our goods, in identifying us and in distinguishing our products from others. We consider our CISA, Interflex, LCN, Schlage, SimonsVoss, Von Duprin and other associated trademarks to be among our most valuable assets, and we have registered these trademarks in a number of countries. Although certain proprietary intellectual property rights are important to our success, we do not believe we are materially dependent on any particular patent or license, or any particular group of patents or licenses.

Production and Distribution

We manufacture our products in our geographic markets around the world. We operate 32 production and assembly facilities, including 15 in Americas, 11 in EMEIA and 6 in Asia Pacific. We own 16 of these facilities and lease the others. Our strategy is to produce in the region of use, wherever appropriate, to allow us to be closer to the end-user and increase efficiency and timely product delivery. Much of our U.S. based residential portfolio is manufactured in the Baja region of Mexico under the Maquiladora, Manufacturing and Export Services Industry ("IMMEX") program (formerly known as the maquiladora program). In managing our network of production facilities, we focus on eliminating excess capacity, reducing cycle time through productivity and harmonising production practices and safety procedures.

We distribute our products through a broad network of channel partners. In addition, third-party manufacturing and logistics providers perform certain manufacturing, storage and distribution services for us to support certain parts of our manufacturing and distribution network.

Facilities

We operate through a broad network of sales offices, engineering centers, 32 production and assembly facilities and several distribution centers throughout the world. Our active properties represent approximately 6.6 million square feet, of which approximately 39% is leased. The following table shows the location of our principal worldwide production and assembly facilities:

Production and Assembly Facilities		
Americas	EMEA	Asia Pacific
Blue Ash, Ohio	Clamecy, France	Auckland, New Zealand
Boulder, Colorado	Dubai, United Arab Emirates	Brooklyn, Australia
Chino, California	Durchhausen, Germany	Bucheon, South Korea
Ensenada, Mexico	Faenza, Italy	Jinshan, China
Everett, Washington	Feuquieres, France	Melbourne, Australia
Indianapolis, Indiana	Monsampolo, Italy	Sydney, Australia
Irving, Texas	Muenster, Germany	
McKenzie, Tennessee	Osterfeld, Germany	
Mississauga, Ontario	Renchen, Germany	
Perrysburg, Ohio	Veenendaal, Netherlands	
Princeton, Illinois	Zawiercie, Poland	
Security, Colorado		
Snoqualmie, Washington		
Tecate, Mexico		
Tijuana, Mexico		

Liquidity and Capital Resources

Sources and uses of liquidity

Our primary source of liquidity is cash provided by operating activities. Cash provided by operating activities is used to invest in new product development, fund capital expenditures and fund working capital requirements and is expected to be adequate to service any future debt, pay any declared dividends and potentially fund acquisitions and share repurchases. Our ability to fund these capital needs depends on our ongoing ability to generate cash from our operating activities and to access our borrowing facilities (including unused availability under our Revolving Facility as defined on Page 13) and capital markets. We believe that our future cash provided by operating activities, availability under our Revolving Facility and access to funds on hand and capital markets will provide adequate resources to fund our operating and financing needs.

The following table reflects the major categories of cash flows for the years ended 31 December. For additional details, please see the Consolidated Statement of Cash Flows in the Consolidated Financial Statements.

<i>In millions (\$)</i>	2019	2018
Net cash provided by operating activities	488.2	457.8
Net cash used in investing activities	(77.6)	(443.8)
Net cash used in financing activities	(342.2)	(183.4)

Operating activities

Net cash provided by operating activities for the year ended 31 December 2019, increased \$30.4 million compared to 2018, primarily driven by changes in working capital.

Investing activities

Net cash used in investing activities for the year ended 31 December 2019, decreased \$366.2 million compared to 2018. The decrease is primarily due to a \$368.5 million reduction in cash payments related to acquisitions and equity investments in businesses, as well as the purchase of \$14.3 million of investments during the year ended 31 December 2018, which did not recur in 2019. These decreases were partially offset by an increase in capital expenditures of \$16.5 million during 2019 compared to 2018.

DIRECTORS' REPORT (continued)

Financing activities

Net cash used in financing activities for the year ended 31 December 2019, increased \$158.8 million compared to 2018. The increase is primarily due to increases of \$158.7 million in share repurchases and \$21.2 million in dividend payments year-over-year. Partially offsetting these increases was an \$18.2 million decrease in debt repayments, net, compared to 2018.

Capitalisation

At 31 December, long-term debt and other borrowings consisted of the following:

<i>In millions (\$)</i>	2019	2018
Term Facility	238.8	656.3
Revolving Facility	—	—
3.200% Senior Notes due 2024	400.0	400.0
3.550% Senior Notes due 2027	400.0	400.0
3.500% Senior Notes due 2029	400.0	—
Other debt	0.7	1.2
Total borrowings outstanding	1,439.5	1,457.5
Less discounts and debt issuance costs, net	(11.8)	(12.7)
Total debt	1,427.7	1,444.8
Less current portion of long-term debt	0.1	35.3
Total long-term debt	1,427.6	1,409.5

As of 31 December 2019, we have an unsecured Credit Agreement in place, consisting of a \$700.0 million term loan facility (the "Term Facility"), of which \$238.8 million is outstanding at 31 December 2019, and a \$500.0 million revolving credit facility (the "Revolving Facility" and, together with the Term Facility, the "Credit Facilities"). The Credit Facilities mature on 12 September 2022.

At inception, the Term Facility was scheduled to amortise in quarterly installments at the following rates: 1.25% per quarter starting 31 December 2017 through 31 December 2020, 2.5% per quarter from 31 March 2021 through 30 June 2022, with the balance due on 12 September 2022. Principal amounts repaid on the Term Facility may not be reborrowed. During the year ended 31 December 2019, we made a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance, utilising all of the net proceeds from the issuance of the 3.500% Senior Notes, plus cash on hand. As a result of this payment, we have satisfied our obligation to make quarterly installments on the Term Facility up to the maturity date, with the remaining outstanding balance due on 12 September 2022.

The Revolving Facility provides aggregate commitments of up to \$500.0 million, which includes up to \$100.0 million for the issuance of letters of credit. At 31 December 2019, there were no borrowings outstanding on the Revolving Facility, and we had \$16.3 million of letters of credit outstanding. Commitments under the Revolving Facility may be reduced at any time without premium or penalty, and amounts repaid may be reborrowed.

Outstanding borrowings under the Credit Facilities accrue interest at our option of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on our credit ratings. To manage our exposure to fluctuations in LIBOR rates, we have interest rate swaps to fix the interest rate for \$200.0 million of the outstanding borrowings as of 31 December 2019 (see Note 27 to the Consolidated Financial Statements).

As of 31 December 2019, we also have \$400.0 million outstanding of 3.200% Senior Notes due 2024 (the "3.200% Senior Notes") and \$400.0 million outstanding of 3.550% Senior Notes due 2027 (the "3.550% Senior Notes"). The 3.200% Senior Notes and 3.550% Senior Notes require semi-annual interest payments on 1 April and 1 October of each year and will mature on 1 October 2024, and 1 October 2027, respectively. Additionally, during the year ended 31 December 2019, we issued \$400.0 million aggregate principal amount of our 3.500% Senior Notes due 2029 (the "3.500% Senior Notes"). The 3.500% Senior Notes require semi-annual interest payments on 1 April and 1 October, beginning 1 April 2020, and will mature on 1 October 2029. Net proceeds from the issuance of the 3.500% Senior Notes, along with cash on hand, were utilised to make the \$400.0 million principal payment on the Term Facility discussed above.

Historically, the majority of our profits were considered to be permanently reinvested in jurisdictions where we have made, and intend to continue to make, substantial investments to support the ongoing development and growth of our global operations. At 31 December 2019, we have analysed our working capital requirements and the potential tax liabilities that would be incurred if certain subsidiaries made distributions and concluded that no material changes to our historic permanent reinvestment assertions are required.

Pension Plans

Our investment objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. We seek to achieve this goal while trying to mitigate volatility in plan funded status, contributions and expense by better matching the characteristics of the plan assets to that of the plan liabilities. Global asset allocation decisions are based on a dynamic approach whereby a plan's allocation to fixed income assets increases as the funded status increases. We monitor plan funded status, asset allocation and the impact of market conditions on our defined benefit plans regularly in addition to investment manager performance. None of our defined benefit pension plans have experienced a significant impact on their liquidity due to volatility in the markets. For further details on pension plan activity, see Note 29 to the Consolidated Financial Statements.

Contractual Obligations

The following table summarises our contractual cash obligations by required payment periods:

<i>In millions (\$)</i>	2020	2021-2022	2023-2024	Thereafter	Total
Long-term debt (including current maturities)	0.1	239.0	400.4	800.0	1,439.5
Interest payments on long-term debt	48.5	96.7	78.8	105.6	329.6
Purchase obligations	406.1	—	—	—	406.1
Operating leases	28.7	36.1	12.0	15.4	92.2
Total contractual cash obligations	483.4	371.8	491.2	921.0	2,267.4

Future interest payments on variable rate long-term debt are estimated based on the rate in effect as of 31 December 2019. Future expected obligations under our pension and postretirement benefit plans, income taxes, environmental and product liability matters have not been included in the contractual cash obligations table above.

Pensions

At 31 December 2019, we had net pension liabilities of \$35.0 million, which consist of plan assets of \$710.5 million and benefit obligations of \$745.5 million. It is our objective to contribute to our pension plans in order to ensure adequate funds are available in the plans to make benefit payments to plan participants and beneficiaries when required. At 31 December 2019, the funded status of our qualified pension plan for U.S. employees increased to 93.5% from 93.1% at 31 December 2018. The funded status for our non-U.S. pension plans increased to 101.1% at 31 December 2019 from 98.7% at 31 December 2018. The funded status for all of our pension plans at 31 December 2019 increased to 95.3% from 94.1% at 31 December 2018. We currently project that approximately \$11.5 million will be contributed to our plans worldwide in 2020. Because the timing and amounts of long-term funding requirements for pension obligations are uncertain, they have been excluded from the preceding table. See Note 29 to the Consolidated Financial Statements for additional information.

Postretirement Benefits Other than Pensions ("OPEB")

At 31 December 2019, we had postretirement benefit obligations of \$6.8 million. We fund OPEB costs principally on a pay-as-you-go basis as medical costs are incurred by covered retiree populations. Benefit payments, which are net of expected plan participant contributions and Medicare Part D subsidies, are not expected to be material in 2020. Because the timing and amounts of long-term funding requirements for OPEB obligations are uncertain, they have been excluded from the preceding table.

Income Taxes

At 31 December 2019, we have total unrecognised tax benefits for uncertain tax positions of \$37.3 million and \$6.2 million of related accrued interest and penalties, net of tax. These liabilities have been excluded from the preceding table as we are unable to reasonably estimate the amount and period in which these liabilities might be paid. See Note 12 to the Consolidated Financial Statements for additional information regarding matters relating to income taxes, including unrecognised tax benefits and tax authority disputes.

Contingent Liabilities

We are involved in various litigation, claims and administrative proceedings, including those related to environmental, asbestos-related and product liability matters. We believe that these liabilities are subject to the uncertainties inherent in estimating future costs for contingent liabilities and will likely be resolved over an extended period of time. Because the timing and amounts of potential future cash flows are uncertain, they have been excluded from the preceding table. See Note 32 to the Consolidated Financial Statements for additional information.

Foreign Currency Exposures

We have operations throughout the world that manufacture and sell products in various international markets. As a result, we are exposed to movements in exchange rates of various currencies against the U.S. dollar as well as against other currencies

DIRECTORS' REPORT (continued)

throughout the world. We actively manage material currency exposures that are associated with purchases and sales and other assets and liabilities at the legal entity level; however, we do not hedge currency translation risk. We attempt to hedge exposures that cannot be naturally offset to an insignificant amount with foreign currency derivatives. Derivative instruments utilised by us in our hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. To minimise the risk of counter party non-performance, derivative instrument agreements are made only through major financial institutions with significant experience in such derivative instruments.

We evaluate our exposure to changes in currency exchange rates on our foreign currency derivatives using a sensitivity analysis. The sensitivity analysis is a measurement of the potential loss in fair value based on a percentage change in exchange rates. Based on the firmly committed currency derivative instruments in place at 31 December 2019, a hypothetical change in fair value of those derivative instruments assuming a 10% adverse change in exchange rates would result in an additional unrealised loss of approximately \$12.7 million. This amount, when realised, would be partially offset by changes in the fair value of the underlying transactions.

Commodity Price Exposures

We are exposed to volatility in the prices of commodities used in some of our products and we use fixed price contracts to manage this exposure. We do not have committed commodity derivative instruments in place at 31 December 2019.

Interest Rate Exposure

Outstanding borrowings under our Credit Facilities accrue interest at our option of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on our credit ratings. At 31 December 2019, the outstanding borrowings of \$238.8 million under the Term Facility accrue interest at LIBOR plus a margin of 1.250%. To manage our exposure to fluctuations in LIBOR rates, we have interest rate swaps to fix the interest rate for \$200.0 million of the outstanding borrowings, which expire in September 2020.

We are also exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings, as we have the ability to incur up to \$500 million of additional variable-rate debt under our Revolving Facility. If LIBOR or other applicable base rates of our Credit Facilities increase in the future, our Interest payable and similar charges could increase.

Critical Accounting Policies

The Company prepares its Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined in Section 279 (1) of the Companies Act 2014 (the "2014 Act"). This requires management to use judgment in making estimates and assumptions based on the relevant information available at the end of each year. These estimates and assumptions have a significant effect on reported amounts of assets and liabilities, turnover and expenses as well as the disclosure of contingent assets and liabilities because they result primarily from the need to make estimates and assumptions on matters that are inherently uncertain. Actual results may differ from estimates. If updated information or actual amounts are different from previous estimates, the revisions are included in our results for the year in which they become known.

The following policies are considered by management to be the most critical in understanding the judgments that are involved in the preparation of the Consolidated Financial Statements and the uncertainties that could impact the results of operations, financial position and cash flows. These Consolidated Financial Statements were prepared in accordance with Irish Company Law, to present to shareholders and file with the Companies Registration Office in Ireland. Accordingly, these Consolidated Financial Statements include presentation and disclosures required by Ireland's 2014 Act in addition to those disclosures required under U.S. GAAP.

Goodwill and indefinite-lived intangible assets

We have significant goodwill and indefinite-lived intangible assets on our Consolidated Balance Sheets related to previous business combinations. Our goodwill and other indefinite-lived intangible assets are tested annually during the fourth quarter for impairment or when there is a significant change in events or circumstances that indicate the fair value of an asset is more likely than not less than the carrying amount of the asset.

Recoverability of goodwill is measured at the reporting unit level and starts with a comparison of the carrying amount of a reporting unit to its estimated fair value. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. To the extent that the carrying value of a reporting unit exceeds its estimated fair value, a goodwill impairment charge will be recognised for the amount by which the carrying value of the reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill of the reporting unit.

As quoted market prices are not available for our reporting units, the calculation of their estimated fair values is based on two valuation techniques, a discounted cash flow model (income approach) and a market multiple of profits (market approach), with

DIRECTORS' REPORT (continued)

each method being weighted in the calculation. The income approach relies on the Company's estimates of revenue growth rates, margin assumptions and discount rates to estimate future cash flows and explicitly addresses factors such as timing, with due consideration given to forecasting risk. The market approach requires the determination of an appropriate peer group, which is utilised to derive estimated fair values of our reporting units based on selected market multiples. The market approach reflects the market's expectations for future growth and risk, with adjustments to account for differences between the selected peer group companies and the subject reporting units.

The estimated fair values for each of our reporting units exceeded their carrying values by more than 15% for the 2019 goodwill impairment test. Assessing the fair value of our reporting units includes, among other things, making key assumptions for estimating future cash flows and appropriate market multiples. These assumptions are subject to a high degree of judgment and complexity. We make every effort to estimate future cash flows as accurately as possible with the information available at the time the forecast is developed. However, changes in assumptions and estimates may affect the estimated fair value of the reporting unit and could result in impairment charges in future periods. Factors that have the potential to create variances in the estimated fair value of the reporting unit include, but are not limited to, the following:

- Decreases in estimated market sizes or market growth rates due to greater-than-expected declines in volumes, pricing pressures or disruptive technology;
- Declines in our market share and penetration assumptions due to increased competition or an inability to develop or launch new products;
- The impacts of market volatility, including greater-than-expected declines in pricing, reductions in volumes or fluctuations in foreign exchange rates;
- The level of success of on-going and future research and development efforts, including those related to recent acquisitions, and increases in the research and development costs necessary to obtain regulatory approvals and launch new products;
- Increases in the price or decreases in the availability of key commodities and the impact of higher energy prices; and
- Increases in our market-participant risk-adjusted weighted-average cost of capital.

Other indefinite-lived intangible assets

Recoverability of indefinite-lived intangible assets is determined on a relief from royalty methodology, which is based on the implied royalty paid, at an appropriate discount rate, to license the use of an asset rather than owning the asset. The present value of the after-tax cost savings (i.e. royalty relief) indicates the estimated fair value of the asset. Any excess of the carrying value over the estimated fair value is recognised as an impairment loss equal to that excess. Based on the result of our 2019 impairment testing, it was determined that two of our indefinite-lived trade names were impaired. Accordingly, an impairment charge of \$5.9 million was recorded in the fourth quarter of 2019 (see Note 17 to the Consolidated Financial Statements for additional information).

A significant increase in the discount rate, decrease in the long-term growth rate, decrease in the royalty rate or substantial reductions in our end-markets and volume assumptions could have a negative impact on the estimated fair values of any of our indefinite-lived intangible assets. The estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporates management assumptions about expected future cash flows.

Revenue recognition

Turnover is recognised based on the satisfaction of performance obligations under the terms of a contract. A performance obligation is a promise in a contract to transfer control of a distinct product or to provide a service, or a bundle of products or services, to a customer, and is the unit of account under ASC 606, "Revenues from Contracts with Customers". We have two principal revenue streams, tangible product sales and services. Approximately 99% of consolidated Turnover involve contracts with a single performance obligation, the transfer of control of a product or bundle of products to a customer. Transfer of control typically occurs when goods are shipped from our facilities or at other predetermined control transfer points (for instance, destination terms). Turnover is measured as the amount of consideration we expect to receive in exchange for transferring control of the products and takes into account variable consideration, such as sales incentive programs, including discounts and volume rebates. The existence of these programs does not preclude revenue recognition but does require our best estimate of the variable consideration to be made based on expected activity, as these items are reserved for as a deduction to Turnover over time based on our historical rates of providing these incentives and annual forecasted sales volumes.

Our remaining Turnover involves services, including installation and consulting. Unlike the single performance obligation to ship a product or bundle of products, revenue recognition related to services revenues is delayed until the service based performance obligations are satisfied. In some instances, customer acceptance provisions are included in sales arrangements to give the buyer the ability to ensure the service meets the criteria established in the order. In these instances, revenue recognition is deferred until the performance obligations are satisfied, which could include acceptance terms specified in the arrangement being fulfilled through customer acceptance or a demonstration that established criteria have been satisfied.

DIRECTORS' REPORT (continued)

We do not adjust the transaction price for the effects of a significant financing component, as the time period between control transfer of goods and services is less than one year. Sales, value-added and other similar taxes collected by us are excluded from Turnover. We also have elected to account for shipping and handling activities that occur after control of the related goods transfers as fulfillment activities instead of performance obligations. Our payment terms are generally consistent with the industries in which our businesses operate.

Sales returns and customer disputes involving a question of quantity or price are accounted for as variable consideration, and therefore, as a reduction in revenue and a contra receivable. All other incentives or incentive programs where the customer is required to reach a certain level of purchases, remain a customer for a certain period, provide a rebate form or is subject to additional requirements are also considered variable consideration and are accounted for as a reduction of revenue and a liability. Variable consideration is estimated based on the most likely amount we expect to receive from customers. Each of these accruals represents the Company's best estimate of the most likely amount expected to be received from customers based on historical experience. These estimates are reviewed regularly for accuracy. If updated information or actual amounts are different from previous estimates, the revisions are included in the Company's results for the year in which they become known. Historically, the aggregate differences, if any, between the Company's estimates and actual amounts in any year have not had a material impact on the Consolidated Financial Statements. We also offer a standard warranty with most product sales, and the value of such warranty is included in the contractual price. The corresponding cost of the warranty obligation is accrued as a liability (see Note 32).

Income taxes

We account for income taxes in accordance with ASC Topic 740. Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. We recognise future tax benefits, such as net operating losses and non-U.S. tax credits, to the extent that realising these benefits is considered in our judgment to be more likely than not. We regularly review the recoverability of our deferred tax assets considering our historic profitability, projected future taxable income, timing of the reversals of existing temporary differences and the feasibility of our tax planning strategies. Where appropriate, we record a valuation allowance with respect to future tax benefits.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which we operate. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, tax authorities periodically review income tax returns filed by us and can raise issues regarding our filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. We believe that we have adequately provided for any reasonably foreseeable resolution of these matters. We will adjust our estimates if significant events so dictate. To the extent that the ultimate results differ from our original or adjusted estimates, the effect will be recorded in the Tax on profit on ordinary activities in the year that the matter is finally resolved.

Employee benefit plans

We provide a range of benefits to eligible employees and retirees, including pensions, postretirement and postemployment benefits. Determining the cost associated with such benefits is dependent on various actuarial assumptions including discount rates, expected return on plan assets, compensation increases, employee mortality, turnover rates and healthcare cost trend rates. Actuarial valuations are performed to determine expense in accordance with U.S. GAAP. Actual results may differ from the actuarial assumptions and are generally accumulated into Other reserves and amortised into the Consolidated Profit and Loss Account over future periods.

We review our actuarial assumptions at each measurement date and make modifications to the assumptions based on current rates and trends, if appropriate. The discount rate, the rate of compensation increase and the expected long-term rates of return on plan assets are determined as of each measurement date. Discount rates for all plans are established using hypothetical yield curves based on the yields of corporate bonds rated AA quality. Spot rates are developed from the yield curve and used to discount future benefit payments. The rate of compensation increase is dependent on expected future compensation levels. The expected long-term rate of return on plan assets reflects the average rate of returns expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The expected long-term rate of return on plan assets is based on what is achievable given the plan's investment policy, the types of assets held and the target asset allocation. The expected long-term rate of return is determined as of each measurement date.

We believe the assumptions utilised in recording our obligations under our plans are reasonable based on input from our actuaries, outside investment advisors and information as to assumptions used by plan sponsors.

Changes in any of the assumptions can have an impact on the net periodic pension and postretirement benefit cost. Estimated sensitivities to the expected 2020 net periodic pension benefit cost of a 0.25% rate decline in the two basic assumptions are as

DIRECTORS' REPORT (continued)

follows: the decline in the discount rate would increase expense by approximately \$0.9 million and the decline in the estimated return on assets would increase expense by approximately \$0.7 million.

Business combinations

The fair value of the consideration paid in a business combination is allocated to the tangible and identifiable intangible assets acquired, liabilities assumed and goodwill. Acquired intangible assets primarily include indefinite-lived trade names, customer relationships and completed technologies. The accounting for acquisitions involves a considerable amount of judgment and estimation, including the fair value of acquired intangible assets involving projections of future revenues and cash flows that are either discounted at an estimated discount rate or measured at an estimated royalty rate; fair value of other acquired assets and assumed liabilities, including potential contingencies; and the useful lives of the acquired assets. The assumptions used to determine the fair value of acquired intangible assets include projections developed using internal forecasts, available industry and market data, estimates of long-term growth rates, profitability, customer attrition and royalty rates, which are determined at the time of the business combination. The Company uses an income approach or market approach (or both) in accordance with accepted valuation models for each acquired intangible asset to determine the fair value. The impact of prior or future business combinations on our financial condition or results of operations may be materially impacted by the change in or initial selection of assumptions and estimates.

Environmental Regulation

We have a dedicated environmental program designed to reduce the utilisation and generation of hazardous materials during the manufacturing process, as well as to remediate identified environmental concerns. As to the latter, we are currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former production facilities. We also regularly evaluate our remediation methods that are in addition to, or in replacement of, those we currently utilise based upon enhanced technology and regulatory changes.

We are sometimes a party to environmental lawsuits and claims and have received notices of potential violations of environmental laws and regulations from the U.S. Environmental Protection Agency (the "EPA") and similar state authorities. We have also been identified as a potentially responsible party ("PRP") for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all such sites, there are other PRPs and, in most instances, our involvement is minimal.

In estimating our liability, we have assumed that we will not bear the entire cost of remediation of any site to the exclusion of other PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based on our understanding of the parties' financial condition and probable contributions on a per site basis. Additional lawsuits and claims involving environmental matters are likely to arise from time to time in the future. For a further discussion of our potential environmental liabilities, see Note 32 to the Consolidated Financial Statements.

Principal Risks

The following are certain risk factors that could materially and adversely affect our business, financial condition, results of operations, and cash flows. These risk factors are not intended to be exhaustive and should be taken into consideration together with all other information contained in this report.

Risks Relating to Our Business

Our global operations subject us to economic risks.

We are incorporated in Ireland and operate in countries worldwide. Our global operations depend on products manufactured, purchased and sold in the U.S. and internationally, including in Australia, China, Europe, Korea, Mexico, New Zealand and the United Arab Emirates. The political, economic and regulatory environments in which we operate are becoming increasingly volatile and uncertain. Accordingly, we are subject to risks that are inherent in operating globally, including:

- Changes to trade agreements, sanctions, import and export regulations, including imposition of burdensome tariffs and quotas, and customs duties;
- Changes in applicable tax regulations and interpretations;
- Economic downturns and social and political instability, including uncertainties and financial, legal, tax and trade implications of the implementation of the United Kingdom's withdrawal of its membership from the European Union (commonly known as "Brexit");
- Changes in laws and regulations or imposition of currency restrictions and other restraints in various jurisdictions;
- Limitation of ownership rights, including expropriation of assets by a local government, and limitation on the ability to repatriate earnings;
- Sovereign debt crises and currency instability in developed and developing countries;
- Difficulty in staffing and managing global operations;
- Difficulty in enforcing agreements, collecting receivables and protecting assets through non-U.S. legal systems; and

- Political unrest, national and international conflict, including war, border closures, civil disturbances and terrorist acts.

These risks could increase our cost of doing business in the U.S. and internationally, increase our counterparty risk, disrupt our operations, disrupt the ability of suppliers and customers to fulfill their obligations, increase our effective tax rate, increase the cost of our products, limit our ability to sell products in certain markets, reduce our operating margin, reduce cash flow and negatively impact our ability to compete.

Our business relies on the institutional, commercial and residential construction and remodeling markets.

We primarily rely on the institutional, commercial and residential construction and remodeling markets, which are marked by cyclicity based on overall economic conditions. Weakness or instability in these markets may cause current and potential customers to delay or choose not to make purchases, which could negatively impact the demand for our products and services.

Increased competition, including from technological developments, could adversely affect our business.

The markets in which we operate include a large number of participants, including multi-national companies, regional companies and small local companies. We primarily compete on the basis of quality, innovation, expertise, effective channels to market, breadth of product offering and price. We may be unable to effectively compete on all these bases. Further, in a number of our product offerings, we compete with our retail customers who use their own private labels. If we are unable to anticipate evolving trends in the market or the timing and scale of our competitors' activities and initiatives, including increased competition from private label brands, the demand for our products and services could be negatively impacted.

In addition, we compete in an industry that is experiencing the convergence of mechanical, electronic and digital products. Technology and innovation play significant roles in the competitive landscape. Our success depends, in part, upon the research, development and implementation of new technologies and products including obtaining, maintaining and enforcing necessary intellectual property protections. Securing and maintaining key partnerships and alliances, recruiting and retaining highly skilled and qualified employee talent and having access to technologies, services, intellectual property and solutions developed by others will play a significant role in our ability to effectively compete. The continual development of new technologies by existing and new competitors, including non-traditional competitors with significant resources, could adversely affect our ability to sustain operating margins and desirable levels of sales volumes. To remain competitive, we must develop new products and respond to new technologies in a timely manner.

Our growth is dependent, in part, on the development, commercialisation and acceptance of new products and services.

We must develop and commercialise new products and services in order to remain competitive in our current and future markets and in order to continue to grow our business. The speed of development by our competitors and new market entrants is increasing. We cannot provide any assurance that any new product or service will be successfully commercialised in a timely manner, if ever, or, if commercialised, will result in returns greater than our investment. Investment in a product or service could divert our attention and resources from other projects that become more commercially viable in the market. We also cannot provide any assurance that any new product or service will be accepted by the market.

Changes in customer and consumer preferences and the inability to maintain beneficial relationships with large customers could adversely affect our business.

We have significant customers, particularly major retailers, although no one customer represented 10% or more of our total Turnover in any of the past two fiscal years. The loss or material reduction of business, the lack of success of sales initiatives or changes in customer preferences or loyalties for our products related to any such significant customer could have a material adverse impact on our business. In addition, major customers who are volume purchasers are much larger than us and have strong bargaining power with suppliers. This limits our ability to recover cost increases through higher selling prices. Furthermore, unanticipated inventory adjustments by these customers can have a negative impact on sales.

We also sell our products through various trade channels, including traditional retail and e-commerce channels. If we or our major customers are not successful in navigating the shifting consumer preferences to distribution channels such as e-commerce, our expected future revenues may be negatively impacted.

Our brands are important assets of our businesses, and violation of our trademark rights by imitators could negatively impact revenues and brand reputation.

Our brands and trademarks enjoy a reputation for quality and value and are important to our success and competitive position. Unauthorised use of our trademarks may not only erode sales of our products but may also cause significant damage to our brand name and reputation, interfere with relationships with our customers and increase litigation costs. There can be no assurance that our on-going effort to protect our brand and trademark rights will prevent all violations.

Currency exchange rate fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in currency exchange rates. Approximately 30% of our 2019 Turnover was derived outside the U.S., and we expect sales to non-U.S. customers to continue to represent a

DIRECTORS' REPORT (continued)

significant portion of our consolidated Turnover. Although we may enter into currency exchange contracts to reduce our risk related to currency exchange fluctuations, changes in the relative fair values of currencies occur from time to time and may, in some instances, have a material impact on our results of operations. We do not hedge against all of our currency exposure and therefore, our business will continue to be susceptible to currency fluctuations.

We also translate assets, liabilities, revenues and expenses denominated in non-U.S. dollar currencies into U.S. dollars for our Consolidated Financial Statements based on applicable exchange rates. Consequently, fluctuations in the value of the U.S. dollar compared to other currencies may have a material impact on the value of these items in our Consolidated Financial Statements, even if their value has not changed in their original currency.

Our business and innovation strategies include making acquisitions of, and investments in, external companies. These acquisitions and investments could be unsuccessful or consume significant resources, which could adversely affect our operating and financial results.

We will continue to analyse and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of products and services offerings. We cannot provide assurance that we will identify or successfully complete acquisitions with suitable candidates in the future, nor can we provide assurance that completed acquisitions will be successful, including efficient integration and creation of synergies.

Some of the businesses we may seek to acquire may be marginally profitable or unprofitable. For these businesses to achieve acceptable levels of profitability, we must improve their management, operations, products and market penetration. We may not be successful in this regard and we may encounter other difficulties in integrating acquired businesses into our existing operations.

Acquisitions may involve significant cash expenditures, debt incurrence, operating losses and expenses. Acquisitions also involve numerous other risks, including:

- Diversion of management time and attention from daily operations;
- Difficulties integrating acquired businesses, technologies and personnel into our business;
- Difficulties completing the transaction in a timely manner;
- Difficulties realising synergies expected to result from acquisitions;
- Difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- Inability to obtain regulatory approvals and/or required financing on favorable terms;
- Potential loss of key employees, key contractual relationships or key customers of acquired companies or of us;
- Difficulties competing in the new markets we enter;
- Assumption of the liabilities and exposure to unforeseen liabilities of acquired companies;
- Dilution of interests of holders of our ordinary shares through the issuance of equity securities or equity-linked securities; and
- Difficulty in integrating financial reporting systems and implementing controls, procedures and policies, including disclosure controls and procedures and internal control over financial reporting, appropriate for public companies of our size at companies that, prior to the acquisition, had lacked such controls, procedures and policies.

Further, as part of Allegion's innovation strategy, from time to time we invest in start-up companies and/or development stage technology or other companies. In evaluating these opportunities, we follow a structured evaluation process that considers factors such as potential financial returns, new expertise in emerging technology and business benefits. Despite our best efforts to calculate potential return and risk, some or all of these companies we invest in may be unprofitable at the time of, and subsequent to, our investment. We may lose money in these investments, including the potential for future impairment charges on the investments, and the anticipated benefits of the technology and business relationships may be less than expected.

We continually look to expand our services and products into international markets. As we expand into new international markets, we will have only limited experience in marketing and operating services and products in such markets. In some instances, we may rely on the efforts and abilities of foreign business partners in such markets. Certain international markets may be slower than U.S. markets in adopting our services and products, and our operations in such markets may not develop at a rate that supports our level of investment. In addition to the risks outlined above, expansion into certain international markets may require us to compete with local businesses with greater knowledge of the market, including the tastes and preferences of customers and businesses with dominant market shares. Any acquisitions or investments may ultimately harm our business or financial condition; as such, acquisitions may not be successful and may ultimately result in impairment charges.

We may pursue business opportunities that diverge from core business.

We may pursue business opportunities that diverge from our core business, including expanding our products or service offerings, investing in new and unproven technologies and forming new alliances with companies to distribute our products and services. We can offer no assurance that any such business opportunities will prove to be successful. Among other negative effects, our investment in new business opportunities may exceed the returns we realise. Additionally, any new investments could have higher cost structures than our current business, which could reduce operating margins and require more working capital. In the

event that working capital requirements exceed operating cash flow, we may be required to draw on our revolving credit facility or pursue other external financing, which may not be readily available.

Our enterprise excellence efforts may not achieve the improvements we expect.

We utilise a number of tools to improve efficiency and productivity. Implementation of new processes to our operations could cause disruptions and may prove to be more difficult, costly or time consuming than expected. There is no assurance that all of our planned enterprise excellence projects will be fully implemented, or if implemented, will realise the expected improvements.

Our restructuring plans may not be successful.

We have in the past restructured or made other adjustments to our workforce and manufacturing footprint in response to market changes, product changes, performance issues, changes in strategy, acquisitions and other internal and external considerations. Historically, these types of restructuring activities have resulted in increased restructuring costs and temporarily reduced productivity. In addition, we may not achieve or sustain the expected growth or cost savings benefits of these restructurings or do so within the expected timeframe. These effects could recur in connection with future acquisitions and other restructurings and our Turnover and other results of operations could be negatively affected.

Material adverse legal judgments, fines, penalties or settlements could adversely affect our business.

We are currently and may in the future become involved in legal proceedings and disputes incidental to the operation of our business. Our business may be adversely affected by the outcome of these proceedings and other contingencies (including, without limitation, environmental, product liability, antitrust, intellectual property, data protection, privacy and labor and employment matters) that cannot be predicted with certainty. As required by U.S. GAAP, we establish reserves based on our assessment of contingencies. Subsequent developments in legal proceedings and other contingencies may affect our assessment and estimates of the loss contingency recorded as a reserve, and we may be required to make additional material payments.

Allegations that we have infringed the intellectual property rights of third parties could negatively affect us.

We may be subject to claims of infringement of intellectual property rights by third parties. In particular, we often compete in areas having extensive intellectual property rights owned by others and we have become subject to claims alleging infringement of intellectual property rights of others. In general, if it is determined that one or more of our technologies, products or services infringes the intellectual property rights owned by others, we may be required to cease marketing those products or services, to obtain licenses from the holders of the intellectual property at a material cost or to take other actions to avoid infringing such intellectual property rights. The litigation process is costly and subject to inherent uncertainties, and we may not prevail in litigation matters regardless of the merits of our position. Adverse intellectual property litigation or claims of infringement against us may become extremely disruptive if the plaintiffs succeed in blocking the trade of our products and services and may have a material adverse effect on our business.

Our reputation, ability to do business and results of operations could be impaired by adverse publicity or improper conduct by any of our employees, agents or business partners.

We are subject to regulation under a variety of U.S. federal and state and non-U.S. laws, regulations and policies including laws related to anti-corruption, export and import compliance, anti-trust and money laundering due to our global operations. We cannot provide assurance that our internal controls will always protect us from the improper conduct of our employees, agents and business partners. Any improper conduct could damage our reputation and subject us to, among other things, civil and criminal penalties, material fines, equitable remedies (including profit disgorgement and injunctions on future conduct), securities litigation and a general loss of investor confidence.

Further, adverse publicity, whether or not justified, or allegations of product or service quality issues, even if false or unfounded, could damage our reputation and negatively affect our sales.

Disruptions in our global supply chain, including product manufacturing and logistical services provided by outsourcing partners, may negatively impact our business.

Our ability to meet our customers' needs and achieve cost targets depends on our ability to maintain key manufacturing and supply arrangements, including execution of supply chain optimisations and certain sole supplier or sole manufacturing arrangements. The loss or disruption of such manufacturing and supply arrangements could interrupt product supply and, if not effectively managed and remedied, have an adverse impact on our business.

We outsource certain manufacturing and logistical services to partners located throughout the world. Our reliance on these third parties reduces our control over the manufacturing and delivery process, exposing us to risks including reduced control over quality assurance, product costs, product supply and delivery delays. If we are unable to effectively manage these relationships, or if these third parties experience delays, disruptions, capacity constraints, regulatory issues or quality control problems in their operations or otherwise fail to meet our future requirements for timely delivery, our ability to ship and deliver certain of our products to our customers could be impaired and our business could be harmed.

The effects of global climate change or other unexpected events, including global health crises, may disrupt our operations and have a negative impact on our business.

The effects of global climate change, such as extreme weather conditions and natural disasters occurring more frequently or with more intense effects, or the occurrence of unexpected events, including wildfires, tornadoes, hurricanes, earthquakes, floods, tsunamis and other severe hazards or global health crises, such as the outbreak of Ebola or the COVID-19 pandemic, or other actual or threatened epidemic, pandemic, outbreak and spread of a communicable disease or virus, in the countries where we operate or sell products and provide services, could adversely affect our operations and financial performance. Extreme weather, natural disasters, power outages, global health crises or other unexpected events could disrupt our operations by impacting the availability and cost of materials needed for manufacturing, causing physical damage and partial or complete closure of our manufacturing sites or distribution centers, loss of human capital, temporary or long-term disruption in the supply of products and services and disruption in our ability to deliver products and services to customers. These events and disruptions could also adversely affect our customers' and suppliers' financial condition or ability to operate, resulting in reduced customer demand, delays in payments received or supply chain disruptions. Further, these events and disruptions could increase insurance and other operating costs, including impacting our decisions regarding construction of new facilities to select areas less prone to climate change risks and natural disasters, which could result in indirect financial risks passed through the supply chain or other price modifications to our products and services.

In particular, the ultimate extent of the impact of any epidemic, pandemic or other global health crisis on our business, financial condition and results of operations will depend on future developments which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other global health crisis and actions taken to contain or prevent their further spread.

We may be subject to risks relating to our information technology and operational technology systems.

We rely extensively on information technology and operational technology systems, networks and services including hardware, software, firmware and technological applications and platforms (collectively, "IT Systems") to manage and operate our business from end-to-end, including ordering and managing materials from suppliers, design and development, manufacturing, marketing, selling and shipping to customers, invoicing and billing, managing our banking and cash liquidity systems, managing our enterprise resource planning and other accounting and financial systems and complying with regulatory, legal and tax requirements. There can be no assurance that our current IT Systems will function properly. We have invested and will continue to invest in improving our IT Systems. Some of these investments are significant and impact many important operational processes and procedures. There is no assurance that any newly implemented IT Systems will improve our current systems, improve our operations or yield the expected returns on the investments. In addition, the implementation of new IT Systems may cause disruptions in our operations and, if not properly implemented and maintained, negatively impact our business. If our IT Systems cease to function properly or if these systems do not provide the anticipated benefits, our ability to manage our operations could be impaired.

We currently rely on third-party vendors for many of the critical elements of our global information and operational technology infrastructure and their failure to provide effective support for such infrastructure could negatively impact our business and financial results.

We have outsourced many of the critical elements of our global information and operational technology infrastructure to third-party service providers in order to achieve efficiencies. If such service providers do not perform or do not perform effectively, we may not be able to achieve the expected efficiencies and may have to incur additional costs to address failures in providing service by the service providers. Depending on the function involved, such non-performance, ineffective performance or failures of service may lead to business disruptions, processing inefficiencies or security breaches.

Disruptions or breaches of our information systems could adversely affect us.

Despite our implementation of network security measures which have focused on prevention, mitigation, resilience and recovery, our network and products, including access solutions, may be vulnerable to cybersecurity attacks, computer viruses, malicious codes, malware, ransomware, phishing, social engineering, denial of service, hacking, break-ins and similar disruptions. Cybersecurity attacks and intrusion efforts are continuous and evolving, and in certain cases they have been successful at the most robust institutions. The scope and severity of risks that cyber threats present have increased dramatically and include, but are not limited to, malicious software, attempts to gain unauthorised access to data or premises, exploiting weaknesses related to vendors or other third parties that could be exploited to attack our systems, denials of service and other electronic security breaches that could lead to disruptions in systems, unauthorised release of confidential or otherwise protected information and corruption of data. Any such event could have a material adverse effect on our business, operating results and financial condition, as we face regulatory, reputational and litigation risks resulting from potential cyber incidents, as well as the potential of incurring significant remediation costs.

Our daily business operations also require us to collect and/or retain sensitive data such as intellectual property, proprietary business information and data related to customers, employees, suppliers and business partners within our networking

infrastructure including data from individuals subject to the European Union's General Data Protection Regulation, that is subject to privacy and security laws, regulations and/or customer-imposed controls. Despite our efforts to protect such data, the loss or breach of such data due to various causes including material security breaches, catastrophic events, extreme weather, natural disasters, power outages, system failures, computer viruses, improper data handling, programming errors, unauthorised access and employee error or malfeasance could result in wide reaching negative impacts to our business, and as such, the ongoing maintenance and security of this information is pertinent to the success of our business operations and our strategic goals.

In addition, we operate in an environment where there are different and potentially conflicting data privacy laws and regulations in effect or expected to go into effect in the future, including regulations related to devices connected through the IoT, in the various jurisdictions in which we operate, and we must understand and comply with such laws and regulations while ensuring our data is secure.

Our networking infrastructure and related assets may be subject to unauthorised access by hackers, employee error or malfeasance or other unforeseen activities. Such issues could result in the disruption of business processes, network degradation and system downtime, along with the potential that a third party will exploit our critical assets such as intellectual property, proprietary business information and data related to our customers, suppliers and business partners. To the extent that such disruptions occur and our business continuity plans do not effectively address these disruptions in a timely manner, they may cause delays in the manufacture or shipment of our products and the cancellation of customer orders and, as a result, our business operating results and financial condition could be materially and adversely affected, resulting in a possible loss of business or brand reputation.

Commodity shortages, price increases and higher energy prices could negatively affect our financial results.

We rely on suppliers to secure commodities, including steel, zinc, brass and other non-ferrous metals, required for the manufacture of our products. A disruption of deliveries from our suppliers or decreased availability of commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that available sources of supply will generally be sufficient for our needs for the foreseeable future. Nonetheless, the unavailability of some commodities could have a material adverse impact on our business.

Volatility in the prices of these commodities could increase the costs of our products and services, and we may not be able to pass on these costs to our customers. We do not currently use financial derivatives to hedge against this volatility; however, we utilise firm purchase commitments to mitigate risk. The pricing of some commodities we use is based on market prices. To mitigate this exposure, we may use annual price contracts to minimise the impact of inflation and to benefit from deflation.

Additionally, we are exposed to fluctuations in energy prices due to the instability of current market prices. Higher energy costs increase our operating costs and the cost of shipping our products and supplying services to our customers around the world. Consequently, sharp price increases, the imposition of taxes or an interruption of supply could cause us to lose the ability to effectively manage the risk of rising energy prices and may have an adverse impact on our results of operations and cash flows.

We may be required to recognise impairment charges for our goodwill, indefinite-lived intangible assets and other long-lived assets.

At 31 December 2019, the net carrying value of our goodwill and other indefinite-lived intangible assets totaled approximately \$873.3 million and \$123.0 million, respectively. Pursuant to U.S. GAAP, we are required to annually assess our goodwill, indefinite-lived intangibles and other long-lived assets to determine if they are impaired. In addition, interim assessments must be performed whenever events or changes in circumstances indicate that impairment may have occurred. Significant disruptions to our business, end market conditions and protracted economic weakness, unexpected significant declines in operating results of reporting units, divestitures and market capitalisation declines may result in recognition of impairment charges to goodwill or result in the impairment of our indefinite-lived intangible assets or other long-lived assets. Specifically, an unanticipated deterioration in Turnover and/or operating margins generated by our EMEIA and/or Asia Pacific segments could trigger future impairments in those segments. Any charges relating to such impairments could have a material adverse impact on our results of operations in the periods recognised.

Our ability to successfully grow and expand our business depends on our ability to recruit and retain a highly qualified and diverse workforce.

Our ability to successfully grow and expand our business depends on the contributions and abilities of our employees and key management, including, for example, the ability of our sales force to adapt to any changes made in the sales organisation and achieve adequate customer coverage. We must therefore continue to effectively recruit, retain and motivate key management, sales and other highly qualified and skilled personnel to maintain our current business and support our projected growth. A shortage of these key employees for various reasons, including changes in laws and policies regarding immigration and work authorisations in jurisdictions where we have operations, might jeopardise our ability to grow and expand our business.

Our operations are subject to regulatory risks.

Our U.S. and non-U.S. operations are subject to a number of laws and regulations, including fire and building codes and environmental, health and safety standards. We have incurred, and will be required to continue to incur, significant expenditures

DIRECTORS' REPORT (continued)

to comply with these laws and regulations. Changes to, or changes in interpretations of, current laws and regulations could require us to increase our compliance expenditures, cause us to significantly alter or discontinue offering existing products and services or cause us to develop new products and services. Altering current products and services or developing new products and services to comply with changes in the applicable laws and regulations could require significant research and development investments, increase the cost of providing the products and services and adversely affect the demand for our products and services.

In the event a regulatory authority concludes that we are not or have not at all times been in full compliance with these laws or regulations, we could be fined, criminally charged or otherwise sanctioned.

Certain environmental laws assess liability on current or previous owners of real property or operators of manufacturing facilities for the costs of investigation, removal or remediation of hazardous substances or materials at such properties or at properties at which parties have disposed of hazardous substances. Liability for investigative, removal and remedial costs under certain U.S. federal and state laws and certain non-U.S. laws are retroactive, strict and joint and several. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. We have received notification from U.S. and non-U.S. governmental agencies, including the EPA and similar state environmental agencies, that conditions at a number of current and formerly owned sites where we and others have disposed of hazardous substances require investigation, cleanup and other possible remedial action. These agencies may require that we reimburse the government for its costs incurred at these sites or otherwise pay for the costs of investigation and cleanup of these sites, including by providing compensation for natural resource damage claims from such sites.

While we have planned for future capital and operating expenditures to maintain compliance with environmental laws and have accrued for costs related to current remedial efforts, our costs of compliance, or our liabilities arising from past or future releases of, or exposures to, hazardous substances, may exceed our estimates. We may also be subject to additional environmental claims for personal injury or cost recovery actions for remediation of facilities in the future based on our past, present or future business activities.

The capital and credit markets are important to our business.

Instability in U.S. and global capital and credit markets, including market disruptions, limited liquidity and interest rate volatility or reductions in the credit ratings assigned to us by independent ratings agencies, could reduce our access to capital markets or increase the cost of funding our short and long-term credit requirements. In particular, if we are unable to access capital and credit markets on terms that are acceptable to us, we may not be able to make certain investments or fully execute our business plans and strategy.

Our suppliers and customers are also dependent upon the capital and credit markets. Limitations on the ability of customers, suppliers or financial counterparties to access credit could lead to insolvencies of key suppliers and customers, limit or prevent customers from obtaining credit to finance purchases of our products and services and cause delays in the delivery of key products from suppliers.

As a global business, we have a relatively complex tax structure, and there is a risk that tax authorities will disagree with our tax positions.

Since we conduct operations worldwide through our subsidiaries, we are subject to complex transfer pricing regulations in the countries in which we operate. Transfer pricing regulations generally require that, for tax purposes, transactions between us and our affiliates be priced on a basis that would be comparable to an arm's length transaction and that contemporaneous documentation be maintained to support the tax allocation. Although uniform transfer pricing standards are emerging in many of the countries in which we operate, there is still a relatively high degree of uncertainty and inherent subjectivity in complying with these rules. To the extent that any tax authority disagrees with our transfer pricing policies, we could become subject to significant tax liabilities and penalties. Our tax returns are subject to review by taxing authorities in the jurisdictions in which we operate. Although we believe that we have provided for all tax exposures, the ultimate outcome of a tax review could differ materially from our provisions.

We could be subject to changes in tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.

Our future effective tax rate and cash tax obligations could be adversely affected by shifts in our mix of earnings in countries with varying statutory tax rates, changes in the valuation of our deferred tax assets or liabilities or changes in tax laws, regulations, interpretations or accounting principles, as well as certain discrete items. In addition, we are subject to regular review and audit by both U.S. and non-U.S. tax authorities. As a result, we have received, and may in the future receive, assessments in multiple jurisdictions on various tax-related assertions. Any adverse outcome of such a review or audit could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which

such determination is made. Furthermore, due to shifting economic and political conditions, tax policies, laws, interpretations and rates in various jurisdictions may be subject to significant change, which could materially affect our financial position and results of operations. For example, the Tax Reform Act enacted in December 2017 in the U.S. had a significant impact on our cash tax obligations. In addition, many countries in Europe, as well as a number of other countries and organisations, have recently proposed, recommended or implemented changes to existing tax laws or have enacted new laws that could significantly increase our effective tax rate or cash tax obligations in many countries where we do business or require us to change the manner in which we operate our business.

There are risks associated with our outstanding and future indebtedness.

We have approximately \$1.4 billion of outstanding indebtedness at 31 December 2019. In addition, we have a senior unsecured revolving credit facility (the "Revolving Facility") that permits borrowings of up to an additional \$500 million. Volatility in the credit markets could adversely impact our ability to obtain favorable financing terms in the future. A portion of our cash flows from operations is dedicated to servicing our indebtedness and will not be available for other purposes, including our operations, capital expenditures, payment of dividends, share repurchases or future business opportunities.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, reduce or eliminate the payment of dividends, sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In such event, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations.

Additionally, at 31 December 2019, our borrowings include a variable rate term loan facility indexed to LIBOR (the "Term Facility", and together with the Revolving Facility, the "Credit Facilities") with an outstanding balance of \$238.8 million, which exposes us to interest rate risk. However, at 31 December 2019, we also have interest rate swaps for \$200 million of our floating-rate term loans, which expire in September 2020, to manage our interest rate risk. We are also exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings under our Revolving Facility. If LIBOR or other applicable base rates under our Credit Facilities increase in the future, our Interest payable and similar charges could increase. Additionally, the regulator that oversees LIBOR has announced that it cannot guarantee LIBOR's availability after 2021. In the event LIBOR is discontinued, replaced, significantly changed or ceases to be recognised as an acceptable benchmark, there may be uncertainty or differences in the calculation of our applicable interest rate or required payment amounts for our Credit Facilities. This could also require different hedging strategies and require renegotiation of our existing Credit Facilities. While we do not currently anticipate the transition from LIBOR and the risks thereto to have a material adverse effect on us, it remains uncertain at this time.

Risks Related to Our Incorporation in Ireland

Irish law differs from the laws in effect in the United States and may afford less protection to holders of our securities.

The U.S. currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As such, there is some uncertainty as to whether the courts of Ireland would recognise or enforce judgments of U.S. courts obtained against us or our directors or officers based on U.S. federal or state civil liability laws, including the civil liability provisions of the U.S. federal or state securities laws, or hear actions against us or those persons based on those laws.

As an Irish company, we are governed by the 2014 Act of Ireland, as amended, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

In addition, Irish law allows shareholders to authorise share capital which then can be issued by a board of directors without shareholder approval. Also, subject to specified exceptions, Irish law grants statutory preemptive rights to existing shareholders to subscribe for new issuances of shares for cash. At our annual meeting of shareholders, our shareholders authorised our Board of Directors to issue up to 33% of our issued ordinary shares and further authorised our Board of Directors to issue up to 5% of such shares for cash without first offering them to our existing shareholders. Both of these authorisations will expire after a certain period unless renewed by our shareholders, and we cannot guarantee that the renewal of these authorisations will always be approved. If the Directors' authority to issue ordinary shares is not renewed, then we may be limited in our ability to use our shares, for example, as consideration for acquisitions.

Changes in tax laws, regulations or treaties, changes in our status under the tax laws of many jurisdictions or adverse determinations by taxing authorities could increase our tax burden or otherwise affect our financial condition or operating results, as well as subject our shareholders to additional taxes.

The realisation of any tax benefit related to our incorporation and tax residence in Ireland could be impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the tax authorities of many jurisdictions. From time to time, proposals have been made and/or legislation has been introduced to change the tax laws of various jurisdictions or limit tax treaty benefits that if enacted could materially increase our tax burden and/or our effective tax rate. For instance, recently enacted U.S. tax legislation could modify or eliminate the tax deductibility of various currently deductible payments, which could materially and adversely affect our effective tax rate and cash tax position. Moreover, other legislative proposals could have a material adverse impact on us by overriding certain tax treaties and limiting the treaty benefits on certain payments, which could increase our tax liability. We cannot predict the outcome of any specific legislation in any jurisdiction.

While we monitor proposals that would materially impact our tax burden and/or our effective tax rate and investigate our options, we could still be subject to increased taxation on a going forward basis no matter what action we undertake if certain proposals are enacted, certain tax treaties are amended and/or our interpretation of applicable tax law is challenged and determined to be incorrect. In particular, any changes and/or differing interpretations of applicable tax law that have the effect of disregarding our incorporation in Ireland, limiting our ability to take advantage of tax treaties between jurisdictions, modifying or eliminating the deductibility of various currently deductible payments or increasing the tax burden of operating or being resident in a particular country, could subject us to increased taxation.

Dividends received by our shareholders may be subject to Irish dividend withholding tax.

In certain circumstances, we are required to deduct Irish dividend withholding tax (20% prior to 31 December 2019, 25% thereafter) from dividends paid to our shareholders. In the majority of cases, shareholders residing in the U.S. will not be subject to Irish withholding tax, and shareholders resident in a number of other countries will not be subject to Irish withholding tax provided that they complete certain Irish dividend withholding tax forms. However, some shareholders may be subject to withholding tax, which could discourage the investment in our stock and adversely impact the price of our shares.

Dividends received by our shareholders could be subject to Irish income tax.

Dividends paid in respect of our shares generally are not subject to Irish income tax where the beneficial owner of these dividends is exempt from Irish dividend withholding tax, unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Allegion.

Our shareholders who receive their dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on the dividends unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Allegion.

Certain provisions in our Memorandum and Articles of Association, among other things, could prevent or delay an acquisition of us, which could decrease the trading price of our ordinary shares.

Our Memorandum and Articles of Association contains provisions to deter takeover practices, inadequate takeover bids and unsolicited offers. These provisions include, amongst others:

- A provision of our Articles of Association which generally prohibits us from engaging in a business combination with an interested shareholder (being (i) the beneficial owner, directly or indirectly, of 10% or more of our voting shares or (ii) an affiliate or associate of us that has at any time within the last five years been the beneficial owner, directly or indirectly, of 10% or more of our voting shares), subject to certain exceptions;
- Rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings;
- The right of our Board of Directors to issue preferred shares without shareholder approval in certain circumstances, subject to applicable law; and
- The ability of our Board of Directors to set the number of directors and to fill vacancies on our Board of Directors in certain circumstances.

We believe these provisions will provide some protection to our shareholders from coercive or otherwise unfair takeover tactics. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our Board of Directors determines is in our best interests and our shareholders' best interests. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

In addition, several mandatory provisions of Irish law could prevent or delay an acquisition of us. For example, Irish law does not permit shareholders of an Irish public limited company to take action by written consent with less than unanimous consent. We also will be subject to various provisions of Irish law relating to mandatory bids, voluntary bids, requirements to make a cash offer and minimum price requirements, as well as substantial acquisition rules and rules requiring the disclosure of interests in our shares in certain circumstances. Also, Irish companies, including us, may alter their Memorandum of Association and

DIRECTORS' REPORT (continued)

Articles of Association only with the approval of at least 75% of the votes of the company's shareholders cast in person or by proxy at a general meeting of the company.

The agreements that we entered into with Ingersoll Rand in connection with the Spin-off generally require Ingersoll Rand's consent to any assignment by us of our rights and obligations under the agreements. The consent and termination rights set forth in these agreements might discourage, delay or prevent a change of control that shareholders may consider favorable.

Non-Financial Statement

Introduction

The European Union Regulations 2017 regarding the disclosure of non-financial and diversity information by certain large undertakings and groups has been transposed into Irish legislation. This legislation requires the Company to identify and report on our business model and key non-financial matters related to the Company's activities, including information, relevant policies and principal risks with regard to environmental matters, respect for human rights, social and employee matters and bribery and corruption. The non-financial matters discussed below represent such matters.

Overview of business model

Allegion's strategy and vision are built on five growth pillars: expand in core markets; deliver new value in access; be the partner of choice; enterprise excellence; and capital allocation. We believe these pillars will produce expanded opportunities to continually deliver the best experience and value for our customers. For further information, please refer to our website at www.allegion.com under the heading, "About Allegion - Annual Report & More".

We believe our success is a direct reflection of our people and culture. In fact, we believe that our values-driven culture is a formidable competitive advantage - one that should be fostered and protected. Allegion's vision is "seamless access and a safer world," and our purpose is to "create peace of mind by pioneering safety and security".

For an overview of the Company's principal activities, history and developments, and products and brands please refer to Pages 3-4 of the Directors' Report.

Principal risks

Principal risks in relation to the non-financial matters outlined below are covered, if applicable, under the principal risks section of the Directors' Report on Page 18.

Environmental, Health, Safety & Sustainability Policy Statement

Allegion is committed to conducting its business in a safe, environmentally responsible, and sustainable manner, in compliance with all applicable environmental, health and safety laws and regulations, and in a manner that helps promote and protect the health and safety of our environment, associates, customers, contractors and members of our local communities worldwide.

Allegion operates with principles that support our proactive commitment, including:

- Integrate sound environmental, health, safety (EHS) and sustainability strategies in all elements of our business functions, including objectives and measurements;
- Conduct periodic, formal evaluation of our compliance status and annual review of objectives and targets;
- Create a workplace culture where everyone at Allegion is responsible for safety:
 - Our managers and supervisors are expected to lead by example to ensure a safe, healthy and environmentally friendly workplace.
 - Our associates are trained and expected to understand the EHS and sustainability issues associated with their jobs and are empowered to report unsafe conditions.
 - Our associates understand they have a duty to protect themselves, their co-workers and the environment. This is accomplished through EHS and sustainability consultation and participation during program development and/or program implementation;
- Make continuous improvements in EHS and sustainability management systems and performance, including the reduction in the usage of natural resources, waste minimisation, prevention of pollution and prevention of workplace accidents, injuries and risks;
- Design, operate and maintain our facilities in a manner that minimises negative EHS and sustainability impacts;
- Use of materials responsibly, including, where feasible, the recycling and reuse of materials; and
- Act in a way that shows sensitivity to community concerns about EHS and sustainability issues.

Allegion recognises that these principles are critical to our future success. As a global leader, we are committed to protecting the health, safety and environment in the communities where we operate.

Environmental, Health, Safety & Sustainability Results

Allegion values the importance of a safer and cleaner world and commits to be a responsible member of our global communities.

Key environmental, health, safety (EHS) and sustainability achievements in 2019 are as follows:

- 13% year-over-year increase in the Lost Time Injury Rate (LTIR) and a 46% decrease in the number of lost time days*
 - 21% year-over-year reduction in Total Recordable Incident Rate (TRIR)*
 - 6% year-over-year reduction in greenhouse gas emissions*
 - 4% year-over-year reduction in water usage*
 - 2% year-over-year reduction in waste to landfill*
 - No environmental violations were issued to any Allegion operation for the 5th year in a row.
 - A number of Allegion manufacturing sites are ISO 14001:2015 and/or OHSAS 18001:2007 certified. We will continue working to achieve certification at appropriate manufacturing sites.
- * All data is normalised to hours worked.

To learn more about Allegion's EHS and sustainability efforts - including LEED, Life Cycle Assessment and Environmental Product Declarations - please refer to www.allegion.com under the heading, "About Allegion - Corporate Social Responsibility and ESG".

Respect for human rights

Allegion believes in fundamental standards that support our commitment to our employees, our business partners, our customers and our communities. Safe, healthy workspaces, respect for diversity, and competitive wages and benefits reflect our commitment to increase the enjoyment of human rights. Risk assessments and on-site reviews help Allegion continue to have conversations with the companies we work with about the importance of human rights. Allegion has adopted and continues to uphold the following:

- Global Human Rights Policy - many of the standards set forth in the policy align with basic working conditions and human rights concepts advanced by international organisations such as the International Labor Organisation and the United Nations, but the policy also represents Allegion's own minimum standards for working conditions and human rights.
- Section 54 of the UK Modern Slavery Act 2015, Australian Modern Slavery Act 2018, and the California Supply Chains Act of 2010 (SB 657) require Allegion disclose our efforts to combat slavery and human trafficking and details the steps Allegion has taken to ensure such issues are not taking place in our business and supply chains. Allegion has chosen to not only apply these standards for the business units under the jurisdiction of the regulations, but also to all wholly-owned locations and facilities. To review the full Anti-Human Trafficking Statement, visit Allegion's website at www.allegion.com under the heading, "About Allegion - Corporate Social Responsibility and ESG".

Allegion has provided training to employees and made the information available to vendors working with us to increase awareness on human rights and supply chain transparency. Training during 2019 included:

- Training provided by Regulatory Compliance to global suppliers attending Allegion's Supplier Conference, raising awareness on human rights initiatives at the company and engaging suppliers in conversation regarding the topic.
- A multi-day training and roundtable was conducted in Europe to engage various functional leads in discussing privacy best practices and educating data handlers on internal procedural changes.

Social and employee matters

Allegion is committed to being a good corporate citizen globally as well as creating a positive employee environment. Allegion also strives to be a leader in doing what's right. Our Code of Conduct details Allegion's core values, reinforces our commitment to lawful and ethical conduct and applies to all our officers, employees and directors of the Company. Our code guides our business relationships with customers, suppliers and each other. It also emphasises what's expected of Allegion by shareholders, government regulators and the communities we serve.

Allegion is committed to building and maintaining a diverse and inclusive environment. As an equal employment opportunity and affirmative action employer, Allegion is fully committed to its equal employment opportunity stance and will not discriminate based on race, sex, color, national origin, creed, religion, pregnancy, age, disability, military status, protected veteran status, sexual orientation, gender identity, genetic information, marital status or any legally protected status. We are dedicated to fulfilling this commitment as it relates to all decisions regarding all employment actions at all levels of employment. In partnership with the Company's Human Resources organisation, the Company's Equal Employment Opportunity Officer ensures that the applicable policy and procedures are appropriately established, implemented, and disseminated. For more details, please refer to our website at www.allegion.com under the heading, "Careers - Equal Opportunity Employer".

DIRECTORS' REPORT (continued)

In 2019, Allegion continued its commitment to building and maintaining a diverse and inclusive environment and continued its stance on prohibiting discrimination, harassment, bullying and/or retaliation via its Global Harassment and Discrimination Policy.

Additionally, policy updates, procedural changes and training on records management and information governance were initiated as part of a multi-phase project targeting all employees to continue to promote compliance with privacy regulations, customer and employee data security, and awareness of rights around data and information.

Allegion is honored to support our global communities, not just with our vision to make the world safer, but also through the passions and service of our people. We empower employees to identify local needs and make a difference through three philanthropic pillars: safety and security, wellness, and supporting communities where we live and thrive. Allegion has also made great strides in supporting our global communities and improving the wellness of our employees during the year; some of our highlights have been outlined on our website at www.allegion.com under the heading, "About Allegion - Corporate Social Responsibility and ESG".

Bribery and corruption

Allegion strives to be a leader in doing what's right. Our Ethics & Compliance Program ("E&C Program") and Code of Conduct details Allegion's core values, reinforces our commitment to lawful and ethical conduct, and applies to all of our officers, employees and directors. Based on a combination of written standards and procedures, regular training, communication and regular monitoring, our E&C Program provides practical application guidance that employees and business partners can understand and follow. Our global team reviews and updates our policies and processes as needed.

Every new employee joining Allegion is educated on our Code of Conduct. In addition, all salaried employees are trained throughout the year on topics such as conflicts of interest, fraud, and appropriate gifts and entertainment. During 2019, a new communication plan was implemented to help raise awareness on ethical culture and compliance topics outside of the typical training methods.

Allegion communicates our Business Partner Code of Conduct, which includes topics such as protection of human rights, data privacy expectations and our stance on anti-corruption practices, to every customer and supplier through our terms and conditions. Our reputation is important, and Allegion holds our partners to the same standards, which includes assessing representative partners before engaging to do business. All employees interacting with external third-party business partners received refresher training on the importance of third-party due diligence and reputational management to continue to emphasise the importance of this step when generating new relationships.

The Allegion Ethics Helpline is accessible to all employees, shareholders, customers and any other outside parties in approximately 30 languages. Allegion takes each report seriously and conducts thorough investigations, all while enforcing our strict non-retaliation policy. For more information or inquiries, please contact Allegion's Chief Compliance Officer at ethicsandcompliance@allegion.com or visit our website at www.allegion.com under the heading, "About Allegion - Corporate Social Responsibility and ESG".

Significant Events in 2019 and 2018

Turkey Restructuring and Divestiture

In June 2019, the Company closed its production facility in Turkey to help streamline our footprint in EMEIA. Associated with this closure, we have incurred approximately \$8.4 million of qualified restructuring expenses during 2019, which primarily relate to severance and other employee separation costs. We also incurred \$4.3 million of non-qualified restructuring expenses during 2019, which represent costs that were directly attributable to the closure, but that did not fall into the severance, exit or disposal category.

During the fourth quarter of 2019, we sold certain of the former production assets of our Turkey facility for total proceeds of approximately \$4.1 million. The Company recorded a Loss on divestiture of \$24.2 million (\$25.5 million, net of tax), primarily driven by \$25.0 million of cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to the Profit and loss account upon sale.

Colombia Divestiture

During the fourth quarter of 2019, the Company sold its interests in its Colombia operations. As a result of the sale, the Company recorded a net loss on divestiture of \$5.9 million, of which \$1.2 million relates to cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to the profit and loss account upon sale.

Acquisitions

We completed six business acquisitions in 2018:

Business	Month
Technical Glass Products, Inc. ("TGP")	January 2018
Hammond Enterprises, Inc. ("Hammond")	January 2018
Qatar Metal Industries LLC ("QMI")	February 2018
AD Systems, Inc. ("AD Systems")	March 2018
Gainsborough Hardware and API Locksmiths ("Door and Access Systems")	July 2018
ISONAS Security Systems, Inc. ("ISONAS")	July 2018

Total cash paid for these acquisitions was approximately \$373 million (net of cash acquired), including \$4.6 million during the year ended 31 December 2019. The incremental impact of these acquisitions for the twelve months ended 31 December 2018 was an increase in Turnover of approximately \$160.2 million and an increase in Operating profit of approximately \$2.8 million. During the years ended 31 December 2019 and 2018, we incurred \$2.0 million and \$10.0 million of acquisition and integration related expenses, respectively.

2019 Dividends

We paid quarterly dividends of \$0.27 per ordinary share to shareholders on record as of 15 March 2019, 14 June 2019, 16 September 2019, and 17 December 2019. We paid a total of \$100.6 million in cash for dividends to ordinary shareholders during the year ended 31 December 2019.

Financing activities

In February 2017, our Board of Directors approved a share repurchase authorisation of up to \$500 million of the Company's ordinary shares (the "2017 Share Repurchase Authorisation"). Based on market conditions, share repurchases are made from time to time in the open market at the discretion of management. During the year ended 31 December 2019, the Company paid \$226.0 million to repurchase 2.3 million ordinary shares on the open market under our 2017 Share Repurchase Authorisation.

Additionally, in 2019, we issued \$400.0 million of 3.500% Senior Notes due 2029 (the "3.500% Senior Notes"). Net proceeds from the issuance of the 3.500% Senior Notes, along with cash on hand, were utilised to make a \$400.0 million principal payment to partially pay down the Company's outstanding term loan facility (the "Term Facility") balance. As a result of this payment, we have satisfied our obligation to make quarterly installments on the Term Facility up to its maturity date, with the remaining outstanding balance of \$238.8 million due on 12 September 2022.

Results for the year and proposed transfer to reserves

The results for the year are set out in the Consolidated Profit and Loss Account on Page 41. The balance to be transferred to reserves is \$401.8 million.

Future Developments

We intend to maintain profitable growth in the markets we serve today and in adjacent product categories by being the preferred, trusted security partners to our end-users. The Company continues to closely monitor, evaluate and manage its operating plans, inventory levels and supply of materials around the world in light of the most recent developments related to the COVID-19 pandemic. The Company is adhering to best-practice safe hygiene guidelines by recognized health experts like the WHO as well as any applicable government mandated requirements.

Accounting Records

The directors are responsible for ensuring that the Company keeps proper books of accounting records and appropriate accounting systems to secure compliance with the requirements of Sections 281 to 285 of the 2014 Act. To achieve this, the directors have appointed a Chief Financial Officer who makes regular reports to the Board of Directors and to the Audit and Finance Committee of the Board of Directors. In addition, the head of the Company's internal audit department and the General Counsel make regular reports to the Audit and Finance Committee regarding fraud and other financial-related irregularities. The Audit and Finance Committee, which is comprised of the Company's independent directors except for Mr. Szews, in turn, briefs the full Board of Directors as appropriate on significant financial matters arising from reports of the Chief Financial Officer, the head of internal audit, the General Counsel and the external auditor.

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Block D, Iveagh Court, Harcourt Road, Dublin 2, Republic of Ireland.

Going Concern

The Board of Directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Board has taken account of current and anticipated uncertainties driven by the COVID-19 pandemic in its going concern assessment. These uncertainties include, but are not limited to, customer demand, levels of liquidity, the availability of the committed borrowing facilities, customers' and suppliers' financial condition, any temporary closure of production facilities and our ongoing compliance with debt covenants. These uncertainties could adversely affect our operations and financial performance through supply chain disruptions, delays in payments received, and the availability and cost of materials. However, to its knowledge, the Board of Directors reasonably believe that these uncertainties would not have a material impact on our ability to continue as a going concern as of the approval date.

The ultimate impact of COVID-19 on our business, financial condition and results of operations is dependent on future developments which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 pandemic and the related actions taken to contain or prevent its further spread. There are certain potential measures that the Company can put in place to maintain a sound financial footing such as:

- the temporary suspension or reduction of our share repurchase program;
- the delay of discretionary expenditures;
- the curtailment of potential investments;
- the restriction of employee travel or a freeze on headcount in select locations;
- the unused Revolving Facility; and,
- the delay, suspension or reduction of future dividends.

To its knowledge, the Board currently believes it is unlikely that the Company would be required to initiate all of these measures, but the flexibility is available if the need arises to implement these or more substantial measures, as appropriate, to remain a going concern.

For this reason, the going concern basis continues to be adopted in the preparation of the Consolidated Financial Statements and the Parent Company Financial Statements. However, the Board of Directors understands the importance of monitoring future developments in relation to COVID-19.

Events since Year End***Dividends declared and paid***

On 6 February 2020, the Company's Board of Directors declared a quarterly dividend of \$0.32 cents per ordinary share. The dividend was paid on 31 March 2020 to shareholders of record on 17 March 2020.

Share repurchases

On 6 February 2020, the Company's Board of Directors approved a new share repurchase authorisation of up to, and including, \$800 million of the Company's ordinary shares (the "2020 Share Repurchase Authorisation"), replacing the existing 2017 Share Repurchase Authorisation. The 2020 Share Repurchase Authorisation does not have a prescribed expiration date.

As of 8 April 2020, the Company had repurchased and cancelled approximately 0.9 million ordinary shares of \$0.01 each, at a weighted-average price of approximately \$110 since the year ended 31 December 2019. The Company had approximately \$728.9 million available under the 2020 Share Repurchase Authorisation.

Retirement of director

On 27 January 2020, Carla Cico, a member of the Board of Directors of Allegion plc, retired from the Board.

Appointment of director

On 6 February 2020, Steven C. Mizell, was appointed as a member of the Board of Directors of Allegion plc.

COVID-19 pandemic

The Company has updated its Principal Risks section on Page 22 and its Going Concern section above in light of the recent COVID-19 pandemic and its potential impact on our business, results of operations, financial condition, and cash flows and our going concern assessment.

Allegion remains focused on business continuity and ensuring our facilities remain operational where safe and appropriate to do so. As of 8 April 2020, we have temporarily suspended operations in Italy and Spain as a result of compliance with general public health decrees. At this time, we expect to reopen these operations upon expiration of the local orders or earlier, if permitted. Allegion will comply with future government orders if and as they apply to our operations. In addition, we anticipate periodic work stoppages at certain plants due to temporary reduction in customer demand or material shortages. We will continue to serve

DIRECTORS' REPORT (continued)

our customers when possible through our channel partners or inventory on hand. These temporary measures are implemented in a way that allows prompt production startup when public health and market conditions improve. To the extent any additional temporary closures or adjustments to production are necessary, such measures will be implemented in a way that minimises disruption to customers and our overall business, including continuing to take prudent measures to mitigate, to the extent possible, any financial impacts. We will continue to closely monitor, evaluate and manage our operating plans, inventory levels and supply of materials around the world.

Restructuring activities

On 8 April 2020, the Company committed to certain strategic restructuring initiatives to be implemented across several businesses and functions outside of the United States. These initiatives are intended to optimize and simplify the Company's non-U.S. operations and cost structure. The majority of these restructuring initiatives are expected to be completed during fiscal year 2020, with all initiatives expected to be completed by the end of fiscal year 2021.

As a result of these initiatives, the Company currently expects to record restructuring charges of approximately \$30 to \$35 million in total, of which \$20 to \$25 million are expected to be incurred during fiscal year 2020 with the remainder expected to be incurred during fiscal year 2021. The expected charges are primarily comprised of approximately \$20 to \$22 million in employee termination benefits, \$4 to \$6 million in contract termination costs, and \$6 to \$8 million in other costs. Future cash expenditures related to these charges are anticipated to be approximately \$25 to \$30 million.

Directors and Secretary

The names of the persons who were directors or secretary at any time during the year ended 31 December 2019 are set out below:

David D. Petratis (Appointed 1 December 2013)
Kirk S. Hachigian (Appointed 17 November 2013)
Martin E. Welch III (Appointed 1 December 2013)
Carla Cico (Appointed 1 December 2013 and retired 27 January 2020)
Dean Schaffer (Appointed 9 April 2014)
Nicole Parent Haughey (Appointed 6 September 2017)
Charles L. Szews (Appointed 4 April 2018)
Jeffrey N. Braun - Company Secretary (Appointed 20 April 2018)

Directors' and Secretary's Interests in Shares

No director, the Company secretary nor any member of their immediate families had any interest in shares or debentures of any subsidiary. Directors' remuneration is set forth in Note 11 to the Consolidated Financial Statements. The beneficial interests, including the interests of spouses and minor children, of the directors and secretary in office at 31 December in the share capital of Allegion plc pursuant to Section 329 of the 2014 Act, are presented in the table below:

Directors:	At 31 December 2019		At 31 December 2018	
	Shares Held	Options and Awards Granted	Shares Held	Options and Awards Granted
David D. Petratis	202,915	331,401	165,173	282,242
Kirk S. Hachigian	5,566	981	4,734	1,266
Martin E. Welch III	5,418	981	4,639	1,266
Carla Cico	4,497	981	3,806	1,266
Dean Schaffer	5,400	981	4,571	1,266
Nicole Parent Haughey	779	981	—	1,266
Charles L. Szews	779	981	—	1,266
Secretary:				
Jeffrey N. Braun	7,037	16,674	5,722	17,574

DIRECTORS' REPORT (continued)

Political Donations

No political contributions that require disclosure under Section 26 (1) Electoral Act 1997 (as amended) were made during the financial year 2019.

Subsidiary Companies and Associates

Information regarding subsidiary undertakings and associates are provided in Note 39 to the Consolidated Financial Statements.

Directors' Compliance Statement

The Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in the 2014 Act and, as required by Section 225 of the 2014 Act, the Directors confirm that:

- Allegion plc is committed to being compliant with all laws applicable to its operations. In particular, it is the policy of Allegion plc to comply with the Company's relevant obligations as defined in Section 225 of the 2014 Act. A compliance policy statement has been drawn up by the Company in accordance with Section 225(3)(a) of the Act setting out the Company's policies;
- appropriate arrangements and structures are in place that, in our opinion, are designed to secure compliance with the Company's relevant obligations; and
- during the financial year ended 31 December 2019, the arrangements and structures referred to above were reviewed.

Disclosure of Information to Auditors

The directors in office at the date of this report have each confirmed that:

- as far as he/she is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

Audit Committee

The Company established an Audit and Finance Committee in 2013. Refer to the paragraph on Page 30 on accounting records for further details on the function and responsibility of the Audit and Finance Committee.

Auditors

The Company's independent auditor, PricewaterhouseCoopers, has indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting ("AGM") of Allegion plc will take place at Allegion, 11819 N. Pennsylvania Street, Carmel, Indiana, U.S.A. on 4 June 2020 at 2:00 p.m. Eastern Daylight Time.

Other

In addition to this report, for your reference, we want to remind you that our annual and quarterly reports and other filings with the U.S. Securities and Exchange Commission ("SEC") are available at www.sec.gov under "Company Filings" and also on our website at <https://investor.allegion.com>.

On behalf of the Directors

David D. Petratis

David D. Petratis

Director

Martin E. Welch III

Martin E. Welch III

Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' report and the financial statements in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Consolidated and Parent Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year. Under that law, the directors have prepared the Consolidated Financial Statements in accordance with U.S. accounting standards, as defined in Section 279 (1) of the 2014 Act, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the 2014 Act or of any regulations made thereunder and the Parent Company Financial Statements in accordance with Generally accepted accounting practice in Ireland (accounting standards issued by the Financial Reporting Council and Irish Law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Consolidated and Parent Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Group for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the Consolidated Financial Statements of the Group comply with accounting principles generally accepted under U.S. GAAP to the extent that they do not contravene Irish Company Law and that the stand-alone entity financial statements of the Parent Company comply with accounting standards issued by the Financial Reporting Council of the UK and promulgated by the Institute of Chartered Accountants in Ireland and Irish Law, subject to any material departure from those standards being disclosed and explained in the Notes to the Financial Statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Group;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Group to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the 2014 Act and enable those financial statements to be audited.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website www.allegion.com under the heading, "Investors Relations - Financial Information". Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Independent auditors' report to the members of Allegion plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Allegion plc's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the group's and the parent company's assets, liabilities and financial position as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of consolidated financial statements does not contravene any provision of Part 6 of the Companies Act 2014;
- the parent company financial statements have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Consolidated Balance Sheet as at 31 December 2019;
- the Parent Company Balance Sheet as at 31 December 2019;
- the Consolidated Profit and Loss Account and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Reconciliation of Movements in Shareholders' Funds for the year then ended;
- the Parent Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



Materiality

- \$25 million (2018: \$24 million) - Consolidated financial statements
- Based on circa 5% of profit before tax adjusted for loss on divestitures (2018: Based on circa 5% of profit before tax)
- \$42 million (2018: \$46 million) - Parent company financial statements.
- Based on circa 1% of net assets (2018: Based on circa 1% of net assets). We used the lower overall Consolidated financial statements materiality of \$25 million (2018: \$24 million) in testing balances and transactions that do not eliminate on consolidation.



Audit scope

- We conducted audit procedures on twelve components representing business units across the Group. We included these components due to their size or characteristics as well as to ensure appropriate audit coverage. Full scope audits were performed on three components and specified procedures were performed on an additional nine components.
- Additionally, certain centralised Group functions, including treasury, taxation, equity and stock compensation, goodwill and intangible assets, business combinations, pension and post-retirement benefits, and consolidation and financial reporting were subject to full scope audit procedures.
- Taken together, the Components and Group functions resulted in audit coverage of circa 84% of Group turnover and circa 88% of Group total assets.



Key audit matters

- Valuation of Goodwill – EMEIA and Asia Pacific.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



Key audit matter

How our audit addressed the key audit matter

Valuation of Goodwill – EMEIA and Asia Pacific

As described in Notes 2 and 17 to the Consolidated Financial Statements, the goodwill balance was \$873.3 million at December 31, 2019. The critical accounting policies related to goodwill are disclosed in further detail within page 15 of the Directors' Report. The goodwill associated with EMEIA and Asia Pacific reporting units was \$285.5 million and \$102.8 million, respectively.

Goodwill is tested annually for impairment during the fourth quarter or whenever there is a significant change in events or circumstances that indicate that the fair value of the reporting unit is more likely than not less than the carrying amount of the reporting unit. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a goodwill impairment charge will be recognized for the amount by which the carrying value of the reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. Estimated fair value of the Company's reporting units is based on two valuation techniques, a discounted cash flow model (income approach) and a market multiple of earnings (market approach), with each method being weighted in the calculation. The income approach relies on management's estimates of revenue growth rates, margin assumptions, and discount rates to estimate future cash flows. The market approach requires the determination of an appropriate peer group, which is utilized to derive estimated fair values based on selected market multiples.

We determined that the goodwill impairment assessment of EMEIA and Asia Pacific reporting units is a key audit matter due to the significant judgement required by management when developing the fair value measurements of these reporting units including significant assumptions related to revenue growth rates, margin assumptions, discount rates, peer group determination, and market multiple selection.

We also focused on the adequacy of the disclosures including the disclosures made in note 40 "Events since the year end" on the non-recognised subsequent events relating to Covid-19.

We tested the effectiveness of controls relating to management's goodwill impairment assessments for the EMEIA and Asia Pacific reporting units, including controls over the determination of the fair value of these reporting units.

We tested the completeness, accuracy and relevance of the underlying data used in the impairment models.

We evaluated the revenue growth rates and margin assumptions utilised by management in developing the fair value measurements of the reporting units. When assessing these assumptions, we evaluated whether the assumptions utilised were reasonable considering the current and past performance of the reporting units and compared the assumptions used to external market and industry data for these regions.

We were assisted by PwC professionals with specialised skills and knowledge in evaluating the appropriateness of the discounted cash flow and market multiple models, and certain significant assumptions, including the discount rates, selected peer groups, and market multiples for the EMEIA and Asia Pacific reporting units.

We considered the adequacy of the disclosures included in the financial statements relating to valuation of goodwill - EMEIA and Asia Pacific and non-recognised subsequent events related to Covid-19.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The Group is structured along three geographic segments being Americas, EMEIA and Asia Pacific. Each segment provides security products and solutions through various brands resulting in a number of management reporting entities identified as components by the Group engagement team. The Consolidated Financial Statements are a consolidation of the aforementioned components. In determining our audit scope, we first focused on individual components and determined the type of work that needed to be performed at the components by us, as the Irish group engagement team, PwC US as the US component team, or other component auditors within other PwC network firms. Where the work was performed by



PwC US and other component auditors, we determined the level of involvement we needed to have in the audit work of those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Three components were identified as significant components, and full scope audits were performed at these components by the PwC US component engagement team. Based on our risk assessment and to achieve the overall level of audit coverage we considered appropriate, specified audit procedures on specific account balances, classes of transactions or disclosures were performed in respect of nine additional components. The PwC US component team performed specified procedures at three of these components with the remainder performed by other PwC network firms. Additionally, certain centralised Group functions, including treasury, taxation, equity and stock compensation, goodwill and intangible assets, pension and post- retirement benefits, and consolidation and financial reporting were subject to full scope audit procedures by the PwC US component team.

The Group engagement team performed additional risk assessment procedures for the remaining components where full scope audits or specified procedures were not performed. Through the full scope audits performed, specified procedures performed, and centralized Group functions and accounts tested by the PwC US component engagement team, we obtained audit coverage of 84% of Group turnover and 88% of Group total assets.

The Group team was responsible for the scope and direction of the audit process. Where the work was performed by component auditors, we determined the level of involvement the Group team needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The supervision of the component teams included a combination of site visits, regular calls with the senior members of the component audit teams and review of detailed memoranda of examinations on work performed by component teams.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Consolidated financial statements	Parent company financial statements
Overall materiality	\$25 million (2018: \$24 million).	\$42 million (2018: \$46 million).
How we determined it	Circa 5% of profit before tax adjusted for loss on divestitures.	Circa 1% of net assets.
Rationale for benchmark applied	We believe that profit before taxation adjusted for loss on divestitures is the key performance measure to assess the continuing performance of the Group.	The parent company is a holding company. Consequently, we consider that net assets is the most relevant measure to reflect the nature of its activities and transactions. We used the lower overall Consolidated financial statements materiality of \$25 million (2018: \$24 million) on any balances and transactions that do not eliminate on consolidation.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$2 million (group audit) (2018: \$2 million) and \$2 million (parent company audit) (2018: \$2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of



accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non-Financial Statement" on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non-Financial Statement" on which we are not required to report) for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.
- Based on our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report (excluding the information included in the "Non-Financial Statement" as defined by that Act on which we are not required to report).

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf



This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the parent company were sufficient to permit the parent company financial statements to be readily and properly audited.
- The Parent Company Balance Sheet is in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Prior financial year Non-Financial Statement

We are required to report if the company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

A handwritten signature in black ink, appearing to read 'A. Hayden', is written over a light blue horizontal line.

Alisa Hayden
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
8 April 2020

Allegion plc
Consolidated Profit and Loss Account
For the year ended 31 December

<i>In millions (\$), except for share amounts</i>	Note	2019	2018
Turnover	4	2,854.0	2,731.7
Cost of sales		(1,601.7)	(1,558.4)
Gross profit		1,252.3	1,173.3
Distribution costs		(387.7)	(373.3)
Administrative expenses		(299.5)	(274.2)
Other operating expenses	5	(1.8)	(0.3)
Operating profit		563.3	525.5
Other finance (expense) income	6	(3.8)	2.9
Interest receivable and similar income	7	1.8	0.8
Interest payable and similar charges	8	(56.0)	(54.0)
Loss on divestitures	9	(30.1)	—
Profit on ordinary activities before taxation	10	475.2	475.2
Tax on profit on ordinary activities	12	(73.1)	(39.8)
Profit on ordinary activities after taxation		402.1	435.4
Attributable to non-controlling interests	15	(0.3)	(0.5)
Profit for the financial year		401.8	434.9
Earnings per share attributable to Allegion plc ordinary shareholders:		\$	\$
Basic profit for the financial year:	16	4.29	4.58
Diluted profit for the financial year:	16	4.26	4.54

Allegion plc
Consolidated Statement of Comprehensive Income
For the year ended 31 December

<i>In millions (\$)</i>	Note	2019	2018
Profit on ordinary activities after taxation		402.1	435.4
Other comprehensive income (loss):			
Currency translation		13.4	(56.9)
Cash flow hedges:			
Unrealised net gains arising during period		—	4.6
Net gains reclassified to profit and loss account		(7.5)	(2.3)
Tax benefit (expense)		1.9	(0.5)
Total cash flow hedges	35	(5.6)	1.8
Pension and OPEB adjustments:			
Prior service costs and net actuarial losses		(8.3)	(16.6)
Amortisation reclassified to profit and loss account		6.1	4.5
Settlements/curtailments reclassified to profit and loss account		2.3	—
Currency translation and other		(2.7)	5.1
Tax (expense) benefit		(0.4)	1.6
Total pension and OPEB adjustments	35	(3.0)	(5.4)
Other comprehensive income (loss)		4.8	(60.5)
Total comprehensive income for the financial year		406.9	374.9
Less: attributable to non-controlling interests		0.2	0.9
Total comprehensive income for the financial year attributable to Allegion plc		406.7	374.0

Allegion plc
Consolidated Balance Sheet
At 31 December

<i>In millions (\$)</i>	Note	2019	2018
Fixed assets			
Intangible assets	17	1,384.2	1,430.1
Tangible assets	18	291.4	276.7
Financial assets	19	57.5	43.6
		<u>1,733.1</u>	<u>1,750.4</u>
Current assets			
Stock	20	269.9	280.3
Debtors	21	373.2	359.9
Cash at bank and in hand	22	358.7	290.6
Assets held for sale		—	0.8
		<u>1,001.8</u>	<u>931.6</u>
Debtors: amounts falling due after more than one year	23	232.3	128.2
Creditors: amounts falling due within one year	24	(466.9)	(481.4)
Net current assets		<u>534.9</u>	<u>450.2</u>
Total assets less current liabilities		2,500.3	2,328.8
Creditors: amounts falling due after more than one year	25	(1,483.2)	(1,409.5)
Net assets excluding provisions for liabilities		<u>1,017.1</u>	<u>919.3</u>
Provisions for liabilities	31	(256.7)	(265.3)
Net assets including provisions for liabilities		<u>760.4</u>	<u>654.0</u>
Capital and reserves			
Called up share capital presented as equity	34	0.9	0.9
Share premium account	35	71.9	65.4
Other reserves	35	(118.9)	(143.8)
Profit and loss account	35	803.5	728.5
Equity shareholders' funds		<u>757.4</u>	<u>651.0</u>
Non-controlling interests	15	3.0	3.0
Total equity		<u>760.4</u>	<u>654.0</u>

Approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

David D. Petratis

David D. Petratis

Director

Martin E. Welch III

Martin E. Welch III

Director

Allegion plc
Consolidated Reconciliation of Movements in Shareholders' Funds

<i>In millions (\$)</i>	Total equity	Called up share capital		Share premium account	Profit and loss account	Other reserves	Non-controlling interests
		Amount	Shares (Number)				
Balance at 31 December 2017	405.5	1.0	95.1	62.2	430.8	(92.4)	3.9
Profit for the year	435.4	—	—	—	434.9	—	0.5
Other comprehensive (loss) income	(60.5)	—	—	—	—	(60.9)	0.4
Shares issued under incentive stock plans	3.2	—	—	3.2	—	—	—
Repurchase of ordinary shares	(67.3)	(0.1)	(0.9)	—	(67.2)	—	—
Share-based compensation	19.2	—	0.4	—	—	19.2	—
Dividends declared to non-controlling interests	(1.8)	—	—	—	—	—	(1.8)
Cash dividends declared (\$0.84 per share)	(79.7)	—	—	—	(79.7)	—	—
Reclassification due to adoption of ASU 2018-02 (see Note 35)	—	—	—	—	9.7	(9.7)	—
Balance at 31 December 2018	654.0	0.9	94.6	65.4	728.5	(143.8)	3.0
Profit for the year	402.1	—	—	—	401.8	—	0.3
Other comprehensive income (loss)	4.8	—	—	—	—	4.9	(0.1)
Shares issued under incentive stock plans	6.5	—	—	6.5	—	—	—
Repurchase of ordinary shares	(226.0)	—	(2.3)	—	(226.0)	—	—
Share-based compensation	20.0	—	0.4	—	—	20.0	—
Dividends declared to non-controlling interests	(0.2)	—	—	—	—	—	(0.2)
Cash dividends declared (\$1.08 per share)	(100.9)	—	—	—	(100.9)	—	—
Other	0.1	—	—	—	0.1	—	—
Balance at 31 December 2019	760.4	0.9	92.7	71.9	803.5	(118.9)	3.0

Allegion plc
Consolidated Statement of Cash Flows
For the year ended 31 December

<i>In millions (\$)</i>	2019	2018
Cash flows from operating activities:		
Profit on ordinary activities after taxation	402.1	435.4
Adjustments to arrive at net cash provided by operating activities:		
Debt extinguishment costs	2.7	—
Depreciation and amortisation	83.0	86.2
Impairment of trade names	5.9	—
Share-based compensation	20.4	19.6
Loss on divestitures	30.1	—
Deferred income taxes	(30.2)	(64.4)
Other items	(3.6)	(8.0)
Changes in other assets and liabilities:		
(Increase) decrease in:		
Debtors	(6.0)	(8.6)
Stock	5.4	(19.7)
Debtors: amounts falling due after more than one year and financial assets	(15.0)	(3.3)
Increase (decrease) in:		
Creditors: amounts falling due within one year	(11.0)	33.9
Creditors: amounts falling due after more than one year	4.4	(13.3)
Net cash provided by operating activities	<u>488.2</u>	<u>457.8</u>
Cash flows from investing activities:		
Capital expenditures	(65.6)	(49.1)
Acquisition of and equity investments in businesses, net of cash acquired	(7.6)	(376.1)
Proceeds related to business dispositions	3.3	—
Purchase of investments	—	(14.3)
Other investing activities, net	(7.7)	(4.3)
Net cash used in investing activities	<u>(77.6)</u>	<u>(443.8)</u>
Cash flows from financing activities:		
Short-term borrowings, net	(0.2)	(0.6)
Proceeds from revolving facility	—	115.0
Repayments of revolving facility	—	(115.0)
Proceeds from issuance of senior notes	400.0	—
Payments of long-term debt	(417.7)	(35.5)
Net (repayments of) proceeds in debt	<u>(17.9)</u>	<u>(36.1)</u>
Debt issuance costs	(4.2)	—
Dividends paid to ordinary shareholders	(100.6)	(79.4)
Repurchase of ordinary shares	(226.0)	(67.3)
Proceeds from shares issued under incentive plans	6.5	3.2
Other financing activities, net	—	(3.8)
Net cash used in financing activities	<u>(342.2)</u>	<u>(183.4)</u>
Effect of exchange rate changes on cash at bank and in hand	<u>(0.3)</u>	<u>(6.2)</u>
Net increase (decrease) on cash at bank and in hand	68.1	(175.6)
Cash at bank and in hand – beginning of year	290.6	466.2
Cash at bank and in hand – end of year	<u>358.7</u>	<u>290.6</u>

1. BASIS OF PREPARATION

Irish law requires the directors to prepare financial statements for each financial year that give a true and fair view of the Consolidated and Parent Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year. Under that law, the directors have prepared the Consolidated Financial Statements in accordance with U.S. accounting standards, as defined in Section 279 (1) of the 2014 Act, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the 2014 Act or of any regulations made thereunder and the Parent Company Financial Statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, and promulgated by the Institute of Chartered Accountants in Ireland and Irish law). The Consolidated Financial Statements are prepared in accordance with Irish Company Law, to present to the shareholders of Allegion plc and file with the Companies Registration Office in Ireland. Accordingly, these Consolidated Financial Statements include disclosures required by the 2014 Act of Ireland in addition to those required under U.S. GAAP.

The Consolidated and Parent Company Financial Statements have been prepared on the going concern basis.

The loss attributable to equity shareholders dealt within the Parent Company Financial Statements in 2019 was \$34.8 million (2018: profit of \$202.4 million). In accordance with Section 304 of the 2014 Act, the Company is availing of the exemption from presenting its Individual Profit and Loss Account at the Annual General Meeting and from filing it with the Registrar of Companies.

The financial statements are presented in U.S. dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies used in the preparation of the accompanying Consolidated Financial Statements follows:

Accounting convention: These financial statements are prepared under the historical cost convention.

Basis of consolidation: The Consolidated Financial Statements include all controlled subsidiaries of the Company. A non-controlling interest in a subsidiary is considered an ownership interest in a controlled subsidiary that is not attributable to the Company. The Company includes non-controlling interests as a component of Total equity in the Consolidated Balance Sheet and the Profit for the financial year attributable to non-controlling interests are presented as an adjustment from Profit on ordinary activities after taxation to arrive at Profit for the financial year attributable to Allegion plc in the Consolidated Profit and Loss Account.

Equity method affiliates represent unconsolidated entities in which the Company demonstrates significant influence in the affiliate but does not have a controlling financial interest. The Company is also required to consolidate variable interest entities in which it bears a majority of the risk to the entities' potential losses or stands to gain from a majority of the entities' expected returns.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Estimates are based on several factors including the facts and circumstances available at the time the estimates are made, historical experience, risk of loss, general economic conditions and trends and the assessment of the probable future outcome. Some of the more significant estimates include useful lives of tangible assets and intangible assets, purchase price allocations of acquired businesses, valuation of assets and liabilities including goodwill and other intangible assets, product warranties, sales allowances, pension plan benefits, postretirement benefits other than pensions, taxes, lease related assets and liabilities, environmental costs and product liability and other contingencies. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the Consolidated Profit and Loss Account in the year that they are determined.

Currency translation: Assets and liabilities where the functional currency is not the U.S. dollar have been translated at year-end exchange rates, and income and expense accounts have been translated using average exchange rates throughout the year. Adjustments resulting from the process of translating a subsidiary's financial statements into the U.S. dollar have been recorded in the equity section of the Consolidated Balance Sheet within Other reserves. Transactions that are denominated in a currency other than an entity's functional currency are subject to changes in exchange rates with the resulting gains and losses recorded within Profit on ordinary activities before taxation.

Cash at bank and in hand: Cash at bank and in hand includes cash on hand, restricted cash, demand deposits and all highly liquid investments with original maturities at the time of purchase of three months or less.

Stock: Stock is stated at the lower of cost and net realisable value using the first-in, first-out (FIFO) method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for doubtful accounts: The Company provides for an allowance for doubtful accounts, which represents the best estimate of probable loss inherent in the Company’s debtors portfolio. The Company's estimates are influenced by a continuing credit evaluation of customers’ financial condition, debtors aging and historical loss experience. The Company has reserved \$5.6 million and \$3.3 million for doubtful accounts as of 31 December 2019 and 2018, respectively.

Tangible assets: Tangible assets are stated at cost, less accumulated depreciation. Assets placed in service are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset except for leasehold improvements, which are depreciated over the shorter of their economic useful life or their lease term. The range of useful lives used to depreciate tangible assets are as follows:

Buildings	10 to 50 years
Machinery and equipment	2 to 12 years
Vehicles	3 to 6 years
Fixtures and fittings	5 to 10 years
Software	2 to 7 years

Repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Major replacements and significant improvements that increase asset values and extend useful lives are capitalised.

The Company assesses the recoverability of the carrying value of its tangible assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If the undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognised for the amount by which the carrying value of the asset exceeds the fair value of the asset.

Investments: The Company periodically invests in debt or equity securities of start-up companies and/or development stage technology or other companies without acquiring a controlling interest. The Company applies the equity method of accounting when the Company has the ability to exercise significant influence over the operating and financial decision making of the investee. Investments in equity method affiliates totaled \$18.2 million and \$16.0 million as of 31 December 2019 and 2018, respectively. Debt and equity investments that have readily determinable fair values in which the Company does not have significant influence are generally classified as investments in associates and are subsequently measured at fair value with any unrealised holding gains and losses being reported in Other comprehensive income. The Company's investments without readily determinable fair values are measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer and are qualitatively assessed for impairment indicators at each reporting period. Investments in debt and equity securities not accounted for under the equity method of accounting totaled \$18.1 million and \$9.5 million as of 31 December 2019 and 2018, respectively. The Company's investments are principally recorded within Financial assets within the Consolidated Balance Sheet.

Leases: In accordance with ASC 842, the Company records a right-of-use ("ROU") asset and lease liability for substantially all leases for which it is a lessee. In determining if a contract represents a lease, consideration is given to all relevant facts and circumstances to assess whether or not the contract conveys the right to control the use of an identified asset, either explicit or implicit, for a period of time in exchange for consideration. Judgment and estimation is also required in determining the lease classification and the amount of the ROU asset and corresponding lease liability for each lease, which includes determining the appropriate lease term and an applicable discount rate. The Company assesses the specific terms and conditions of each lease to determine the appropriate classification as either an operating or finance lease. In determining the appropriate length of the lease term, both the minimum period over which lease payments are required plus any renewal options that are both within the Company's control to exercise and are reasonably certain of being exercised as of lease commencement are considered. The Company considers all relevant factors to determine if sufficient incentives exist as of lease commencement to conclude whether or not renewal is reasonably certain.

When available, the rate implicit in the lease is utilised as the discount rate to determine the lease liability. If this rate is unavailable, the Company utilises its incremental borrowing rate as the discount rate, which is the rate at inception of the lease that would hypothetically be incurred to borrow over a similar term the funds needed to purchase the leased asset. Refer to Note 28 for further details on the Company's lease accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill and Intangible assets: The Company records as goodwill the excess of the purchase price of an acquired business over the fair value of the net assets acquired. Irish Company Law requires goodwill and other intangible assets to be written off over a time period which does not exceed their useful life. Consistent with U.S. GAAP, the Company does not amortise goodwill and certain intangibles over an arbitrary period as they are considered to have an indefinite life. Goodwill and other indefinite-lived intangible assets are tested and reviewed annually for impairment during the fourth quarter or whenever there is a significant change in events or circumstances that indicate that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not less than the carrying amount of the asset.

Recoverability of goodwill is measured at the reporting unit level. The carrying amount of a reporting unit is compared to its estimated fair value. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a goodwill impairment charge will be recognised for the amount by which the carrying value of the reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill of the reporting unit. Estimated fair value of the Company's reporting units is based on two valuation techniques, a discounted cash flow model (income approach) and a market multiple of earnings (market approach), with each method being weighted in the calculation.

Recoverability of other intangible assets with indefinite useful lives (i.e. Trade names) is determined on a relief from royalty methodology, which is based on the implied royalty paid, at an appropriate discount rate, to license the use of an asset rather than owning the asset. The present value of the after-tax cost savings (i.e. royalty relief) indicates the estimated fair value of the asset. Any excess of the carrying value over the estimated fair value is recognised as an impairment loss equal to that excess.

Intangible assets such as completed technologies, patents, customer-related intangible assets and other intangible assets with finite useful lives are amortised on a straight-line basis over their estimated economic lives. The weighted-average useful lives approximate the following:

Customer relationships	20 years
Trade names (finite-lived)	25 years
Completed technology/patents	10 years
Other	7 years

Recoverability of intangible assets with finite useful lives is assessed in the same manner as tangible fixed assets as described above.

Income taxes: The calculation of the Company's income taxes involves considerable judgment and the use of both estimates and allocations. Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company recognises future tax benefits, such as net operating losses and tax credits, to the extent that realising these benefits is considered in its judgment to be more likely than not. The Company regularly reviews the recoverability of its deferred tax assets considering its historic profitability, projected future taxable income, timing of the reversals of existing temporary differences and the feasibility of its tax planning strategies. Where appropriate, the Company records a valuation allowance with respect to future tax benefits.

Cash paid for income taxes, net of refunds, for the twelve months ended 31 December 2019 and 2018 was \$103.0 million and \$101.7 million, respectively.

Product warranties: The Company offers a standard warranty with most product sales, and the value of such warranty is included in the contractual sales price. Standard product warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. The Company regularly assesses the adequacy of its liabilities and makes adjustments as necessary based on known or anticipated warranty claims, or as new information becomes available. Refer to Note 32 for further details regarding product warranties.

Revenue recognition: Turnover is recognised based on the satisfaction of performance obligations under the terms of a contract. A performance obligation is a promise in a contract to transfer control of a distinct product or to provide a service, or a bundle of products or services, to a customer. The Company has two principal revenue streams, tangible product sales and services. Approximately 99% of consolidated Turnover involve contracts with a single performance obligation, which is the transfer of control of a product or bundle of products to a customer. The Company's remaining Turnover involve services, including installation and consulting. See Note 4 for additional information regarding the Company's revenue recognition policies.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sales returns and customer disputes involving a question of quantity or price are accounted for as variable consideration, and therefore, as a reduction to revenue and as a contra receivable. At 31 December 2019 and 2018, the Company had a customer claim accrual (contra receivable) of \$36.5 million and \$31.6 million, respectively. All other incentives or incentive programs where the customer is required to reach a certain level of purchases, remain a customer for a certain period, provide a rebate form or is subject to additional requirements are also considered variable consideration and are accounted for as a reduction of revenue and a liability. At 31 December 2019 and 2018, the Company had a sales incentive accrual of \$37.2 million and \$33.9 million, respectively. Variable consideration is estimated based on the most likely amount expected to be received from customers. Each of these accruals represents the Company's best estimate of the most likely amount expected to be received from customers based on historical experience. These estimates are reviewed regularly for accuracy. If updated information or actual amounts are different from previous estimates, the revisions are included in the Company's results for the period in which they become known. Historically, the aggregate differences, if any, between the Company's estimates and actual amounts in any year have not had a material impact on the Consolidated Financial Statements.

Environmental costs: The Company is subject to laws and regulations relating to protecting the environment. Environmental expenditures relating to current operations are expensed or capitalised as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Liabilities for remediation costs are recorded when they are probable and can be reasonably estimated, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. The assessment of this liability, which is calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companies and is not discounted. Refer to Note 31 and Note 32 for further details related to environmental matters.

Research and development costs: The Company conducts research and development activities for the purpose of developing and improving new products and services. These costs are expensed when incurred. For the years ended 31 December 2019 and 2018, expenses related to research and development activities amounted to approximately \$54.7 million and \$54.4 million, respectively, and consist of salaries, wages, benefits, building costs and other overhead expenses.

Employee benefit plans: The Company provides a range of benefits, including pensions, postretirement and postemployment benefits to eligible current and former employees. Determining the costs associated with such benefits is dependent on various actuarial assumptions, including discount rates, expected return on plan assets, compensation increases, employee mortality, turnover rates and healthcare cost trend rates. Actuaries perform the required calculations to determine expense in accordance with U.S. GAAP. Actual results may differ from the actuarial estimates and are generally recorded to Other reserves and amortised into the Profit for the financial year over future periods. The Company reviews its actuarial assumptions at each measurement date and makes modifications to the assumptions based on current rates and trends, if appropriate. Refer to Note 29 for further details on employee benefit plans.

Provisions for liabilities: Liabilities are recorded for various contingencies arising in the normal course of business, including litigation and administrative proceedings, environmental matters, product liabilities, product warranties, worker's compensation and other claims. The Company has recorded reserves in the financial statements related to these matters, which are developed using inputs derived from actuarial estimates and historical and anticipated experience data depending on the nature of the reserve and, in certain instances, with consultation of legal counsel, internal and external consultants and engineers. Subject to the uncertainties inherent in estimating future costs for these types of liabilities, the Company believes its estimated reserves are reasonable and does not believe the final determination of the liabilities with respect to these matters would have a material effect on the financial condition, results of operations, liquidity or cash flows of the Company for any year. Refer to Note 31 for further details related to Provisions for liabilities.

Derivative instruments: The Company periodically enters into cash flow and other derivative transactions to specifically hedge exposure to various risks related to currency and variable interest rates. The Company recognises all derivatives on the Consolidated Balance Sheet at their fair value as either assets or liabilities. For designated cash flow hedges, the changes in fair value of the derivative contract is recorded in Other comprehensive income (loss) and in Profit for the financial year at the time earnings are affected by the hedged transaction. For undesignated derivative transactions, the changes in the fair value of the derivative contract are immediately recognised in Profit for the financial year. Refer to Note 27 for further details regarding derivative instruments.

Recent Accounting Pronouncements***Recently Adopted Accounting Pronouncements:***

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires the identification of arrangements that should be accounted for as leases. In general, for lease arrangements of a twelve-month term or greater, these arrangements are to be recognised as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, an ROU asset and lease liability are recorded for all leases, whether operating or financing, while the Consolidated Profit and Loss Account reflects lease expense for operating leases and amortisation/interest expense for financing leases.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842 (Leases)", which provided narrow amendments to clarify how to apply certain aspects of ASU 2016-02, and ASU 2018-11, "Leases (Topic 842): Targeted Improvements", which provided an additional transition method by allowing entities to initially apply ASU 2016-02, and subsequent related standards, at the adoption date and recognise a cumulative-effect adjustment to the opening balance of profit and loss account in the period of adoption. In March 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements", which exempted entities from having to provide certain interim disclosures in the fiscal year of adoption of ASU 2016-02 and its related standards. These ASUs (collectively "ASC 842") were effective for annual periods beginning after 15 December 2018, and interim periods within those annual periods. The Company adopted ASC 842 on 1 January 2019, utilising the transition method allowed per ASU 2018-11. Comparative period financial information has not been adjusted for the effects of adopting ASC 842 and no cumulative-effect adjustment was required to the opening balance of the Profit and loss account on the adoption date.

The Company has also made updates to its systems, policies and internal controls over financial reporting related to the adoption of ASC 842 on 1 January 2019. See Note 28 for further information and expanded disclosure related to the Company's leases.

Recently Issued Accounting Pronouncements:

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." In November 2018, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses". The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. These ASUs are effective for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. The Company adopted ASU 2016-13 and its related updates on 1 January 2020, and the adoption did not have a material impact to the Consolidated Financial Statements, although the Company has made updates to its policies and internal controls over financial reporting as a result of adoption.

In August 2018, the FASB issued ASU 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The new guidance aligns the requirements for capitalising implementation costs incurred in a cloud-based hosting arrangement that is a service contract with the requirements for capitalising implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The ASU is effective for fiscal years beginning after 15 December 2019, including interim periods within those fiscal years. The Company adopted ASU 2018-15 on 1 January 2020, and does not believe the adoption will have a material impact to the Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." The new guidance is intended to simplify the accounting for income taxes by removing certain exceptions and by updating accounting requirements around franchise taxes, goodwill recognised for tax purposes, the allocation of current and deferred tax expense among legal entities, among other minor changes. The ASU is effective for fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2019-12 will have on the Consolidated Financial Statements.

In January 2020, the FASB issued ASU 2020-01, "Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The amendments in ASU 2020-01 clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting. The amendments also clarify the accounting for certain forward contracts and purchased options accounted for under Topic 815. The ASU is effective for fiscal years beginning after 15 December 2020, including interim periods within those fiscal years. Early adoption is permitted. The Company is assessing what impact ASU 2020-01 will have on the Consolidated Financial Statements.

3. BUSINESS SEGMENT INFORMATION

The Company classifies its business into the following three reportable segments based on industry and market focus: Americas, EMEIA and Asia Pacific.

The Company largely evaluates performance based on Segment operating profit and Segment operating margins. Segment operating profit is the measure of profit and loss that the Company's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews and compensation. For these reasons, the Company believes that Segment operating profit represents the most relevant measure of segment profit and loss. The Company's chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, from Operating profit to arrive at a Segment operating profit that is a more meaningful measure of profit and loss upon which to base operating decisions. The Company defines Segment operating margin as Segment operating profit as a percentage of the segment's Turnover.

Segment operating profit excludes Other operating expenses as discussed in Note 5 to the Consolidated Financial Statements.

3. BUSINESS SEGMENT INFORMATION (Continued)

A summary of operations and balance sheet information by reportable segments as of and for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018
Americas		
Turnover	2,114.5	1,988.6
Segment operating profit	611.6	544.5
Segment operating margin	28.9%	27.4%
Depreciation and amortisation	35.7	42.2
Capital expenditures	32.1	22.5
Total segment assets	1,239.0	1,175.8
EMEIA		
Turnover	572.5	589.9
Segment operating profit	34.3	49.3
Segment operating margin	6.0%	8.4%
Depreciation and amortisation	33.1	32.0
Capital expenditures	16.9	16.2
Total segment assets	1,057.6	1,052.1
Asia Pacific		
Turnover	167.0	153.2
Segment operating profit	0.5	6.9
Segment operating margin	0.3%	4.5%
Depreciation and amortisation	4.9	3.9
Capital expenditures	11.4	4.2
Total segment assets	281.1	286.6
Total Turnover	2,854.0	2,731.7
Reconciliation to Profit on ordinary activities before taxation		
Segment operating profit from reportable segments	646.4	600.7
Unallocated corporate expense	81.3	74.9
Interest payable and similar charges	56.0	54.0
Loss on divestitures	30.1	—
Other expense (income)	3.8	(3.4)
Total Profit on ordinary activities before taxation	475.2	475.2
Depreciation and amortisation from reportable segments	73.7	78.1
Unallocated depreciation and amortisation	4.4	4.2
Total depreciation and amortisation	78.1	82.3
Capital expenditures from reportable segments	60.4	42.9
Corporate capital expenditures	5.2	6.2
Total capital expenditures	65.6	49.1
Assets from reportable segments	2,577.7	2,514.5
Unallocated assets ^(a)	389.5	295.7
Total assets	2,967.2	2,810.2

(a) Unallocated assets consist primarily of investments in unconsolidated affiliates, fixed assets, deferred income taxes and cash.

3. BUSINESS SEGMENT INFORMATION (Continued)

Turnover by destination and product type for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018
Turnover		
U.S.	1,988.9	1,852.8
Non-U.S.	865.1	878.9
Total	2,854.0	2,731.7

<i>In millions (\$)</i>	2019	2018
Turnover		
Mechanical products	2,247.0	2,155.2
All other	607.0	576.5
Total	2,854.0	2,731.7

In fiscal year 2019 and 2018, no customer exceeded 10% of consolidated Turnover.

At 31 December, long-lived assets by geographic area were as follows:

<i>In millions (\$)</i>	2019	2018
Long-lived assets		
U.S.	242.0	245.1
Non-U.S.	437.3	448.1
Total	679.3	693.2

4. TURNOVER

Turnover is recognised based on the satisfaction of performance obligations under the terms of a contract. A performance obligation is a promise in a contract to transfer control of a distinct product or to provide a service, or a bundle of products or services, to a customer, and is the unit of account under ASC 606. The Company has two principal revenue streams, tangible product sales and services. Approximately 99% of consolidated Turnover involve contracts with a single performance obligation, which is the transfer of control of a product or bundle of products to a customer. Transfer of control typically occurs when goods are shipped from the Company's facilities or at other predetermined control transfer points (for instance, destination terms). Turnover is measured as the amount of consideration expected to be received in exchange for transferring control of the products and takes into account variable consideration, such as sales incentive programs including discounts and volume rebates. The existence of these programs does not preclude revenue recognition but does require the Company's best estimate of the variable consideration to be made based on expected activity, as these items are reserved for as a deduction to Turnover over time based on the Company's historical rates of providing these incentives and annual forecasted sales volumes. The Company also offers a standard warranty with most product sales and the value of such warranty is included in the contractual price. The corresponding cost of the warranty obligation is accrued as a liability (see Note 32).

The Company's remaining Turnover involve services, including installation and consulting. Unlike the single performance obligation to ship a product or bundle of products, revenue recognition related to services revenues is delayed until the service based performance obligations are satisfied. In some instances, customer acceptance provisions are included in sales arrangements to give the buyer the ability to ensure the service meets the criteria established in the order. In these instances, revenue recognition is deferred until the performance obligations are satisfied, which could include acceptance terms specified in the arrangement being fulfilled through customer acceptance or a demonstration that established criteria have been satisfied. During the years ended 31 December 2019 and 2018, no adjustments related to performance obligations satisfied in previous periods were recorded.

The Company applies the practical expedients allowed under ASC 606 to omit the disclosure of remaining performance obligations for contracts with an original expected duration of one year or less and for contracts where the Company has the right to invoice for performance completed to date. The transaction price is not adjusted for the effects of a significant financing component, as the time period between control transfer of goods and services is less than one year. Sales, value-added and other similar taxes collected by the Company are excluded from Turnover. The Company has also elected to account for shipping and handling activities that occur after control of the related goods transfers as fulfillment activities instead of performance obligations. These activities are included in Cost of sales in the Consolidated Profit and Loss Account. The Company's payment terms are generally consistent with the industries in which its businesses operate.

4. TURNOVER (Continued)

The following table shows the Company's Turnover related to both tangible product sales and services for the years ended 31 December 2019 and 2018, respectively, disaggregated by business segment. Turnover is shown by tangible product sales and services, as contract terms, conditions and economic factors affecting the nature, amount, timing and uncertainty around revenue recognition and cash flows are substantially similar within each of the two principal revenue streams:

<i>In millions (\$)</i>	2019			
Turnover	Americas	EMEIA	Asia Pacific	Consolidated
Products	2,114.5	546.1	158.8	2,819.4
Services	—	26.4	8.2	34.6
Total turnover	2,114.5	572.5	167.0	2,854.0

<i>In millions (\$)</i>	2018			
Turnover	Americas	EMEIA	Asia Pacific	Consolidated
Products	1,988.6	567.8	148.9	2,705.3
Services	—	22.1	4.3	26.4
Total turnover	1,988.6	589.9	153.2	2,731.7

As of 31 December 2019 and 2018, neither the contract assets related to the Company's right to consideration for work completed but not billed nor the contract liabilities associated with contract revenue were material. As a practical expedient, the Company recognises incremental costs of obtaining a contract, if any, as an expense when incurred if the amortisation period of the asset would have been one year or less. The Company does not have any costs to obtain or fulfill a contract that are capitalised under ASC 606.

5. OTHER OPERATING EXPENSES

<i>In millions (\$)</i>	2019	2018
Foreign currency exchange loss	(1.8)	(0.3)
Other operating expenses	(1.8)	(0.3)

6. OTHER FINANCE (EXPENSE) INCOME

During the years ended 31 December, the Company recorded Other finance (expense) income as follows:

<i>In millions (\$)</i>	2019	2018
(Loss) earnings from equity investments	(0.1)	0.4
Net periodic pension and postretirement benefit (cost) income, less service cost	(6.8)	2.8
Other	3.1	(0.3)
Other finance (expense) income	(3.8)	2.9

7. INTEREST RECEIVABLE AND SIMILAR INCOME

<i>In millions (\$)</i>	2019	2018
Interest income	1.8	0.8
Interest receivable and similar income	1.8	0.8

8. INTEREST PAYABLE AND SIMILAR CHARGES

<i>In millions (\$)</i>	2019	2018
Interest on bank debt	(22.8)	(23.5)
Interest on Senior Notes	(27.0)	(26.9)
Write-off of previously deferred financing costs	(2.7)	—
Amortisation of debt issuance costs	(3.5)	(3.6)
Interest payable and similar charges	(56.0)	(54.0)

8. INTEREST PAYABLE AND SIMILAR CHARGES (Continued)

Interest payable and similar charges for the year ended 31 December 2019, increased \$2.0 million compared to the same period of 2018, primarily due to a \$2.7 million charge related to the write-off of previously deferred financing costs related to our Term Facility. This charge was recognised in conjunction with a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance in 2019.

9. LOSS ON DIVESTITURES

In June 2019, the Company closed its production facility in Turkey and subsequently sold certain of the production assets thereof, which collectively met the definition of a business under ASC 805, "Business Combinations" (see Note 14 for further information around the Company's restructuring activities). Total proceeds from the sale were approximately \$4.1 million. The Company recorded a Loss on divestiture of \$24.2 million (\$25.5 million, net of tax), primarily driven by \$25.0 million of cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to the Profit and loss account upon sale. The loss is included as a component of Loss on divestitures in the Consolidated Profit and Loss Account.

Additionally, during the fourth quarter of 2019, the Company sold our interests in our Colombia operations for an immaterial amount. As a result of the sale, the Company recorded a Loss on divestiture of \$5.9 million, of which \$1.2 million relates to cumulative currency translation adjustments previously deferred in Other reserves that were reclassified to Profit and loss account upon sale. The loss is included as a component of Loss on divestitures in the Consolidated Profit and Loss Account.

Neither of these divestitures is expected to have a material impact on the Company's future results of operations or cash flows.

10. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

<i>In millions (\$)</i>	2019	2018
Profit on ordinary activities before taxation has been arrived at after charging:		
Staff costs:		
Wages and salaries	620.4	600.2
Social welfare	159.5	145.7
Other pension costs	14.2	6.7
Depreciation (Note 18)	47.1	46.2
Amortisation of intangible assets (Note 17)	31.2	36.3
Auditors' remuneration	7.4	4.9
Restructuring costs (Note 14)	16.5	4.9
Research and development	54.7	54.4
<hr/>		
<i>In millions (\$)</i>	2019	2018
Audit of the Consolidated and Parent Company statutory accounts	4.4	4.0
Other assurance services	0.8	0.2
Tax advisory services	2.2	0.7
Auditors' remuneration	7.4	4.9

11. EMPLOYEE COSTS

The average number of persons employed in the Company, including executive directors, during the year was as follows:

<i>Numbers</i>	2019	2018
Americas	7,211	6,792
EMEIA	3,121	3,173
Asia Pacific	727	600
Average number of persons employed	11,059	10,565

11. EMPLOYEE COSTS (Continued)

<i>In millions (\$)</i>	2019	2018
Wages and salaries *	620.4	600.2
Social welfare and other pension costs	173.7	152.4
Employee costs	794.1	752.6

*The cost of labor capitalised within Stock as of 31 December 2019 was approximately \$17.5 million (2018: \$15.8 million).

Directors' remuneration

<i>In millions (\$)</i>	2019	2018
Emoluments	4.5	4.3
Benefits under long-term incentive schemes	2.7	1.0
Contributions to retirement benefits schemes: Defined contribution	0.3	0.1
Directors' remuneration	7.5	5.4

12. TAX ON PROFIT ON ORDINARY ACTIVITIES

Profit on ordinary activities before taxation for the years ended 31 December were taxed within the following jurisdictions:

<i>In millions (\$)</i>	2019	2018
U.S.	211.1	151.4
Non-U.S.	264.1	323.8
Total	475.2	475.2

The components of the Tax on profit on ordinary activities for the years ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018
Current tax expense:		
U.S.	(87.1)	(86.4)
Non-U.S.	(16.2)	(18.1)
Total:	(103.3)	(104.5)
Deferred tax benefit:		
U.S.	25.2	56.1
Non-U.S.	5.0	8.6
Total:	30.2	64.7
Total tax expense:		
U.S.	(61.9)	(30.3)
Non-U.S.	(11.2)	(9.5)
Total	(73.1)	(39.8)

12. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

The Tax on profit on ordinary activities differs from the amount of income taxes determined by applying the applicable U.S. statutory income tax rate to pretax income, as a result of the following differences:

	Percent of pretax income	
	2019	2018
Statutory U.S. rate	21.0%	21.0%
Increase (decrease) in rates resulting from:		
Non-U.S. tax rate differential (1)	(10.6)	(11.9)
State and local income taxes (1)	3.0	2.1
Reserves for uncertain tax positions	0.5	2.1
Tax on unremitted earnings	0.1	(1.2)
Tax Reform Act	—	(4.6)
Trade incentives	0.2	0.6
Impact of divestitures	1.6	—
Other adjustments	(0.4)	0.3
Effective tax rate	15.4%	8.4%

(1) Net of changes in valuation allowances

On 22 December 2017, the Tax Reform Act became law, resulting in broad and complex changes to the U.S. tax code. The impact to the Company, included, but were not limited to, a (1) reduced U.S. federal corporate tax rate from 35.0% to 21.0%, effective January 1, 2018, (2) required a one-time transition tax on certain unrepatriated earnings of non-U.S. subsidiaries and (3) required review of the future realisability of deferred tax balances.

Shortly after the Tax Reform Act was enacted, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) which provided guidance on accounting for the Tax Reform Act's impact. SAB 118 provided a measurement period, which in no case was to extend beyond one year from the Tax Reform Act enactment date, during which a company acting in good faith could complete the accounting for the impacts of the Tax Reform Act under ASC Topic 740. In accordance with SAB 118, the Company reflected the income tax effects of the Tax Reform Act in the reporting period in which the accounting under ASC 740 was completed.

In accordance with the expiration of the one-year SAB 118 measurement period, the Company completed the assessment of the income tax effects of the Tax Reform Act in the fourth quarter of 2018. In finalising the net tax charge resulting from the Tax Reform Act, the Company reversed \$22.8 million of previous charges and recorded an additional \$0.9 million of transition tax, each of which is described more fully below.

During 2018, the U.S. Internal Revenue Service and Treasury Department released interpretative guidance and accordingly, the Company reversed the \$22.8 million of valuation allowance during the year ended 31 December 2018, primarily related to the deductibility of interest limitation carryforward balances and certain executive compensation. Also during 2018, U.S. Internal Revenue Service and Treasury Department released interpretive guidance and draft regulations which resulted in the \$0.9 million increase in the transition tax charge. The Company elected to pay the full liability for the deemed repatriation of foreign earnings during the year ended 31 December 2018.

The majority of the Company's earnings are considered permanently reinvested. As a result of the Tax Reform Act, the Company analysed its global working capital requirements and the potential tax liabilities that would be incurred if certain non-U.S. subsidiaries made distributions, which include local country withholding tax and potential U.S. state taxation. Based on this analysis, the Company made no changes to its permanent reinvestment assertions to reinvest the earnings in its non-U.S. subsidiaries outside of the U.S. Thus, the Company has not recorded any incremental withholding or income tax liabilities on its investment in its non-U.S. subsidiaries.

12. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

At 31 December a summary of the deferred tax accounts was as follows:

<i>In millions (\$)</i>	2019	2018
Deferred tax assets:		
Stock and debtors	5.3	15.3
Fixed assets and intangibles	2.3	2.2
Postemployment and other benefit liabilities	31.0	29.1
Other reserves and accruals	14.2	12.8
Net operating losses, tax credits and other carryforwards	346.3	419.9
Other	0.8	0.7
Gross deferred tax assets	399.9	480.0
Less: deferred tax valuation allowances	(241.0)	(357.1)
Deferred tax assets net of valuation allowances	158.9	122.9
Deferred tax liabilities:		
Fixed assets and intangibles	(104.3)	(104.9)
Postemployment and other benefit liabilities	(5.1)	(3.5)
Unremitted earnings of non-U.S. subsidiaries	(2.4)	(0.5)
Other	(3.8)	(6.3)
Gross deferred tax liabilities	(115.6)	(115.2)
Net deferred tax assets	43.3	7.7

At 31 December 2019, \$2.4 million of deferred taxes were recorded for certain undistributed earnings of non-U.S. subsidiaries. Historically, no deferred taxes have been provided for any portion of the remaining undistributed earnings of the Company's subsidiaries since these earnings have been, and will continue to be, permanently reinvested in these subsidiaries. For many reasons, including the number of legal entities and jurisdictions involved, the complexity of the Company's legal entity structure, the complexity of tax laws in the relevant jurisdictions and the impact of projections of income for future years to any calculations, the Company believes it is not practicable to estimate, within any reasonable range, the amount of additional taxes which may be payable upon the distribution of earnings.

At 31 December 2019, the Company had the following tax losses and tax credit carryforwards available to offset taxable income in prior and future years:

<i>In millions (\$)</i>	Amount	Expiration Period
U.S. Federal tax loss carryforwards	20.0	2027-2037
U.S. Federal and State credit carryforwards	22.5	2025-2037
U.S. State tax loss carryforwards	27.4	2020-Unlimited
Non-U.S. tax loss carryforwards	934.7	2020-Unlimited

The U.S. state loss carryforwards were incurred in various jurisdictions. The non-U.S. loss carryforwards were incurred in various jurisdictions, predominantly in China, Ireland, Italy, Luxembourg and the United Kingdom.

The Company evaluates its deferred income tax assets to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers the nature, frequency and amount of recent losses, the duration of statutory carryforward periods and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

12. TAX ON PROFIT ON ORDINARY ACTIVITIES (Continued)

Activity associated with the Company's valuation allowance is as follows:

<i>In millions (\$)</i>	2019	2018
Beginning balance	357.1	312.9
Increase to valuation allowance	2.8	70.9
Decrease to valuation allowance	(118.6)	(25.0)
Foreign exchange translation	(0.3)	(1.7)
Ending balance	241.0	357.1

During the year ended 31 December 2019, the valuation allowance decreased by \$116.1 million. This decrease is the result of changes in country specific tax laws, internal restructurings, jurisdictional profitability and changes in judgment and facts regarding the realisability of deferred tax assets.

The Company has total unrecognised tax benefits of \$37.3 million and \$42.0 million as of 31 December 2019 and 2018, respectively. The amount of unrecognised tax benefits that, if recognised, would affect the effective tax rate is \$37.3 million as of 31 December 2019. A reconciliation of the beginning and ending amount of unrecognised tax benefits is as follows:

<i>In millions (\$)</i>	2019	2018
Beginning balance	42.0	29.0
Additions based on tax positions related to the current year	5.7	9.5
Additions based on tax positions related to prior years	1.7	8.2
Reductions based on tax positions related to prior years	(7.0)	(1.4)
Reductions related to settlements with tax authorities	(4.0)	(1.5)
Reductions related to lapses of statute of limitations	(0.8)	(1.1)
Translation gain	(0.3)	(0.7)
Ending balance	37.3	42.0

The Company records interest and penalties associated with the uncertain tax positions within its tax on profit on ordinary activities. The Company had reserves associated with interest and penalties, net of tax, of \$6.2 million and \$5.7 million at 31 December 2019 and 2018, respectively. For the years ended 31 December 2019 and 2018, the Company recognised \$1.3 million and \$0.8 million in net interest and penalties, net of tax, related to these uncertain tax positions.

The total amount of unrecognised tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognised tax benefits, excluding interest and penalties, could potentially be reduced by up to approximately \$8.6 million during the next 12 months.

The tax on profit on ordinary activities involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a tax authority with respect to that return. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Canada, France, Germany, Italy, Mexico, the Netherlands and the U.S. In general, the examination of the material tax returns of subsidiaries of the Company is complete for the years prior to 2003, with certain matters being resolved through appeals and litigation.

The Company had no indemnity receivables at 31 December 2019, and \$5.4 million of indemnity receivables included in Debtors: amounts falling due after more than one year at 31 December 2018, primarily related to additional competent authority relief filings.

13. ACQUISITIONS

During the year ended 31 December 2018, the Company completed six acquisitions:

Business	Month
Technical Glass Products, Inc. ("TGP")	January 2018
Hammond Enterprises, Inc. ("Hammond")	January 2018
Qatar Metal Industries LLC ("QMI")	February 2018
AD Systems, Inc. ("AD Systems")	March 2018
Gainsborough Hardware and API Locksmiths ("Door and Access Systems")	July 2018
ISONAS Security Systems, Inc. ("ISONAS")	July 2018

Total cash paid for these acquisitions was approximately \$373 million (net of cash acquired), including \$4.6 million during the year ended 31 December 2019. These acquisitions were accounted for as business combinations. The allocation of the aggregate purchase price to assets acquired and liabilities assumed is complete as of 31 December 2019, and was as follows:

<i>In millions (\$)</i>	
Debtors	30.2
Stock	28.5
Tangible assets	27.6
Goodwill	139.8
Intangible assets	204.3
Financial assets	2.0
Creditors: amounts falling due within one year	(46.8)
Provision for liabilities	(11.1)
Total consideration	374.5

Intangible assets acquired include approximately \$59 million of indefinite-lived trade names, \$112 million of customer relationships and \$33 million of completed technologies and other intangibles, which includes approximately \$6 million of acquired backlog revenue. The customer relationships have a 17-year weighted-average useful life, while the completed technologies and other intangibles, excluding the backlog revenue, have a 16-year weighted-average useful life. The backlog revenue was fully amortised as of 30 June 2018.

Goodwill results from several factors including Allegion-specific synergies that were excluded from the cash flow projections used in the valuation of intangible assets and intangible assets that do not qualify for separate recognition, for example, assembled workforce. The majority of the goodwill is expected to be deductible for tax purposes.

The following unaudited pro forma financial information for the year ended 31 December 2018 reflects the consolidated results of operations of the Company as if these acquisitions had taken place on 1 January 2017:

<i>In millions (\$)</i>	2018
Turnover	2,774.2
Profit for the financial year	446.8

The unaudited pro forma financial information is presented for informational purposes only and does not purport to be indicative of results of operations that would have occurred had the pro forma events taken place on the date indicated or the future consolidated results of operations of the combined company. The unaudited pro forma financial information has been calculated after applying the Company's accounting policies and adjusting the historical financial results to reflect additional items directly attributable to the acquisitions that would have been incurred assuming the acquisitions had occurred on 1 January 2017. Adjustments to historical financial information include removal of backlog revenue acquired as well as acquisition and integration expenses incurred in 2018 related to these acquisitions, partially offset by incremental amortisation of intangible assets.

During the years ended 31 December 2019 and 2018, the Company incurred \$2.0 million and \$10.0 million, respectively, of acquisition and integration related expenses, which are included in Distribution costs and Administrative expenses in the Consolidated Profit and Loss Account.

14. RESTRUCTURING ACTIVITIES

During 2019 and 2018, the Company recorded \$16.5 million and \$4.9 million, respectively, of expenses associated with restructuring activities. Included within the 2019 restructuring expenses are approximately \$8.4 million relating to the Company's closure of its production facility in Turkey during the year. The facility was closed to help streamline the Company's operational footprint in the EMEIA region, and these expenses are primarily related to severance and other employee separation costs, including approximately \$1.9 million of pension curtailment costs, which are included within Other finance (expense) income within the Consolidated Profit and Loss Account. All other restructuring expenses for the years ended 31 December 2019 and 2018, are included within Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account. The Company completed the divestiture of its Turkey business in the fourth quarter of 2019 (see Note 9).

The changes in the restructuring reserve during the years ended 31 December 2019 and 2018, were as follows:

<i>In millions (\$)</i>	Total
At 31 December 2017	4.2
Additions	4.9
Cash and non-cash uses	(6.9)
Currency translation	(0.1)
At 31 December 2018	2.1
Additions	16.5
Cash and non-cash uses	(17.3)
Currency translation	(0.1)
At 31 December 2019	1.2

The majority of the costs accrued as of 31 December 2019, will be paid within one year.

The Company also incurred other non-qualified restructuring charges of \$5.7 million and \$1.6 million during the years ended 31 December 2019 and 2018, respectively, in conjunction with the other restructuring plans, which represent costs that are directly attributable to restructuring activities, but that do not fall into the severance, exit or disposal category. Approximately \$4.3 million of the non-qualified restructuring expenses incurred during 2019 related to the closure of the Company's production facility in Turkey discussed above. Non-qualified restructuring charges are included within Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account.

15. NON-CONTROLLING INTERESTS

The changes in Non-controlling interests during the years ended 31 December 2019 and 2018, were as follows:

<i>In millions (\$)</i>	2019	2018
At 1 January	3.0	3.9
Share of profit for the financial year	0.3	0.5
Dividends to non-controlling interests	(0.2)	(1.8)
Other comprehensive (loss) income	(0.1)	0.4
At 31 December	3.0	3.0

All amounts of Other comprehensive income (loss) attributable to non-controlling interests on the Consolidated Reconciliation of Movements in Shareholders' Funds relate to foreign currency translation items.

16. EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing Profit for the financial year attributable to Allegion plc by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Company's case, includes shares issuable under share-based compensation plans. The following table summarises the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations:

<i>In millions</i>	2019	2018
Weighted-average number of basic shares	93.6	95.0
Shares issuable under incentive stock plans	0.7	0.7
Weighted-average number of diluted shares	94.3	95.7

16. EARNINGS PER SHARE (EPS) (Continued)

At 31 December 2019 and 2018, 0.1 million stock options were excluded from the computation of weighted-average diluted shares outstanding because the effect of including these shares would have been anti-dilutive.

17. INTANGIBLE ASSETS

The following table sets forth the gross amount and related accumulated amortisation of the Company's Intangible assets at 31 December:

<i>In millions (\$)</i>	Goodwill	Trade names	Customer relationships	Completed technologies/ Patents	Other	Total
Cost						
At 31 December 2018	883.0	215.5	419.3	59.4	9.5	1,586.7
Additions	—	—	—	0.5	5.5	6.0
Acquisitions	(2.0)	—	—	—	—	(2.0)
Currency translation	(6.7)	(3.3)	(6.6)	(0.6)	(0.2)	(17.4)
Impairment	—	(5.9)	—	—	—	(5.9)
Other	(1.0)	(0.8)	—	—	2.8	1.0
At 31 December 2019	873.3	205.5	412.7	59.3	17.6	1,568.4
Accumulated amortisation						
At 31 December 2018	—	47.4	88.5	14.2	6.5	156.6
Charge for the year	—	3.4	20.7	5.2	1.9	31.2
Currency translation	—	(1.0)	(1.7)	(0.2)	(0.2)	(3.1)
Other	—	(0.4)	—	—	(0.1)	(0.5)
At 31 December 2019	—	49.4	107.5	19.2	8.1	184.2
Net book amount						
At 31 December 2018	883.0	168.1	330.8	45.2	3.0	1,430.1
At 31 December 2019	873.3	156.1	305.2	40.1	9.5	1,384.2

The Company amortises intangible assets with finite useful lives on a straight-line basis over their estimated economic lives in accordance with U.S. GAAP. Indefinite-lived intangible assets are not subject to amortisation, but instead are tested for impairment at least annually (more frequently if certain indicators are present).

Intangible asset amortisation expense for the years ended 2019 and 2018, was \$31.2 million and \$36.3 million, respectively. Intangible asset amortisation expense for 2018 included the amortisation of approximately \$6 million of backlog revenue that was acquired during an acquisition in 2018. Future estimated amortisation expense on existing intangible assets in each of the next five years amounts to approximately \$28.8 million for 2020, \$28.8 million for 2021, \$28.7 million for 2022, \$28.6 million for 2023 and \$28.3 million for 2024.

In accordance with the Company's indefinite-lived intangible asset impairment testing policy outlined in Note 2, the Company performs its annual impairment test in the fourth quarter of each year. During the 2019 impairment testing, it was determined that two of the Company's indefinite-lived trade names were impaired. As such, impairment charges totaling \$5.9 million were recorded in the fourth quarter of 2019 and are included within Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account. In 2018, the Company determined the fair value of all indefinite-lived intangible assets exceeded their respective carrying values, and accordingly, no impairment charge was recorded during the year. The Company records as goodwill the excess of the purchase price over the fair value of the net assets acquired. Once the final valuation has been performed for each acquisition, adjustments may be recorded. The changes in the carrying amount of Goodwill were as follows:

17. INTANGIBLE ASSETS (Continued)

<i>In millions (\$)</i>	Americas	EMEIA	Asia Pacific	Total
At 31 December 2017 (net)	375.2	291.2	94.8	761.2
Acquisitions and settlements	111.1	10.2	20.5	141.8
Currency translation	(0.2)	(12.9)	(6.9)	(20.0)
At 31 December 2018 (net)	486.1	288.5	108.4	883.0
Acquisitions and adjustments ^(a)	(1.3)	2.7	(4.4)	(3.0)
Currency translation	0.2	(5.7)	(1.2)	(6.7)
At 31 December 2019 (net)	485.0	285.5	102.8	873.3

(a) In 2019, the Company made reclassifications to goodwill across all segments related to a change in how revenue is managed for a specific immaterial product line where revenue previously managed in the Asia Pacific segment is now being managed in the Americas and EMEIA segments.

18. TANGIBLE ASSETS

At 31 December the major classes of tangible assets were as follows:

<i>In millions (\$)</i>	Land and buildings	Machinery and equipment	Vehicles	Fixtures and fittings	Software	Construction in progress	Total
Cost							
At 31 December 2018	164.0	358.7	1.2	47.8	146.0	31.1	748.8
Additions	9.6	27.8	0.1	6.0	14.9	53.4	111.8
Transfers	—	—	—	—	—	(42.1)	(42.1)
Currency translation	(1.1)	(2.0)	—	(0.3)	(0.5)	0.3	(3.6)
Disposals	(0.6)	(13.0)	(0.1)	(4.0)	(3.0)	—	(20.7)
Other	(0.5)	(4.5)	—	(0.6)	(2.4)	(0.2)	(8.2)
At 31 December 2019	171.4	367.0	1.2	48.9	155.0	42.5	786.0
Accumulated depreciation							
At 31 December 2018	80.6	257.5	0.7	34.8	98.5	—	472.1
Charge for the year	5.6	23.0	0.2	3.8	14.5	—	47.1
Currency translation	(0.3)	(1.6)	—	(0.2)	(0.2)	—	(2.3)
Disposals	(0.4)	(12.5)	(0.1)	(3.8)	(2.9)	—	(19.7)
Other	(0.4)	(2.6)	0.1	(0.2)	0.5	—	(2.6)
At 31 December 2019	85.1	263.8	0.9	34.4	110.4	—	494.6
Net book amount							
At 31 December 2018	83.4	101.2	0.5	13.0	47.5	31.1	276.7
At 31 December 2019	86.3	103.2	0.3	14.5	44.6	42.5	291.4

During the financial year, Tangible assets with a carrying amount of \$1.0 million were disposed of. The assets had a cost of \$20.7 million and accumulated depreciation of \$19.7 million. The loss on the disposal of these tangible assets was \$0.7 million (2018: loss of \$0.4 million).

19. FINANCIAL ASSETS

At 31 December, the Company's financial assets were comprised of:

<i>In millions (\$)</i>	2019	2018
Investment in associates	25.9	22.0
Capital investments	17.4	14.3
Other loans and notes receivable	10.4	4.1
Deposits	3.8	3.2
At 31 December	57.5	43.6

20. STOCK

Stock is stated at the lower of cost and net realisable value using the first-in, first-out (FIFO) method.

At 31 December the major classes of stock were as follows:

<i>In millions (\$)</i>	2019	2018
Raw materials	116.8	117.2
Work-in-process	33.1	34.4
Finished goods	120.0	128.7
At 31 December	269.9	280.3

The estimated replacement cost of stock did not differ significantly from the figures shown above.

21. DEBTORS

<i>In millions (\$)</i>	2019	2018
Amounts falling due within one year:		
Trade debtors	354.7	345.2
Less: Allowance for doubtful debtors	(5.6)	(3.3)
Less: Reserve for customer claims	(36.5)	(31.6)
Trade debtors - net	312.6	310.3
Trade notes receivable	2.3	2.7
Other debtors	15.1	12.5
Interest rate swaps and currency derivatives (Note 27)	1.1	2.1
Prepayments and accrued income	27.9	16.9
Income tax receivables	14.2	15.4
At 31 December	373.2	359.9

22. CASH AT BANK AND IN HAND

<i>In millions (\$)</i>	2019	2018
Cash at bank and in hand	355.3	283.8
Restricted cash	3.4	6.8
At 31 December	358.7	290.6

23. DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

<i>In millions (\$)</i>	2019	2018
Other debtors	6.2	12.8
Interest rate swaps (Note 27)	—	5.7
Defined benefit plans (Note 29)	29.3	21.1
Deferred tax asset	112.5	84.6
ROU asset (Note 28)	81.4	—
Debt issue costs	2.9	4.0
At 31 December	232.3	128.2

24. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

<i>In millions (\$)</i>	2019	2018
Current portion of long-term debt (Note 26)	0.1	35.3
Lease liability - current (Note 28)	25.8	—
Payments received on account	10.9	5.6
Trade creditors	220.9	235.0
Other creditors	105.7	105.4
Irish dividend withholding tax	1.1	0.7
Income tax	7.8	13.0
Other taxes	7.1	6.3
Value added tax	7.0	7.6
Salary/Payroll taxes	6.8	6.4
Irish PAYE/PRSI	0.1	0.1
Currency derivatives payable (Note 27)	1.5	0.1
Freight and Excise duty	9.9	10.7
Accruals	62.2	55.2
At 31 December	466.9	481.4

Other creditors and accruals principally comprise of amounts outstanding and relating to sales incentives, compensation and interest payable. Trade creditors principally comprise amounts outstanding for day to day purchases and ongoing costs and are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit terms. The directors consider that the carrying amount of trade creditors approximates to their fair value.

25. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

<i>In millions (\$)</i>	2019	2018
Long-term debt (Note 26)	1,427.6	1,409.5
Lease liability - noncurrent (Note 28)	55.6	—
At 31 December	1,483.2	1,409.5

26. DEBT AND CREDIT FACILITIES

At 31 December long-term debt and other borrowings consisted of the following:

<i>In millions (\$)</i>	2019	2018
Term Facility	238.8	656.3
Revolving Facility	—	—
3.200% Senior Notes due 2024	400.0	400.0
3.550% Senior Notes due 2027	400.0	400.0
3.500% Senior Notes due 2029	400.0	—
Other debt	0.7	1.2
Total borrowings outstanding	1,439.5	1,457.5
Less discounts and debt issuance costs, net	(11.8)	(12.7)
Total debt	1,427.7	1,444.8
Less current portion of long-term debt	0.1	35.3
Total long-term debt	1,427.6	1,409.5

Unsecured Credit Facilities

As of 31 December 2019, the Company has an unsecured Credit Agreement in place, consisting of a \$700.0 million term loan facility (the "Term Facility"), of which \$238.8 million is outstanding at 31 December 2019, and a \$500.0 million revolving credit facility (the "Revolving Facility" and, together with the Term Facility, the "Credit Facilities").

26. DEBT AND CREDIT FACILITIES (Continued)

The Credit Facilities mature on 12 September 2022, and are unconditionally guaranteed jointly and severally on an unsecured basis by the Company and Allegion US Holding Company Inc. ("Allegion US Hold Co"), the Company's wholly-owned subsidiary.

At inception, the Term Facility was scheduled to amortise in quarterly installments at the following rates: 1.25% per quarter starting 31 December 2017 through 31 December 2020, 2.5% per quarter from 31 March 2021 through 30 June 2022, with the balance due on 12 September 2022. Principal amounts repaid on the Term Facility may not be reborrowed. During the year ended 31 December 2019, the Company made a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance, utilising all of the net proceeds from the issuance of the 3.500% Senior Notes due 2029 (see below), plus cash on hand. As a result of this payment, the Company has satisfied its obligation to make quarterly installments on the Term Facility up to the maturity date, with the remaining outstanding balance due on 12 September 2022. In conjunction with this principal pay down, the Company recognised a \$2.7 million charge related to the write-off of previously deferred financing costs related to the Term Facility, which is included in Interest payable and similar charges in the Consolidated Profit and Loss Account for the year ended 31 December 2019. The Company repaid a total of \$417.5 million of principal on its Term Facility during the year ended 31 December 2019.

The Revolving Facility provides aggregate commitments of up to \$500.0 million, which includes up to \$100.0 million for the issuance of letters of credit. At 31 December 2019, there were no borrowings outstanding on the Revolving Facility and the Company had \$16.3 million of letters of credit outstanding. Commitments under the Revolving Facility may be reduced at any time without premium or penalty, and amounts repaid may be reborrowed. The Company pays certain fees with respect to the Revolving Facility, including an unused commitment fee on the undrawn portion of the Revolving Facility of between 0.125% and 0.200% per year, depending on the Company's credit rating, as well as certain other fees.

Outstanding borrowings under the Credit Facilities accrue interest at the option of the Company of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on the Company's credit ratings. At 31 December 2019, the outstanding borrowings under the Term Facility accrue interest at LIBOR plus a margin of 1.250%. To manage the exposure to fluctuations in LIBOR rates, the Company has interest rate swaps to fix the interest rate for \$200.0 million of the outstanding borrowings as of 31 December 2019. These interest rate swaps will expire in September 2020 (see Note 27). At 31 December 2019, the weighted-average interest rate for borrowings was 2.68% under the Term Facility (including the effect of interest rate swaps).

The Credit Facilities contain negative and affirmative covenants and events of default that, among other things, limit or restrict the Company's ability to enter into certain transactions. In addition, the Credit Facilities require the Company to comply with a maximum leverage ratio and a minimum interest expense coverage ratio, as defined within the agreement. As of 31 December 2019, the Company was in compliance with all covenants.

Senior Notes

As of 31 December 2019, Allegion US Hold Co has \$400.0 million outstanding of its 3.200% Senior Notes due 2024 (the "3.200% Senior Notes") and \$400.0 million outstanding of its 3.550% Senior Notes due 2027 (the "3.550% Senior Notes"), both of which were issued on 2 October 2017. The 3.200% Senior Notes and the 3.550% Senior Notes require semi-annual interest payments on 1 April and 1 October of each year and will mature on 1 October 2024 and 1 October 2027, respectively.

The 3.200% Senior Notes and the 3.550% Senior Notes are senior unsecured obligations of Allegion US Hold Co and rank equally with all of Allegion US Hold Co's existing and future senior unsecured and unsubordinated indebtedness. The guarantee of the 3.200% Senior Notes and the 3.550% Senior Notes is the senior unsecured obligation of the Company and ranks equally with all of the Company's existing and future senior unsecured and unsubordinated indebtedness.

During the year ended 31 December 2019, Allegion plc issued \$400.0 million aggregate principal amount of its 3.500% Senior Notes due 2029 (the "3.500% Senior Notes"). The 3.500% Senior Notes require semi-annual interest payments on 1 April and 1 October, beginning 1 April 2020, and will mature on 1 October 2029. Net proceeds from the issuance of the 3.500% Senior Notes, along with cash on hand, were utilised to make the \$400.0 million principal payment on the Term Facility discussed above. The Company incurred and deferred \$4.2 million of discounts and financing costs associated with the 3.500% Senior Notes, which will be amortised to Interest payable and similar charges over the 10-year term of the 3.500% Senior Notes. The 3.500% Senior Notes are senior unsecured obligations of Allegion plc, are guaranteed by Allegion US Hold Co and rank equally with all of the Company's existing and future senior unsecured indebtedness.

26. DEBT AND CREDIT FACILITIES (Continued)

At 31 December 2019, scheduled principal repayments on indebtedness are as follows:

<i>In millions (\$)</i>	
2020	0.1
2021	0.1
2022	238.9
2023	0.1
2024	400.3
Thereafter	800.0
Total	1,439.5

Cash paid for interest for the years ended 31 December 2019 and 2018 was \$48.8 million and \$52.0 million, respectively.

27. FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various financial instruments, including derivative instruments, to manage the risks associated with interest and currency rate exposures. These financial instruments are not used for trading or speculative purposes.

When a derivative contract is entered into, the Company designates the derivative instrument as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognised asset or liability or as an undesignated derivative. The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

The fair market value of derivative instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

The Company assesses at inception and at least quarterly thereafter, whether the derivatives used in cash flow hedging transactions are effective in offsetting the changes in the cash flows of the hedged item. To the extent the derivative is deemed to be an effective hedge, the fair market value changes of the instrument are recorded to Other reserves, while changes in the fair market value of derivatives not deemed to be an effective hedge are recorded in Profit for the financial year in the period of change. If the hedging relationship ceases to be effective subsequent to inception, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains or losses on the derivative instrument will be recorded in Profit for the financial year.

Currency Derivatives

The gross notional amount of the Company's currency derivatives was \$146.4 million and \$81.8 million at 31 December 2019 and 2018, respectively. At 31 December 2019 and 2018, a loss of \$0.1 million and a gain of \$1.8 million, net of tax, respectively, were included in Other reserves related to the fair value of the Company's currency derivatives designated as cash flow hedges. The amount expected to be reclassified into Profit for the financial year over the next twelve months is a loss of approximately \$0.1 million. The actual amounts that will be reclassified to Profit for the financial year may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Company's currency derivatives not designated as hedges are recorded in Profit for the financial year as changes in fair value occur. At 31 December 2019, the maximum term of the Company's currency derivatives was less than one year.

Interest Rate Swaps

The Company has interest rate swaps to fix the interest rate paid during the contract period related to the Company's variable rate Term Facility. The notional amount of these interest rate swaps was \$200.0 million and \$250.0 million at 31 December 2019 and 2018, respectively. During the year ended 31 December 2019, the Company settled an interest rate swap with a \$50.0 million notional amount in conjunction with the principal pay down on the outstanding Term Facility (see Note 26). The remaining interest rate swaps expire in September 2020 and meet the criteria to be accounted for as cash flow hedges of variable rate interest payments. Consequently, the changes in fair value of the interest rate swaps are recognised in Other reserves. At 31 December 2019 and 2018, gains of \$0.5 million and \$4.3 million, net of tax, respectively, were recorded in Other reserves related to these interest rate swaps. The amount expected to be reclassified into Profit for the financial year over the next twelve months is a gain of approximately \$0.5 million. The actual amounts that will be reclassified to Profit for the financial year may vary from this amount as a result of changes in market conditions.

27. FINANCIAL INSTRUMENTS (Continued)

The fair values of derivative instruments included within the Consolidated Balance Sheet as of 31 December were as follows:

<i>In millions (\$)</i>	Balance Sheet classification	Designated as hedge instruments		Not designated as hedge instruments	
		2019	2018	2019	2018
Asset derivatives					
Currency derivatives	Debtors	—	1.7	0.4	0.4
Interest rate swaps	Debtors	0.7	—	—	—
Interest rate swaps	Debtors: amounts falling due after more than one year	—	5.7	—	—
Total asset derivatives		0.7	7.4	0.4	0.4
Liability derivatives					
Currency derivatives	Creditors: amounts falling due within one year	0.8	—	0.7	0.1
Total liability derivatives		0.8	—	0.7	0.1

The amounts associated with derivatives designated as hedges affecting Profit for the financial year and Other reserves for the years ended 31 December were as follows:

<i>In millions (\$)</i>	Amount of gain (loss) recognised in Other reserves		Location of gain recognised in Profit for the financial year	Amount of gain reclassified from Other reserves and recognised into Profit for the financial year	
	2019	2018		2019	2018
Currency derivatives	1.9	4.3	Cost of sales	4.4	2.3
Interest rate swaps	(1.9)	2.5	Interest payable and similar charges	3.1	2.2
Total	—	6.8		7.5	4.5

The gains and losses associated with the Company's non-designated currency derivatives, which are offset by changes in the fair value of the underlying transactions, are included within Other finance (expense) income in the Consolidated Profit and Loss Account.

Concentration of Credit Risk

The counterparties to the Company's forward contracts and swaps consist of a number of investment grade major international financial institutions. The Company could be exposed to losses in the event of nonperformance by the counterparties. However, the credit ratings and the concentration of risk in these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

28. LEASES

The Company records a right-of-use ("ROU") asset and lease liability for substantially all leases for which it is a lessee, in accordance with ASC 842. At inception of a contract, the Company considers all relevant facts and circumstances to assess whether or not the contract represents a lease by determining whether or not the contract conveys the right to control the use of an identified asset, either explicit or implicit, for a period of time in exchange for consideration. The Company has no significant lease agreements in place for which the Company is a lessor, and substantially all of the Company's leases for which the Company is a lessee are classified as operating leases.

Total rental expense for the twelve months ended 31 December 2019, was \$43.2 million and is classified within Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account. Rental expense related to short-term leases, variable lease payments or other leases or lease components not included within the ROU asset or lease liability totaled \$8.1 million for the twelve months ended 31 December 2019. No material lease costs have been capitalised on the Consolidated Balance Sheet as of 31 December 2019. Total rental expense for the twelve months ended 31 December 2018 as determined in accordance with the previous lease guidance, ASC 840, was \$42.5 million and is classified within Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account.

28. LEASES (Continued)

Upon adoption of ASC 842, the Company utilised the following elections and practical expedients:

- The Company elected to not separate non-lease components from lease components and instead to account for each separate lease component, and the non-lease components associated with that lease component, as a single lease component.
- If at the lease commencement date, a lease had a term of less than 12 months and did not include a purchase option that was reasonably certain to be exercised, the Company elected not to apply ASC 842 recognition requirements. Nonetheless, the Company will include leases of less than 12 months within the updated footnote disclosures where applicable.
- If the Company enters into a large number of leases in the same month with the same terms and conditions, these will be accounted for as a group (portfolio), assuming the lease model under this approach will not materially differ from applying ASC 842 to each individual lease.
- The Company elected to not reassess arrangements entered into prior than 1 January 2019, in terms of whether an arrangement is or contained a lease, the lease classification applied or to separate initial direct costs.
- The Company elected to use hindsight in determining the lease term for lease contracts that have historically been renewed or amended.

When available, the Company will utilise the rate implicit in the lease as the discount rate to determine the lease liability in accordance with ASC 842. However, if this rate is not available, the Company will use its incremental borrowing rate as the discount rate, which is the rate at inception of the lease the Company would hypothetically incur to borrow over a similar term the funds needed to purchase the leased asset.

As a lessee, the Company categorises its leases into two general categories: real estate and equipment leases.

The Company’s real estate lease portfolio includes leased production and assembly facilities, warehouses and distribution centers, office space and to a lesser degree, employee housing. The terms and conditions of real estate leases can vary significantly from lease to lease. The Company has assessed the specific terms and conditions of each real estate lease to determine the amount of the lease payments and the length of the lease term, which includes the minimum period over which lease payments are required plus any renewal options that are both within the Company's control to exercise and reasonably certain of being exercised upon lease commencement. The Company assesses all relevant factors to determine if sufficient incentives exist as of lease commencement to conclude whether or not renewal is reasonably certain. There are no material residual value guarantees provided by the Company nor any restrictions or covenants imposed by the real estate leases to which the Company is a party. In determining the lease liability, the Company utilises its incremental borrowing rate for debt instruments with terms approximating the weighted-average term for its real estate leases to discount the future lease payments over the lease term to present value. The Company does incur variable lease payments for certain of its real estate leases, such as reimbursements of property taxes, maintenance and other operational costs to the lessor. In general, these variable lease payments are not captured as part of the lease liability or ROU asset, but rather are expensed as incurred.

The Company’s equipment leases include vehicles, material handling equipment, other machinery and equipment utilised in the Company's production and assembly facilities, warehouses and distribution centers, laptops and other IT equipment, and other miscellaneous leased equipment. Most of the equipment leases are for terms ranging from two to five years, although terms and conditions can vary from lease to lease. The Company applies similar estimates and judgments to its equipment lease portfolio in determining the lease payments and lease term as it does to its real estate lease portfolio. There are no material residual value guarantees provided by the Company nor any restrictions or covenants imposed by the equipment leases to which the Company is a party. In determining the lease liability, the Company utilises its incremental borrowing rate for debt instruments with terms approximating the weighted-average term for its equipment leases to discount the future lease payments over the lease term to present value. The Company does not typically incur variable lease payments related to its equipment leases.

The amounts included within the Consolidated Balance Sheet related to the Company's ROU asset and lease liability at 31 December 2019, were as follows:

<i>In millions (\$)</i>	Balance Sheet classification	Real estate	Equipment	Total
ROU asset	Debtors: amounts falling due after more than one year	57.5	23.9	81.4
Lease liability - current	Creditors: amounts falling due within one year	15.4	10.4	25.8
Lease liability - noncurrent	Creditors: amounts falling due after more than one year	42.1	13.5	55.6

Other information:

Weighted-average remaining term (years)	6.5	2.8
Weighted-average discount rate	4.5%	3.8%

28. LEASES (Continued)

The following table summarises additional information related to the Company's leases for the year ended 31 December 2019:

<i>In millions (\$)</i>	Real estate	Equipment	Total
Cash paid for amounts included in the measurement of lease liabilities	19.2	15.9	35.1
ROU assets obtained in exchange for new lease liabilities	14.7	16.0	30.7

The Company frequently enters into both real estate and equipment leases in the normal course of business. While there have been lease agreements entered into that have not yet commenced as of 31 December 2019, none of these leases provide new rights or obligations to the Company that are material individually or in the aggregate.

At 31 December 2019, the Company's ROU asset movement schedule was as follows:

<i>In millions (\$)</i>	ROU asset
At 1 January 2019	87.4
Additions / renewals	30.7
Amortisation / terminations	(35.1)
Currency translation	(1.6)
At 31 December 2019	81.4

Future Repayments

Future minimum rental commitments for the subsequent five years under non-cancellable operating leases with terms in excess of one year as of 31 December 2018 were as follows:

<i>In millions (\$)</i>	Total
2019	30.3
2020	21.5
2021	14.1
2022	9.3
2023	5.5

Scheduled minimum lease payments required under non-cancellable operating leases for both the real estate and equipment lease portfolios for the next five years and thereafter as of 31 December 2019, were as follows:

<i>In millions (\$)</i>	2020	2021	2022	2023	2024	Thereafter	Total
Real estate leases	17.6	14.3	10.3	6.0	3.5	15.4	67.1
Equipment leases	11.1	7.5	4.0	1.7	0.8	—	25.1
Total	28.7	21.8	14.3	7.7	4.3	15.4	92.2

The difference between the total undiscounted minimum lease payments and the combined current and noncurrent lease liabilities as of 31 December 2019, is due to imputed interest of \$10.8 million.

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors several U.S. defined benefit and defined contribution plans covering substantially all U.S. employees. Additionally, the Company has non-U.S. defined benefit and defined contribution plans covering eligible non-U.S. employees. Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible employees.

Pension Plans

The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. The non-U.S. pension plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees.

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The following table details information regarding the Company's pension plans at 31 December:

<i>In millions (\$)</i>	U.S.		NON-U.S.	
	2019	2018	2019	2018
Change in benefit obligations:				
Benefit obligation at beginning of year	293.3	317.5	356.8	396.3
Service cost	6.5	8.6	1.7	3.3
Interest cost	11.7	10.4	8.8	8.4
Employee contributions	—	—	0.3	0.3
Amendments	—	—	(0.8)	5.0
Actuarial losses (gains)	42.2	(25.4)	45.7	(14.9)
Benefits paid	(13.0)	(16.5)	(16.9)	(19.4)
Foreign exchange rate changes	—	—	13.9	(21.1)
Curtailements and settlements	—	—	(5.0)	(0.2)
Acquisitions	—	—	—	0.5
Other, including expenses paid	0.3	(1.3)	—	(1.4)
Benefit obligation at end of year	341.0	293.3	404.5	356.8
Change in plan assets:				
Fair value at beginning of year	259.4	283.2	352.2	398.4
Actual return on plan assets	50.4	(12.1)	55.2	(9.8)
Company contributions	6.0	6.1	10.6	5.4
Employee contributions	—	—	0.3	0.3
Benefits paid	(13.0)	(16.5)	(16.9)	(19.4)
Foreign exchange rate changes	—	—	15.2	(20.8)
Curtailements and settlements	—	—	(6.2)	(0.2)
Other, including expenses paid	(1.3)	(1.3)	(1.4)	(1.7)
Fair value of assets at end of year	301.5	259.4	409.0	352.2
Funded status:				
Plan assets (less than) over benefit obligations	(39.5)	(33.9)	4.5	(4.6)
Amounts included in the balance sheet:				
Debtors: amounts falling due after more than one year	—	—	29.3	21.1
Provisions for liabilities - current	(0.5)	(0.3)	(0.8)	(1.1)
Provisions for liabilities - noncurrent	(39.0)	(33.6)	(24.0)	(24.6)
Net amount recognised	(39.5)	(33.9)	4.5	(4.6)

It is the Company's objective to contribute to the pension plans to ensure adequate funds are available in the plans to make benefit payments to plan participants and beneficiaries when required. However, certain plans are not funded due to either legal, accounting or tax requirements in certain jurisdictions. As of 31 December 2019, approximately 5% of the Company's projected benefit obligation relates to plans that are not funded, of which the majority are non-U.S. plans.

The pretax amounts recognised in Other reserves were as follows:

<i>In millions (\$)</i>	U.S.		
	Prior service cost	Net actuarial losses	Total
At 31 December 2017	(1.8)	(72.5)	(74.3)
Current year changes recorded to Other reserves	—	(1.1)	(1.1)
Amortisation reclassified to profit and loss account	0.3	4.0	4.3
At 31 December 2018	(1.5)	(69.6)	(71.1)
Current year changes recorded to Other reserves	—	(4.2)	(4.2)
Amortisation reclassified to profit and loss account	0.3	4.7	5.0
At 31 December 2019	(1.2)	(69.1)	(70.3)

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

<i>In millions (\$)</i>	NON-U.S.		
	Prior service cost	Net actuarial losses	Total
At 31 December 2017	0.1	(60.6)	(60.5)
Current year changes recorded to Other reserves	(5.0)	(10.4)	(15.4)
Amortisation reclassified to profit and loss account	—	0.9	0.9
Currency translation and other	0.2	3.9	4.1
At 31 December 2018	(4.7)	(66.2)	(70.9)
Current year changes recorded to Other reserves	0.8	(4.8)	(4.0)
Amortisation reclassified to profit and loss account	0.2	1.3	1.5
Settlements/curtailments reclassified to profit and loss account	—	2.3	2.3
Currency translation and other	(0.1)	(2.4)	(2.5)
At 31 December 2019	(3.8)	(69.8)	(73.6)

Weighted-average assumptions used:

Benefit obligations at 31 December:	2019	2018
Discount rate:		
U.S. plans	3.3%	4.3%
Non-U.S. plans	1.9%	2.8%
Rate of compensation increase:		
U.S. plans	3.0%	3.0%
Non-U.S. plans	3.0%	3.3%

The accumulated benefit obligation for all U.S. defined benefit pension plans was \$332.4 million and \$284.8 million at 31 December 2019 and 2018, respectively. The accumulated benefit obligation for all non-U.S. defined benefit pension plans was \$396.7 million and \$349.1 million at 31 December 2019 and 2018, respectively.

The Company estimates the service and interest cost components of net periodic benefit cost utilising a full yield-curve approach. Under this approach, the Company applies discounting using the applicable spot rates derived from the yield curve to discount the cash flows used to measure the benefit obligation. These spot rates align to each of the projected benefit obligations and service cost cash flows.

Information regarding pension plans with accumulated benefit obligations more than plan assets were:

<i>In millions (\$)</i>	U.S.		NON-U.S.	
	2019	2018	2019	2018
Projected benefit obligation	341.0	293.3	34.0	34.5
Accumulated benefit obligation	332.4	284.8	2.1	29.6
Fair value of plan assets	301.5	259.4	9.5	8.8

Future pension benefit payments are expected to be paid as follows:

<i>In millions (\$)</i>	U.S.	NON-U.S.
2020	19.3	18.7
2021	21.6	19.3
2022	21.2	20.0
2023	23.6	20.6
2024	28.1	21.6
2025 - 2029	99.5	119.6

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The components of the Company's net periodic pension benefit costs for the years ended 31 December include the following:

<i>In millions (\$)</i>	U.S.	
	2019	2018
Service cost	6.5	6.8
Interest cost	11.7	10.5
Expected return on plan assets	(12.5)	(14.4)
Administrative costs and other	1.7	1.6
Net amortisation of:		
Prior service costs	0.3	0.3
Plan net actuarial losses	4.7	4.1
Net periodic pension benefit cost	12.4	8.9

<i>In millions (\$)</i>	NON-U.S.	
	2019	2018
Service cost	1.7	1.7
Interest cost	8.8	8.4
Expected return on plan assets	(13.0)	(15.4)
Administrative costs and other	1.3	1.8
Net amortisation of:		
Prior service costs	0.2	—
Plan net actuarial losses	1.4	0.9
Net curtailment and settlement losses	2.3	—
Net periodic pension benefit cost (income)	2.7	(2.6)

The Service cost component of Net periodic pension benefit cost (income) is recorded in Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account. The remaining components of Net periodic pension benefit cost (income) are recorded within Other finance (expense) income within the Consolidated Profit and Loss Account.

Pension expense for 2020 is projected to be approximately \$7.4 million, utilising the assumptions for calculating the pension benefit obligations at the end of 2019.

Weighted-average assumptions used:

Net periodic pension cost for the year ended 31 December	2019	2018
Discount rate:		
U.S. plans	4.3%	3.6%
Non-U.S. plans	2.8%	2.5%
Rate of compensation increase:		
U.S. plans	3.0%	3.0%
Non-U.S. plans	3.3%	3.3%
Expected return on plan assets:		
U.S. plans	5.0%	5.3%
Non-U.S. plans	3.8%	4.0%

The expected long-term rate of return on plan assets reflects the average rate of returns expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The expected long-term rate of return on plan assets is based on what is achievable given the plan's investment policy, the types of assets held and target asset allocations. The expected long-term rate of return is determined as of the measurement date. Each plan is reviewed, along with its historical returns and target asset allocations, to determine the appropriate expected long-term rate of return on plan assets to be used.

The Company's overall objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. The goal is to achieve this while trying to mitigate volatility in plan funded status, contributions and expense by better matching the characteristics of the plan assets to that of the plan liabilities. Each plan's funded status and asset allocation is monitored regularly in addition to investment manager performance.

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The fair values of the Company's U.S. pension plan assets at 31 December 2019, by asset category are as follows:

<i>In millions (\$)</i>	Fair value measurements			Assets measured at NAV	Total fair value
	Level 1	Level 2	Level 3		
Cash, cash equivalents and short-term investments	—	—	—	4.7	4.7
Common collective trusts	—	—	—	262.5	262.5
Other ^(a)	—	—	—	34.3	34.3
Total U.S. pension plan assets	—	—	—	301.5	301.5

(a) Includes a group trust diversified credit fund and real estate investment trust.

The fair values of the Company's U.S. pension plan assets at 31 December 2018, by asset category are as follows:

<i>In millions (\$)</i>	Fair value measurements			Assets measured at NAV	Total fair value
	Level 1	Level 2	Level 3		
Cash, cash equivalents and short-term investments	—	3.1	—	—	3.1
Common collective trusts	—	—	—	237.6	237.6
Other ^(a)	—	—	—	18.7	18.7
Total U.S. pension plan assets	—	3.1	—	256.3	259.4

(a) Includes a group trust diversified credit fund.

No material transfers in or out of Level 3 occurred during the year ended 31 December 2019 or 2018.

The Company determines the fair value of its U.S. plan assets using the following methodologies:

- *Cash, cash equivalents and short-term investments* – Short-term investments are valued at their daily net asset value (NAV) per share or the equivalent based upon the fair value of the underlying investments. NAV per share or the equivalent is used for fair value purposes as a practical expedient and is calculated by the investment manager or sponsor of the fund. These investments primarily consist of short-term investment funds.
- *Common collective trusts* - Common collective trust (CCT) funds are not publicly traded and are valued at NAV per share or the equivalent based upon the fair value of the underlying investments. NAV per share or the equivalent is used for fair value purposes as a practical expedient and is calculated by the investment manager or sponsor of the applicable fund. CCT funds consist of a variety of publicly traded securities, including equity mutual funds, U.S. government and agency obligations, corporate and non-U.S. bonds, securitised credit and emerging market debt. There are no unfunded commitments, redemption frequency restrictions or other redemption restrictions related to such investments.

The fair values of the Company's Non-U.S. pension plan assets at 31 December 2019 by asset category are as follows:

<i>In millions (\$)</i>	Fair value measurements			Assets measured at NAV	Total fair value
	Level 1	Level 2	Level 3		
Cash, cash equivalents and short-term investments	0.9	—	—	56.9	57.8
Equity mutual funds	—	2.7	—	102.5	105.2
Corporate and non-U.S. bonds	—	118.0	—	70.1	188.1
Other ^(a)	—	9.0	3.4	45.5	57.9
Total non-U.S. pension plan assets	0.9	129.7	3.4	275.0	409.0

(a) Primarily includes a core diversified credit fund and derivative contracts.

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

The fair values of the Company's Non-U.S. pension plan assets at 31 December 2018, by asset category are as follows:

<i>In millions (\$)</i>	Fair value measurements				Total fair value
	Level 1	Level 2	Level 3	Assets measured at NAV	
Cash, cash equivalents and short-term investments	1.3	36.1	—	—	37.4
Equity mutual funds	—	2.6	—	88.7	91.3
Corporate and non-U.S. bonds	—	109.4	—	31.7	141.1
Other ^(a)	—	41.3	3.2	37.9	82.4
Total non-U.S. pension plan assets	1.3	189.4	3.2	158.3	352.2

(a) Primarily includes insurance contracts, mortgage-backed securities, real estate and derivative contracts.

No material transfers in or out of Level 3 occurred during the year ended 31 December 2019 or 2018.

The Company determines the fair value of its non-U.S. plan assets using the following methodologies:

- *Cash, cash equivalents and short-term investments* – Cash equivalents is valued using a market approach with inputs including quoted market prices for either identical or similar instruments. Short-term investments are valued at the closing price or amount held on deposit by the custodian bank, at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer, or at their NAV per share or the equivalent based upon the fair value of the underlying investments. NAV per share or the equivalent is used for fair value purposes as a practical expedient and is calculated by the investment manager or sponsor of the fund. These investments primarily consist of short-term investment funds.
- *Equity mutual funds* – Equity mutual funds are primarily valued at their NAV per share or the equivalent. NAV per share or the equivalent is used for fair value purposes as a practical expedient. NAV is calculated by the investment manager or sponsor of the fund.
- *Corporate and non-U.S. bonds* – Quoted market prices are not available for these securities. Fair values are either estimated using pricing models and/or quoted prices of securities with similar characteristics or discounted cash flows, in which instances such securities are classified as Level 2 or valued at their NAV per share or the equivalent. NAV per share or the equivalent is used for fair value purposes as a practical expedient and are calculated by the investment manager or sponsor of the fund.

The Company made employer contributions of \$6.0 million to the U.S. pension plans in 2019 and \$6.1 million in 2018. The Company made required and discretionary contributions to its non-U.S. pension plans of \$10.6 million in 2019 and \$5.4 million in 2018.

The Company currently projects that approximately \$11.5 million will be contributed to its U.S and non-U.S. plans in 2020. The Company's policy allows it to fund an amount, which could be in excess of or less than the pension cost expensed, subject to the limitations imposed by current tax regulations. The Company anticipates funding the plans in 2020 in accordance with contributions required by funding regulations or the laws of each jurisdiction.

Most of the Company's U.S. employees are covered by defined contribution plans. Employer contributions are determined based on criteria specific to the individual plans and amounted to approximately \$15.6 million and \$14.4 million in 2019 and 2018, respectively. The Company's contributions relating to non-U.S. defined contribution plans and other non-U.S. benefit plans were \$6.0 million and \$8.0 million in 2019 and 2018, respectively.

Deferred Compensation Plan

The Company maintains an Executive Deferred Compensation Plan ("EDCP"), which is an unfunded, nonqualified plan that, prior to 2019, permitted certain employees to defer receipt of up to 50% of their annual salary and up to 100% of their annual bonus awards, performance stock plan awards and restricted stock units received upon commencement of employment. As of 31 December 2019 and 2018, the deferred compensation liability balance was \$17.4 million and \$15.1 million, respectively, which was recorded within Provisions for liabilities in the Consolidated Balance Sheet.

29. PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)***Postretirement Benefits Other Than Pensions***

The Company sponsors a postretirement ("OPEB") plan that provides for healthcare benefits, and in some instances, life insurance benefits, that cover certain eligible retired employees. The Company funds postretirement benefit obligations principally on a pay-as-you-go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory. Net periodic postretirement benefit income is included within Other finance (expense) income within the Consolidated Profit and Loss Account.

The benefit obligation related to the Company's postretirement plans as of 31 December 2019 and 2018 was \$6.8 million and \$7.6 million, respectively, and is classified as Provisions for liabilities within the Consolidated Balance Sheet. Net periodic postretirement benefit income was \$0.1 million and \$0.5 million, for the years ended 31 December 2019 and 2018, respectively. Net period postretirement benefit income (expense) for 2020 is not projected to be material. Benefit payments for postretirement benefits, which are net of expected plan participant contributions and Medicare Part D subsidies, are expected to be less than \$1 million per year for the foreseeable future.

30. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilises the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritise those inputs. The fair value hierarchy is comprised of the three levels described below:

- Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability based on the best information available under the circumstances. A financial instrument's categorisation within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value at 31 December 2019, are as follows:

<i>In millions (\$)</i>	Fair value measurements			Total fair value
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Recurring fair value measurements				
<i>Assets:</i>				
Investments	—	17.4	—	17.4
Interest rate swap	—	0.7	—	0.7
Foreign currency contracts	—	0.4	—	0.4
Total asset recurring fair value measurements	—	18.5	—	18.5
<i>Liabilities:</i>				
Foreign currency contracts	—	1.5	—	1.5
Deferred compensation and other retirement plans	—	23.1	—	23.1
Total liability recurring fair value measurements	—	24.6	—	24.6
Financial instruments not carried at fair value:				
Total debt	—	1,474.0	—	1,474.0
Total financial instruments not carried at fair value	—	1,474.0	—	1,474.0

30. FAIR VALUE MEASUREMENTS (Continued)

Assets and liabilities measured at fair value at 31 December 2018, are as follows:

<i>In millions (\$)</i>	Fair value measurements			Total fair value
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Recurring fair value measurements				
<i>Assets:</i>				
Investments	—	14.3	—	14.3
Interest rate swap	—	5.7	—	5.7
Foreign currency contracts	—	2.1	—	2.1
Total asset recurring fair value measurements	—	22.1	—	22.1
<i>Liabilities:</i>				
Foreign currency contracts	—	0.1	—	0.1
Deferred compensation and other retirement plans	—	19.1	—	19.1
Total liability recurring fair value measurements	—	19.2	—	19.2
Financial instruments not carried at fair value:				
Total debt	—	1,403.2	—	1,403.2
Total financial instruments not carried at fair value	—	1,403.2	—	1,403.2

The Company determines the fair value of its financial assets and liabilities using the following methodologies:

- *Investments* – These instruments include equity mutual funds and corporate bond funds. The fair value is obtained based on observable market prices quoted on public exchanges for similar instruments.
- *Interest rate swaps* – These instruments include interest rate swap contracts related to the Company's variable rate Term Facility. The fair value of the derivative instruments is determined based on quoted prices for the Company's swaps, which is not considered an active market.
- *Foreign currency contracts* – These instruments include foreign currency contracts for non-functional currency balance sheet exposures. The fair value of the foreign currency contracts is determined based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable.
- *Deferred compensation and other retirement plans* - These include obligations related to deferred compensation and other retirement plans adjusted for market performance. The fair value is obtained based on observable market prices quoted on public exchanges for similar instruments.
- *Debt* – These instruments are recorded at cost and include senior notes maturing through 2029. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar instruments.

The carrying values of Cash at bank and in hand, Debtors and Creditors: amounts falling due within one year are a reasonable estimate of their fair value due to the short-term nature of these instruments.

The methodology used by the Company to determine the fair value of its financial assets and liabilities at 31 December 2019, are the same as those used at 31 December 2018.

31. PROVISIONS FOR LIABILITIES

<i>In millions (\$)</i>	2019	2018
Pensions and similar obligations (Note 29)	96.3	88.6
Taxation including deferred taxation (Note 12)	112.8	123.1
Other provisions for liabilities	47.6	53.6
At 31 December	256.7	265.3

31. PROVISIONS FOR LIABILITIES (Continued)

The movement on other provisions for liabilities is as follows:

<i>In millions (\$)</i>	Warranty	Environmental	Restructuring	Other	Total
At 31 December 2018	14.5	22.6	2.1	14.4	53.6
Arising during the year	10.3	—	16.5	—	26.8
Utilised in the year	(8.4)	(5.2)	(17.3)	(3.3)	(34.2)
Changes in preexisting accruals	(0.4)	1.7	—	0.1	1.4
Currency translation	(0.1)	0.2	(0.1)	—	—
At 31 December 2019	15.9	19.3	1.2	11.2	47.6
Current	15.9	6.2	1.2	3.1	26.4
Non-current	—	13.1	—	8.1	21.2
At 31 December 2019	15.9	19.3	1.2	11.2	47.6

Refer to Note 14 and Note 32 for a detailed description of these other provisions for liabilities.

32. COMMITMENTS AND CONTINGENCIES

The Company is involved in various litigation, claims and administrative proceedings, including those related to environmental and product warranty matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, except as expressly set forth in this note, management believes that any liability which may result from these legal matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

Environmental Matters

The Company is dedicated to an environmental program to reduce the utilisation and generation of hazardous materials during the manufacturing process and to remediate identified environmental concerns. As to the latter, the Company is currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former production facilities. The Company regularly evaluates its remediation programs and considers alternative remediation methods that are in addition to, or in replacement of, those currently utilised by the Company based upon enhanced technology and regulatory changes. Changes to the Company's remediation programs may result in increased expenses and increased environmental reserves.

The Company is sometimes a party to environmental lawsuits and claims and has received notices of potential violations of environmental laws and regulations from the U.S. Environmental Protection Agency and similar state authorities. It has also been identified as a potentially responsible party ("PRP") for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all such sites, there are other PRPs and, in most instances, the Company's involvement is minimal.

In estimating its liability, the Company has assumed it will not bear the entire cost of remediation of any site to the exclusion of other PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based on the Company's understanding of the parties' financial condition and probable contributions on a per site basis. Additional lawsuits and claims involving environmental matters are likely to arise from time to time in the future.

The Company incurred \$1.7 million and \$2.4 million of expenses during the years ended 31 December 2019 and 2018, respectively, for environmental remediation at sites presently or formerly owned or leased by the Company. Environmental remediation costs are recorded in Costs of sales within the Consolidated Profit and Loss Account.

As of 31 December 2019 and 2018, the Company has recorded reserves for environmental matters of \$19.3 million and \$22.6 million, respectively. The total reserve at 31 December 2019 and 2018, included \$4.2 million and \$6.3 million, respectively, related to remediation of sites previously disposed by the Company. Environmental reserves are classified as Provisions for liabilities within the Consolidated Balance Sheet. The Company's total current environmental reserve at 31 December 2019 and 2018, was \$6.2 million and \$5.6 million, respectively, and the remainder is classified as noncurrent. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

32. COMMITMENTS AND CONTINGENCIES (Continued)

Warranty Liability

Standard product warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. The Company assesses the adequacy of its liabilities and will make adjustments as necessary based on known or anticipated warranty claims, or as new information becomes available.

The changes in the standard product warranty liability for the year ended 31 December were as follows:

<i>In millions (\$)</i>	2019	2018
At 1 January	14.5	14.1
Reductions for payments	(8.4)	(7.9)
Accruals for warranties issued during the current period	10.3	7.8
Changes to accruals related to preexisting warranties	(0.4)	0.2
Acquisitions	—	0.5
Translation	(0.1)	(0.2)
At 31 December	15.9	14.5

Standard product warranty liabilities are classified as Provisions for liabilities within the Consolidated Balance Sheet.

33. SHARE-BASED COMPENSATION

The Company records share-based compensation awards using a fair value method and recognises compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, restricted stock units ("RSUs"), performance stock units ("PSUs") and deferred compensation.

Under the Company's incentive stock plan, the total number of ordinary shares authorised by the shareholders is 8.0 million, of which 3.1 million remain available as of 31 December 2019 for future incentive awards.

Compensation Expense

Share-based compensation expense is included in Cost of sales, Distribution costs and Administrative expenses within the Consolidated Profit and Loss Account. The following table summarises the expenses recognised for the years ended 31 December:

<i>In millions (\$)</i>	2019	2018
Stock options	3.5	4.3
RSUs	10.0	9.6
PSUs	6.9	5.7
Deferred compensation	3.2	(0.8)
Pretax expense	23.6	18.8
Tax benefit	(3.0)	(1.9)
Total	20.6	16.9

Stock Options / RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. The fair value of each of the Company's stock option and RSU awards is expensed on a straight-line basis over the required service period, which is generally the 3-year vesting period. However, for stock options and RSUs granted to retirement eligible employees, the Company recognises expense for the fair value at the grant date.

The average fair value of the stock options granted for the years ended 31 December 2019 and 2018, was estimated to be \$19.58 and \$21.29 per share, respectively, using the Black-Scholes option-pricing model. The weighted-average assumptions used were as follows:

	2019	2018
Dividend yield	1.23%	0.97%
Volatility	21.44%	22.38%
Risk-free rate of return	2.53%	2.75%
Expected life	6.0 years	6.0 years

33. SHARE-BASED COMPENSATION (Continued)

Expected volatility is based on the weighted-average combination of the Company's historic volatility and of the implied volatility of a group of the Company's peers. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The expected life of the Company's stock option awards is derived from the simplified approach based on the weighted-average time to vest and the remaining contractual term and represents the period of time that awards are expected to be outstanding.

Changes in options outstanding under the plans for the years ended 31 December 2019 and 2018 are as follows:

	Shares subject to option	Weighted-average exercise price ^(a)	Aggregate intrinsic value (millions)	Weighted-average remaining life (years)
At 31 December 2017	1,051,880	47.80		
Granted	160,849	86.92		
Exercised	(239,427)	36.50		
Canceled	(16,104)	74.23		
At 31 December 2018	957,198	56.71		
Granted	195,675	88.07		
Exercised	(272,003)	42.97		
Canceled	(17,248)	85.22		
Outstanding 31 December 2019	863,622	67.57	49.2	6.4
Exercisable 31 December 2019	534,013	56.58	36.3	5.1

(a) The weighted-average exercise price of awards represents the exercise price of the awards on the grant date converted to ordinary shares of the Company.

The following table summarises information concerning currently outstanding and exercisable options:

Range of exercise price (\$)	Options outstanding			Options exercisable			
	Number outstanding at 31 December 2019	Weighted-average remaining life (years)	Weighted-average exercise price (\$)	Number exercisable at 31 December 2019	Weighted-average remaining life (years)	Weighted-average exercise price (\$)	
10.01 —	20.00	8,099	0.1	19.44	8,099	0.1	19.44
20.01 —	30.00	35,158	1.6	26.79	35,158	1.6	26.79
30.01 —	40.00	19,841	2.7	32.33	19,841	2.7	32.33
40.01 —	50.00	47,705	4.0	43.38	47,705	4.0	43.38
50.01 —	60.00	307,869	5.2	56.84	307,869	5.2	56.84
60.01 —	70.00	—	0.0	—	—	0.0	—
70.01 —	80.00	122,074	7.0	71.84	74,411	7.0	71.84
80.01 —	90.00	322,876	8.7	87.59	40,930	8.0	86.93
		863,622	6.4	67.57	534,013	5.1	56.58

At 31 December 2019, there was \$1.3 million of total unrecognised compensation cost from stock option arrangements granted under the plan, which is primarily related to unvested shares of non-retirement eligible employees. The aggregate intrinsic value of the Company's options exercised during the years ended 31 December 2019 and 2018, was \$16.3 million and \$11.5 million, respectively. Generally, stock options expire ten years from their date of grant.

33. SHARE-BASED COMPENSATION (Continued)

The following table summarises RSU activity for the year ended 31 December 2019 and 2018:

	RSUs	Weighted-average grant date fair value (a)(\$)
Outstanding and unvested at 31 December 2017	230,006	66.83
Granted	132,865	84.65
Vested	(104,065)	65.42
Canceled	(14,459)	76.25
Outstanding and unvested at 31 December 2018	244,347	76.51
Granted	134,518	91.75
Vested	(118,060)	73.52
Canceled	(24,286)	79.53
Outstanding and unvested at 31 December 2019	236,519	86.37

(a) The weighted-average grant date fair value represents the fair value of the awards on the grant date converted to ordinary shares of the Company.

At 31 December 2019, there was \$7.6 million of total unrecognised compensation cost from RSU arrangements granted under the plan, which is related to unvested shares of non-retirement eligible employees.

Performance Shares

The Company has a Performance Stock Program ("PSP") for key employees which provides awards in the form of PSUs based on performance against pre-established objectives. The annual target award level is expressed as a number of the Company's ordinary shares. All PSUs are settled in the form of ordinary shares unless deferred.

In February 2017, 2018 and 2019, the Company's Compensation Committee granted PSUs that were earned based 50% upon a performance condition, measured at each reporting period by earnings per share ("EPS") performance in relation to pre-established targets set by the Compensation Committee, and 50% upon a market condition, measured by the Company's relative total shareholder return ("TSR") against the S&P 400 Capital Goods Index over a three-year performance period. The fair values of the market conditions are estimated using a Monte Carlo simulation approach in a risk-neutral framework to model future stock price movements based upon historical volatility, risk-free rates of return and correlation matrix.

The following table summarises PSU activity for the maximum number of shares that may be issued for the year ended 31 December 2019 and 2018:

	PSUs	Weighted-average grant date fair value (a)(\$)
Outstanding and unvested at 31 December 2017	160,823	55.02
Granted	93,018	86.46
Vested	(90,967)	68.05
Forfeited	(6,833)	79.93
Outstanding and unvested at 31 December 2018	156,041	65.07
Granted	68,125	87.02
Vested	(56,773)	61.00
Forfeited	(10,045)	68.63
Outstanding and unvested at 31 December 2019	157,348	75.82

(a) The weighted-average grant date fair value represents the fair value of the awards on the grant date converted to ordinary shares of the Company.

At 31 December 2019, there was \$5.1 million of total unrecognised compensation cost from the PSP based on current performance, which is related to unvested shares. This compensation will be recognised over the required service period, which is generally the three-year vesting period.

33. SHARE-BASED COMPENSATION (Continued)

Deferred Compensation

Prior to 2019, the Company allowed key employees to defer a portion of their eligible granted PSUs and/or compensation into a number of investment choices including its ordinary share equivalents. Any amounts invested in ordinary share equivalents will be settled in ordinary shares of the Company at the time of distribution.

34. CALLED UP SHARE CAPITAL PRESENTED AS EQUITY

The authorised share capital of Allegion is as follows:

<i>In millions (\$)</i>	2019	2018
Authorised:		
40,000 ordinary shares of €1 par value	—	—
400,000,000 ordinary shares of \$0.01 par value	4.0	4.0
10,000,000 preferred shares of \$0.001 par value	—	—
At 31 December	4.0	4.0

Allegion had 400.0 million ordinary shares authorised and 10.0 million \$0.001 par value preferred shares authorised (with none outstanding) at 31 December 2019.

A reconciliation of ordinary shares is as follows:

Allotted, called up and fully paid equity:

Ordinary shares of \$0.01 each	Number(m)	\$m
At 31 December 2018	94.6	0.9
Shares issued under incentive plans	0.4	—
Repurchase of ordinary shares	(2.3)	—
At 31 December 2019	92.7	0.9

Share repurchases

On 2 February 2017, the Company's Board of Directors approved the 2017 Share Repurchase Authorisation. During the year ended 31 December 2019, the Company paid \$226.0 million to repurchase 2.3 million ordinary shares on the open market under the 2017 Share Repurchase Authorisation.

On 6 February 2020, the Company's Board of Directors approved the 2020 Share Repurchase Authorisation, replacing the existing 2017 Share Repurchase Authorisation. The 2020 Share Repurchase Authorisation does not have a prescribed expiration date.

35. MOVEMENT ON RESERVES

<i>In millions (\$)</i>	Share premium	Other reserves	Profit and loss account	Total
At 31 December 2017	62.2	(92.4)	430.8	400.6
Profit for the year	—	—	434.9	434.9
Pension and OPEB items	—	(5.4)	—	(5.4)
Currency translation	—	(57.3)	—	(57.3)
Cash flow hedges	—	1.8	—	1.8
Shares issued under incentive stock plans	3.2	—	—	3.2
Share-based compensation	—	19.2	—	19.2
Repurchase of ordinary shares	—	—	(67.2)	(67.2)
Cash dividends declared (\$0.84 per share)	—	—	(79.7)	(79.7)
Reclassification to Profit and loss account upon adoption of ASU 2018-02 ^(a)	—	(9.7)	9.7	—
At 31 December 2018	65.4	(143.8)	728.5	650.1
Profit for the year	—	—	401.8	401.8
Pension and OPEB items	—	(3.0)	—	(3.0)
Currency translation ^(b)	—	13.5	—	13.5
Cash flow hedges	—	(5.6)	—	(5.6)
Shares issued under incentive stock plans	6.5	—	—	6.5
Repurchase of ordinary shares	—	—	(226.0)	(226.0)
Share-based compensation	—	20.0	—	20.0
Cash dividends declared (\$1.08 per share)	—	—	(100.9)	(100.9)
Other	—	—	0.1	0.1
At 31 December 2019	71.9	(118.9)	803.5	756.5

(a) In February 2018, the FASB issued ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," allowing entities to reclassify tax effects stranded in AOCI as a result of the Tax Reform Act. The Company elected to early adopt and apply the amendments in ASU 2018-02 in 2018. The impact of adoption resulted in the reclassification presented above.

(b) During 2019, the Company reclassified \$26.2 million of cumulative foreign currency translation adjustments to the profit and loss upon the sale of the Company's business operations in Colombia and Turkey, which is included in Foreign currency items in the table above. See Note 9 for further information on these divestitures.

Dividends declared and paid during the year

<i>In millions (\$)</i>	2019	2018
Equity dividends on ordinary shares:		
First interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.5	19.9
Second interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.2	19.9
Third interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.1	20.0
Fourth interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.1	19.9
At 31 December	100.9	79.7

Future dividends

Future dividends on our ordinary shares, if any, will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant, as well as our ability to pay dividends in compliance with the 2014 Act. Under the 2014 Act, dividends and distributions may only be made from distributable reserves. Distributable reserves, broadly, means the accumulated realised profits of Allegion plc (ALLE-Ireland).

In addition, no distribution or dividend may be made unless the net assets of ALLE-Ireland are equal to, or in excess of, the aggregate of ALLE-Ireland's called up share capital plus undistributable reserves and the distribution does not reduce ALLE-Ireland's net assets below such aggregate.

36. LOANS TO DIRECTORS

Irish company law prohibits the Company from making a loan or a quasi-loan to a director of the Company unless certain conditions are met. No loans or quasi-loans have been made to any director of the Company during the financial year.

37. CAPITAL EXPENDITURE COMMITMENTS

<i>In millions (\$)</i>	2019	2018
Capital expenditures that have been authorised by the Directors but not yet contracted	16.3	20.3

38. RELATED PARTY DISCLOSURES

The principal related party relationships requiring disclosure in the Consolidated Financial Statements pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Company and the identification of key management personnel as addressed in greater detail below.

Subsidiaries and Associates

The Consolidated Financial Statements include the results of operations, financial positions and cash flows of the Company and its subsidiaries and associates over which the Company has control or which otherwise qualify for consolidation or equity accounting. A listing of the principal subsidiaries and associates is provided in Note 39. Investments in associates that are accounted for under the equity method are included in Note 19 to the Consolidated Financial Statements.

Trading Transactions

There were no transactions requiring disclosure under Sch. 3, Section 67 (1) of the 2014 Act.

Compensation of Key Management Personnel of the Company

Key management personnel are the Company's executive and non-executive directors and the following is the aggregate compensation of these directors.

<i>In millions (\$)</i>	2019	2018
Emoluments	4.5	4.3
Benefits under long term incentive schemes	2.7	1.0
Contributions to retirement benefits schemes: Defined contribution	0.3	0.1
At 31 December	7.5	5.4

39. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

The subsidiary and associate undertakings at 31 December 2019 are listed below:

Name	Nature of business	Registered office	Country of Incorporation	Percentage of ownership
AD Solutions, Inc.	Manufacturing & Distribution	2201 100th Street SW, Everett WA 98201	US	100%
Allegion (Australia) Pty Limited	Trading Company	16-20 Third Avenue, Sunshine, Victoria 3020	Australia	100%
Allegion (Gibraltar) Holding Limited	Holding Company	57/63, Line Wall Road	Gibraltar	100%
Allegion (Hong Kong) Limited	Trading Company	29th Floor, Fortis Tower, No. 77-79 Gloucester Road, Wanchai	Hong Kong	100%
Allegion (Ireland) Finance Designated Activity Company	Trading Company	Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	100%
Allegion (Malaysia) Sdn. Bhd.	Trading Company	1 & 1A, 2nd floor (room 2) Jalan Ipoh Kecil 50350 Kuala Lumpur	Malaysia	100%
Allegion (New Zealand) Limited	Manufacturing & Distribution	437 Rosebank Road, Avondale Box 19034, Avondale, Auckland	New Zealand	100%
Allegion (Southeast Asia) Pte. Ltd.	Trading Company	178 Paya Lebar Road, 04-10, Paya Lebar 178, Singapore (409030)	Singapore	100%
Allegion (Thailand) Limited	Trading Company	140/37 New ITF Tower, 17th Floor, Silom Rd, Bangrak 1500 Bangkok	Thailand	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Allegion (UK) Limited	Trading Company	35 Rocky Lane, Aston, Birmingham, B6 5RQ	United Kingdom	100%
Allegion B.V.	Trading Company	Witboom 1, Vianen, 4131PL	Netherlands	100%
Allegion Canada Inc.	Trading Company	2900-550 Burrard Street, Vancouver, BC, V6C 0A3	Canada	100%
Allegion de Mexico, S. de R.L. de C.V.	Non-Operating	Los Olivos 698 S/N, Chavez Tecate, 21440	Mexico	100%
Allegion Deutsche Holding GmbH	Holding Company	Schwarzwaldstrasse 15, 77871 Renchen	Germany	100%
Allegion EMEA BVBA	Holding Company	Bloomz Building - Lambroekstraat 5A,B-1831	Belgium	100%
Allegion Emniyet Ve Güvenlik Sistemleri Sanayi Anonim Şirketi	Non-Operating	No: 45 Kar Plaza Kat 12, Kayisdagi Cad. Karaman Ciftlik Yolu, Icerenkoy, Istanbul, 34752	Turkey	100%
Allegion Fu Hsing Limited	Trading Company	29th Floor, Fortis Tower, No. 77-79, Gloucester Road, Wanchai	Hong Kong	49%
Allegion German Financing GmbH & Co. KG	Holding Company	Zettachring 16, 70567 Stuttgart	Germany	100%
Allegion German Holding I GmbH	Holding Company	Zettachring 16, 70567 Stuttgart	Germany	100%
Allegion German Holding II GmbH	Holding Company	Zettachring 16, 70567 Stuttgart	Germany	100%
Allegion Gulf Trading WLL	Trading Company	West Bay, Al Salam Tower, 7th Floor, Office 702, PO Box 24817, Doha, Qatar	Qatar	100%
Allegion Immobilien GmbH	Holding Company	Interflex Datensysteme GmbH, Zettachring 16, D-70567, Stuttgart	Germany	100%
Allegion India Private Limited	Trading Company	10th floor Tower C, IBC Knowledge Park, 4/1 Bannerghatta Main Road, Bangalore - 560029	India	100%
Allegion International AG	Trading Company	Tafernhof, Mellingerstrasse 207, Baden-Dattwil, CH-5405	Switzerland	100%
Allegion Investments (Switzerland) AG	Holding Company	Tafernhof, Mellingerstrasse 207, 5400 Baden	Switzerland	100%
Allegion Investments (UK) Limited	Holding Company	35 Rocky Lane, Aston, Birmingham, B6 5RQ	United Kingdom	100%
Allegion Investments Holding LLC	Holding Company	c/o The Corporation Trust Company, Corporate Trust Centre, 1209 Orange St., Wilmington, DE, 19801	US	100%
Allegion Irish Holding Company II Ltd	Holding Company	Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	100%
Allegion Irish Holding Company Limited	Holding Company	Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	100%
Allegion Korea Ltd.	Dormant Company	Chuneui-dong, Chuneui Techno Park 2cha) 9th floor, 201dong, 18, Bucheon-ro 198beon-gil, Wonmi-gu, Bucheon-si, Gyeonggi-do	Republic of Korea	100%
Allegion LLC	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion Lux Financing III S.à r.l.	Holding Company	26,boulevard Royal, L-2449	Luxembourg	100%
Allegion Luxembourg Holding and Financing S.à r.l.	Holding Company	26,boulevard Royal, L-2449	Luxembourg	100%
Allegion Luxembourg Holding II SCS	Holding Company	26,boulevard Royal, L-2449	Luxembourg	100%
Allegion Luxembourg Holding III S.à.r.l	Holding Company	26,boulevard Royal, L-2449	Luxembourg	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Allegion Management (DIFC) Limited	Holding Company	Unit GV-00-10-08-OF-09 Level 8 Gate Village Building 10 Dubai International Financial Centre PO Box 236325 Dubai, United Arab Emirates	United Arab Emirates	100%
Allegion NV	Trading Company	Pontbeekstraat 2, 1702 Groot-Bijgaarden	Belgium	100%
Allegion Panama, S. de R.L.	Trading Company	Avenida Samuel Lewis y Calle 54 St, Edificio AFRA, Panamá, República de Panamá	Panama	100%
Allegion S&S Lock Holding Company Inc.	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion S.A.	Dormant Company	Av. Principal de Boleita con calle Maraima, Galpon Trane Nros. S/N, Urb. Boleita Norte, Municipio Sucre del Estado Miranda	Venezuela	100%
Allegion Security Technologies (China) Co. Ltd.	Manufacturing & Distribution	Building No.10, No. 8158, Tingwei Road, Jinshan Industrial Zone, Shanghai	China	100%
Allegion US Holding Company Inc.	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion Ventures LLC	Holding Company	1209 Orange Street, Wilmington DE 19801, DE	US	100%
ALLGain Pty Ltd	Dormant Company	16-20 Third Avenue, Sunshine, VIC, 3020	Australia	100%
API Services and Solutions Pty Limited	Trading Company	7 Eagleview Place, Eagle Farm QLD 4009	Australia	100%
AXA Stenman Deutschland GmbH	Trading Company	Johann-Krane-Weg 37, 48149 Munster, Germany	Germany	100%
AXA Stenman France S.A.S.	Manufacturing & Distribution	Usine de Beaulieu, 58500 Clamecy	France	100%
AXA Stenman Holding B.V.	Holding Company	Energiestraat 2, NL-3903 AV Veenendaal	Netherlands	100%
AXA Stenman Industries B.V.	Holding Company	Energiestraat 2, NL-3903 AV Veenendaal	Netherlands	100%
AXA Stenman Nederland B.V	Manufacturing & Distribution	Energiestraat 2, NL-3903 AV Veenendaal	Netherlands	100%
AXA Stenman Poland Sp Z.O.O	Manufacturing & Distribution	ul. Technologiczna 8, 42-400 Zawiercie	Poland	100%
BASTA Group A/S Denmark	Holding Company	c/o Accura Advokatpartnerselskab Tuborg Boulevard 1, 2900 Hellerup	Denmark	100%
Bricard S.A.S	Manufacturing & Distribution	1, Rue Paul-Henri Spaak, Saint Thibault de Vignes, 77463	France	100%
CISA Cerraduras S.A.	Trading Company	Poligono Industrial La Charluca, Calle F, parcela M16-17, 50300 Calatayud, Zaragoza	Spain	100%
CISA SpA	Manufacturing & Distribution	no 42, Via Oberdan, Faenza, 48018	Italy	100%
Conneqtech	Manufacturing & Distribution	Einsteinweg 35A, (3752 LW) Bunschoten-Spakenburg	Netherlands	20%
D. Purdue & Sons Ltd.	Trading Company	Elsies River, 7490	South Africa	25%
Dor-O-Matic (Illinois) LLC	Non-Operating	C T Corporation System, 208 S. LaSalle Street, Chicago, IL, 60604	US	100%
Dor-o-Matic of Mid Atlantic States, Inc.	Trading Company	6505 S. Crescent Blvd., Pennsauken, NJ, 08110	US	100%
Eco Schulte GmbH	Manufacturing & Distribution	Iserlohner Landstrasse 89, 58706 Menden, Germany	Germany	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Electronic Technologies Corporation USA	Trading Company	11819 North Pennsylvania Street, Carmel, Indiana, 46032	US	100%
Fire and Security Hardware Pty Limited	Dormant Company	16-20 Third Avenue, Sunshine, VIC, 3020	Australia	100%
Gainsborough Hardware Industries Limited	Dormant Company	7 Eagleview Place, Eagle Farm QLD 4009	Australia	100%
Harrow Industries LLC	Manufacturing & Distribution	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Harrow Products (Delaware) LLC	Trading Company	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Harrow Products, LLC	Trading Company	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Interflex Datensysteme GesmbH	Trading Company	Geisselbergstrasse 19/3/6, Vienna, 1110	Austria	100%
Interflex Datensysteme GmbH	Manufacturing & Distribution	Zettachring 16, D-70567, Stuttgart	Germany	100%
Isonas, Inc.	Trading Company	4750 Walnut Street - Suite 110 Boulder, Colorado 80301 USA	US	100%
Milre Systek Co., Ltd	Manufacturing & Distribution	(Chun Eui Techno Park 2cha, Chuneui-dong) 9th floor, 201dong located at 18, Bucheon-ro 198beon-gil, Wonmi-gu, Bucheon-si, Gyeonggi-do	Republic of Korea	100%
Newman Tonks (Overseas Holdings) Limited	Dormant Company	35 Rocky Lane, Aston, Birmingham, B6 5RQ	United Kingdom	100%
Normbau France SAS	Trading Company	1 Rue De L'artisanat, 67240, Bischwiller	France	100%
Normbau GmbH	Manufacturing & Distribution	Schwarzwaldstrasse 15, Postfach 1261, Renchen, D-77871	Germany	100%
NT Group Properties Limited	Dormant Company	35 Rocky Lane, Aston, Birmingham, B6 5RQ	United Kingdom	100%
NT Leamington Limited	Non-Operating	35 Rocky Lane, Aston, Birmingham, B6 5RQ	United Kingdom	100%
Nuki Home Solutions GmbH	Trading Company	Muenzgrabenstrasse 92/4, 8010 Graz	Austria	23%
Overtur Architectural Services LLC	Trading Company	11819 N. Pennsylvania Street, Carmel, IN, 46032	US	100%
Pin & Tumbler Studio LLC	Trading Company	1209 Orange Street, Wilmington DE 19801, DE, United States	US	100%
Qatar Metal Const. Ind. LLC	Manufacturing & Distribution	Industrial Area 13, Industrial St. 4, Span Number 2, Mohammed Abdullah Al Khajal Property, PO Box 70723, Sharjah	United Arab Emirates	100%
QMI Building Metal Products Manufacturing LLC	Manufacturing & Distribution	Storage Number M1,M2,M, Seih Shaeeb 2, PO Box 233895, Dubai Industrial City, Bur Dubai	United Arab Emirates	100%
Recognition Systems LLC	Manufacturing & Distribution	CT Corporation System, 818 West Seventh Street, Los Angeles, CA, 90017	US	100%
Republic Doors and Frames, LLC	Manufacturing & Distribution	11819 North Pennsylvania Street, Carmel, IN, 46032	US	100%
S&S Lock Indemnity (Barbados) Limited	Holding Company	Ground Fl. Belleville Corporate Center, #38 Pine Rd., Belleville, St. Michael	Barbados	100%
S&S Lock Insurance (Arizona) Company	Holding Company	c/o Aon Insurance Managers (USA) Inc., 2555 E. Camelback Road, Suite 700, Phoenix, AZ 85016	US	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Schlage de Mexico SA de CV	Manufacturing	Calle Los Olivos 698, Col. Chavez, Baja California, 21440 Tecate	Mexico	100%
Schlage Lock Company LLC	Manufacturing & Distribution	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
SimonsVoss Technologies AB	Trading Company	Krejaren 2, Ostermalmstorg 1, 114 42 Stockholm	Sweden	100%
SimonsVoss Technologies BV	Trading Company	Evert van de Beekstraat 104, 118CN Schiphol	Netherlands	100%
SimonsVoss Technologies FZE	Trading Company	Office No. LB05118, Jebel Ali, Dubai	United Arab Emirates	100%
SimonsVoss Technologies GmbH	Manufacturing & Distribution	Feringstrasse 4, 85774, Unterfoehring	Germany	100%
SimonsVoss Technologies Limited (UK)	Trading Company	c/o Pini Franco LLP, 22-24 Ely Place, London EC1N 6TE	United Kingdom	100%
SimonsVoss Technologies SAS	Trading Company	1-3 Rue des Remparts, F 93160 Noisy-le-Grand	France	100%
Technical Glass Products DMCC	Trading Company	Reef Tower, 29th Floor, Jumeirah Lakes Tower Area, 5003317	United Arab Emirates	100%
Technical Glass Products, Inc.	Manufacturing & Distribution	CT Corporation 711 Capital Way S. Suite 204, Olympia, WA 98501	US	100%
TGP Canada Enterprises, ULC	Trading Company	2900-550 Burrard Street, Vancouver, BC, V6C 0A3	Canada	100%
TGP International, Inc.	Holding Company	701 Fifth Avenue, Suite 4400 Seattle, WA 98104	US	100%
Trelock Asia Pacific Limited	Trading Company	36/F Tower Two, Times Square, 1 Matheson St, Causeway Bay	Hong Kong	100%
Trelock GmbH	Trading Company	Johann-Krane-Weg 37, 48149 Munster	Germany	100%
Trelock Production GmbH	Manufacturing & Distribution	Johann-Krane-Weg 38, 48419, Munster	Germany	100%
Zero Seal Systems Limited	Trading Company	43-45 Ladford Covert, Seighford, Stafford, Staffordshire, ST18 9QG	United Kingdom	51%

40. EVENTS SINCE YEAR END***Dividends declared and paid***

On 6 February 2020, the Company's Board of Directors declared a quarterly dividend of \$0.32 cents per ordinary share. The dividend was paid on 31 March 2020 to shareholders of record on 17 March 2020.

Share repurchases

On 6 February 2020, the Company's Board of Directors approved the 2020 Share Repurchase Authorisation, replacing the existing 2017 Share Repurchase Authorisation. The 2020 Share Repurchase Authorisation does not have a prescribed expiration date.

As of 8 April 2020, the Company had repurchased and cancelled approximately 0.9 million ordinary shares of \$0.01 each, at a weighted-average price of approximately \$110 since the year ended 31 December 2019. The Company had approximately \$728.9 million available under the 2020 Share Repurchase Authorisation.

Retirement of director

On 27 January 2020, Carla Cico, a member of the Board of Directors of Allegion plc, retired from the Board.

Appointment of director

On 6 February 2020, Steven C. Mizell, was appointed as a member of the Board of Directors of Allegion plc.

COVID-19 pandemic

In March 2020, a global pandemic was declared by the WHO related to the rapidly growing outbreak of COVID-19. This pandemic has created significant uncertainties to the global economy.

40. EVENTS SINCE YEAR END (Continued)

Allegion remains focused on business continuity and ensuring our facilities remain operational where safe and appropriate to do so. As of 8 April 2020, we have temporarily suspended operations in Italy and Spain as a result of compliance with general public health decrees. At this time, we expect to reopen these operations upon expiration of the local orders or earlier, if permitted. Allegion will comply with future government orders if and as they apply to our operations. In addition, we anticipate periodic work stoppages at certain plants due to temporary reduction in customer demand or material shortages. We will continue to serve our customers when possible through our channel partners or inventory on hand. These temporary measures are implemented in a way that allows prompt production startup when public health and market conditions improve. To the extent any additional temporary closures or adjustments to production are necessary, such measures will be implemented in a way that minimises disruption to customers and our overall business, including continuing to take prudent measures to mitigate, to the extent possible, any financial impacts. We will continue to closely monitor, evaluate and manage our operating plans, inventory levels and supply of materials around the world.

The Company has updated its Principal Risks and Going Concern sections on Pages 22 and 31, respectively, in light of the COVID-19 pandemic and its potential impact. Although, we do not believe there is any impact to amounts recorded at 31 December 2019, the COVID-19 pandemic may materially impact our results of operations, financial condition and cash flows in 2020, including a likely material impairment charge to the carrying value of goodwill and certain indefinite-lived trade names within the Asia Pacific segment. In addition, there is the potential for an impairment charge related to the carrying value of goodwill and certain indefinite-lived trade names within the EMEIA segment. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration and magnitude.

Restructuring activities

On 8 April 2020, the Company committed to certain strategic restructuring initiatives to be implemented across several businesses and functions outside of the United States. These initiatives are intended to optimize and simplify the Company’s non-U.S. operations and cost structure. The majority of these restructuring initiatives are expected to be completed during fiscal year 2020, with all initiatives expected to be completed by the end of fiscal year 2021.

As a result of these initiatives, the Company currently expects to record restructuring charges of approximately \$30 to \$35 million in total, of which \$20 to \$25 million are expected to be incurred during fiscal year 2020 with the remainder expected to be incurred during fiscal year 2021. The expected charges are primarily comprised of approximately \$20 to \$22 million in employee termination benefits, \$4 to \$6 million in contract termination costs, and \$6 to \$8 million in other costs. Future cash expenditures related to these charges are anticipated to be approximately \$25 to \$30 million.

41. GENERAL INFORMATION

Allegion plc is a public limited company which is listed on the New York Stock Exchange and is incorporated and domiciled in the Republic of Ireland.

Registered Office

Block D
Iveagh Court
Harcourt Road
Dublin 2, Ireland

Solicitor

Arthur Cox
Ten Earlsfort Terrace
Dublin 2, Ireland

Registered Number 527370

Principal Banker

J.P. Morgan
JPMBL SA Dublin Branch
1 Georges Dock
IFSC
Dublin 1, Ireland

Independent Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1, Ireland

42. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements were approved by the Board of Directors of the Company on 8 April 2020.

Allegion plc
Parent Company Balance Sheet
At 31 December 2019

<i>In millions (\$)</i>	Note	2019	2018
Fixed assets			
Financial assets	7	5,262.9	5,246.7
Current assets			
Debtors	8	31.1	31.3
Cash at bank and in hand		5.3	4.2
		<u>36.4</u>	<u>35.5</u>
Debtors: amounts falling due after more than one year	8	1.6	—
Creditors: amounts falling due within one year	9	(7.9)	(35.7)
Net current assets/(liabilities)		<u>28.5</u>	<u>(0.2)</u>
Total assets less current liabilities		<u>5,293.0</u>	<u>5,246.5</u>
Creditors: amounts falling due after more than one year	9	(998.4)	(617.0)
Net assets		<u>4,294.6</u>	<u>4,629.5</u>
Capital and reserves			
Called up share capital presented as equity	11	0.9	0.9
Share premium	12	75.9	64.2
Capital redemption reserve	12	0.1	—
Share based payment reserve	12	74.5	59.5
Profit and loss account	12	4,143.2	4,504.9
Shareholders' funds		<u>4,294.6</u>	<u>4,629.5</u>

The Parent Company recorded a loss of \$34.8 million for the year ended 31 December 2019 (2018: profit of \$202.4 million).

Approved by the Board of Directors on 8 April 2020 and signed on its behalf by:

David D. Petratis

David D. Petratis
Director

Martin E. Welch III

Martin E. Welch III
Director

Allegion plc
Parent Company Statement of Changes in Equity
For the year ended 31 December 2019

<i>In millions (\$)</i>	Called up share capital presented as equity	Capital redemption reserve	Share premium	Share based payment reserve	Profit and loss account	Total
Balance at 31 December 2017	1.0	—	55.4	46.6	4,449.4	4,552.4
Issuance of ordinary shares in respect of share-based payment plans	—	—	8.8	—	—	8.8
Share-based payment charge for the year	—	—	—	12.9	—	12.9
Profit for the financial year	—	—	—	—	202.4	202.4
Repurchase of ordinary shares	(0.1)	—	—	—	(67.2)	(67.3)
Dividends	—	—	—	—	(79.7)	(79.7)
Balance at 31 December 2018	0.9	—	64.2	59.5	4,504.9	4,629.5
Issuance of ordinary shares in respect of share-based payment plans	—	—	11.7	—	—	11.7
Share-based payment charge for the year	—	—	—	15.0	—	15.0
Loss for the financial year	—	—	—	—	(34.8)	(34.8)
Repurchase of ordinary shares	—	0.1	—	—	(226.0)	(225.9)
Dividends	—	—	—	—	(100.9)	(100.9)
Balance at 31 December 2019	0.9	0.1	75.9	74.5	4,143.2	4,294.6

1. BASIS OF PREPARATION

The Parent Company Financial Statements (the “Financial Statements”) have been prepared in accordance with Generally Accepted Accounting Practice in Ireland (applicable accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland and the 2014 Act). The Financial Statements comply with Financial Reporting Standard 102, ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ (FRS 102).

The Financial Statements present the Parent Company Balance Sheet (the “Balance Sheet”) and the Parent Company Statement of Changes in Equity (the “Statement of Changes in Equity”) on a stand-alone basis, including related party transactions.

The Parent Company (“Allegion plc”) is a qualifying entity for the purposes of FRS 102. As a qualifying entity, the Parent Company has availed of a number of exemptions from the disclosure requirements of FRS 102 in the preparation of the Financial Statements. The Parent Company has notified its shareholders in writing about, and they do not object to, the disclosure exemptions availed of by the Parent Company in the Financial Statements.

In accordance with FRS 102, the Parent Company has availed of an exemption from the following paragraphs of FRS 102:

- The requirements of Section 7 and paragraph 3.17(d) to present a Statement of Cash Flows; and
- The requirement of Section 33 Related Party Disclosures paragraph 33.7 in relation to key management personnel compensation.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting convention: The Financial Statements have been prepared under the historical cost convention.

Going concern: The Parent Company relies on the activities of the Group for the purpose of its operational existence and as a result the going concern assessment performed at a Group level was deemed relevant to support the Parent Company's ability to continue as a going concern.

The Group's Board of Directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Board has taken account of current and anticipated uncertainties driven by the COVID-19 pandemic in its going concern assessment. These uncertainties include, but are not limited to, customer demand, levels of liquidity, the availability of the committed borrowing facilities, customers’ and suppliers’ financial condition, any temporary closure of production facilities and our ongoing compliance with debt covenants. These uncertainties could adversely affect our operations and financial performance through supply chain disruptions, delays in payments received, and the availability and cost of materials. However, to its knowledge, the Board of Directors reasonably believe that these uncertainties would not have a material impact on our ability to continue as a going concern as of the approval date.

The ultimate impact of COVID-19 on our business, financial condition and results of operations is dependent on future developments which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the COVID-19 pandemic and the related actions taken to contain or prevent its further spread. There are certain potential measures that the Group can put in place to maintain a sound financial footing such as:

- the temporary suspension or reduction of our share repurchase program;
- the delay of discretionary expenditures;
- the curtailment of potential investments;
- the restriction of employee travel or a freeze on headcount in select locations;
- the unused Revolving Facility; and,
- the delay, suspension or reduction of future dividends.

To its knowledge, the Board currently believes it is unlikely that the Group would be required to initiate all of these measures, but the flexibility is available if the need arises to implement these or more substantial measures, as appropriate, to remain a going concern.

For this reason, the going concern basis continues to be adopted in the preparation of the Consolidated Financial Statements and the Parent Company Financial Statements. However, the Board of Directors understands the importance of monitoring future developments in relation to COVID-19.

Functional currency: Items included in these Financial Statements are measured using the currency of the primary economic environment in which the Parent Company operates (the “functional currency”). The Financial Statements are presented in United States dollars, which is the Parent Company's functional currency.

Investments in subsidiaries: Allegion plc's investments in its subsidiaries are stated at cost less provision for any impairment in value. Cost represents the fair value on 1 December 2013, the date of the spin-off, based on the Group's market capitalisation at that time plus subsequent capital contributions and acquisitions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group reviews investments for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses whether such indicators exist at each reporting date. Where the recoverable amount of the investment is less than the carrying amount, an impairment is recognised.

Dividends: Dividend income is recognised when the right to receive the payment is established. Interim dividends on ordinary shares to the Parent Company's external shareholders are recognised in the Financial Statements when they are paid.

Currency translation: Transactions during the year denominated in foreign currencies have been translated using average exchange rates throughout the year. Assets and liabilities denominated in foreign currencies are translated to United States dollars at the rates of exchange at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

Taxation: Corporation tax is provided on taxable profits at current rates. Deferred taxation is accounted for in respect of all timing differences at tax rates enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computation in periods different from those in which they are included in the Financial Statements. A deferred tax asset is only recognised when it is more likely than not the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be recovered.

Cash flow statement: The Parent Company has not presented a separate cash flow statement as it has availed of the exemption available under FRS 102 Section 1.12 (b). This exemption is available as 100% of the Parent Company's voting rights are controlled within the Allegion plc Group and the Consolidated Financial Statements of Allegion plc (in which the Parent Company is included) are publicly available.

Share-based payments: The Parent Company and its subsidiaries operate various equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of performance stock units has been valued using a Monte Carlo simulation based on the grant's performance criteria and forecasted earnings per share. The fair value of the employee services received in exchange for the grant of restricted stock units has been valued using the fair value of Allegion plc ordinary shares on the date of grant. The fair value of the employee services received in exchange for the grant of options has been valued using the Black-Scholes option-pricing model. In accordance with Section 26 of FRS 102 Section 'Share-based Payments', the resulting cost for the employees is charged to the profit and loss account over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of awards vesting.

The cost for awards granted to the Parent Company's subsidiaries' employees represents additional capital contributions by the Parent Company to its subsidiaries. An additional investment in subsidiaries has been recorded in respect of those awards granted, with a corresponding increase in the Parent Company's shareholders' equity. The additional capital contribution is based on the fair value at the grant date of the awards issued, allocated over the life of the underlying grant's vesting period. Proceeds received from employees, if any, for the exercise of share based instruments increase the share capital and share premium accounts of the Parent Company. The difference between the proceeds received on issue of shares and the nominal value of the shares is credited to the share premium account. Note 33 of the Consolidated Financial Statements provides additional details of the Group's share-based compensation plans.

Contingencies: The Parent Company has guaranteed certain liabilities and credit arrangements. The Parent Company reviews the status of these guarantees at each reporting date and considers whether it is required to make a provision for payment on those guarantees based on the probability of the commitment being called. Refer to Note 13 for further details of the Parent Company's guarantees.

Financial instruments: The Parent Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, loans to fellow Group companies and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less from the balance sheet date. If not, they are presented as non-current liabilities. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Cash at bank and in hand: Cash at bank and in hand includes cash on hand, demand deposits and all highly liquid investments with original maturities at the time of purchase of three months or less.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key risk identified by the directors relates to impairment of Parent Company's investments in its subsidiaries. Consequently the Parent Company assesses at each reporting date whether there is any indication that an investment in a subsidiary has been impaired. If such an indication exists, the Parent Company is required to undertake a review for impairment and estimate the recoverable amount of the asset.

4. LOSS/PROFIT FOR THE FINANCIAL YEAR

A loss of \$34.8 million for the year ended 31 December 2019 (profit of \$202.4 million for the prior year) has been dealt with in the profit and loss account of Allegion plc, which, as permitted by Section 304 of the 2014 Act, is not presented in these Financial Statements. The Parent Company had no other recognised gains and losses, and accordingly, no statement of total recognised gains and losses is presented.

5. AUDITORS' REMUNERATION

<i>In millions (\$)</i>	2019	2018
Audit of the Parent Company's statutory accounts (including expenses)	0.2	0.2
Auditors' remuneration	0.2	0.2

Note 10 of the Consolidated Financial Statements provides additional details of fees paid by the Group.

6. EMPLOYEE COSTS

The average number of persons employed in the Parent Company, including executive directors, during 2019 was 4 (2018: 4).

<i>In millions (\$)</i>	2019	2018
Wages and salaries	0.5	0.5
Social insurance costs	—	—
Other pension costs	—	—
Employee costs	0.5	0.5

7. FINANCIAL ASSETS

Shares in group undertakings

<i>In millions (\$)</i>	Total
At 31 December 2017	5,233.9
Capital contribution relating to share-based payments	12.8
At 31 December 2018	5,246.7
Capital contribution relating to share-based payments	15.3
Investment in group undertakings	0.9
At 31 December 2019	5,262.9

Subsidiaries

Details of the Parent Company's direct subsidiaries as at 31 December 2019 are as follows:

Subsidiary company and registered office	Country of Incorporation	Principal Activity	Holding %
Allegion Irish Holding Company Limited - Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	Holding Company	100%
Allegion US Holding Company Inc. - c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	Holding Company	100%
Allegion (Ireland) Finance Designated Activity Company - Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	Trading Company	100%

The Parent Company indirectly owns all other subsidiaries in the Allegion Group. Details of indirect subsidiaries can be found in Note 39 of the Consolidated Financial Statements.

8. DEBTORS

<i>In millions (\$)</i>	2019	2018
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	30.2	30.8
Prepayments	0.9	0.5
At 31 December	31.1	31.3

Amounts owed by subsidiary undertakings are unsecured, interest free and repayable upon demand. The directors consider that the carrying amount of Debtors approximates fair value due to the short-term nature of these instruments.

<i>In millions (\$)</i>	2019	2018
Amounts falling due after more than one year:		
Debt issuance costs	1.6	—
At 31 December	1.6	—

Deferred tax

The Parent Company has unrecognised deferred tax assets of \$4.5 million related to unused tax losses as of 31 December 2019 (\$3.1 million as of 31 December 2018). No deferred tax asset has been recognised in respect of these amounts on the basis that the directors do not consider that there is convincing evidence to conclude that it is probable that losses will be recovered against future taxable profits.

9. CREDITORS

<i>In millions (\$)</i>	2019	2018
Amounts falling due within one year:		
Amounts due to subsidiary undertakings	1.6	0.3
Current portion of long-term debt (net of issuance costs) - Note 10	—	33.4
Accrued interest	3.8	0.1
Other payables	0.7	0.5
Pay related social insurance	—	—
Other creditors	0.6	0.6
Income tax deducted under PAYE	0.1	0.1
Dividend withholding tax	1.1	0.7
At 31 December	7.9	35.7

At 31 December 2019, amounts due to subsidiary undertakings falling due within one year are unsecured and are repayable within one year. Tax and social insurance are repayable at various dates over the coming months in accordance with the applicable statutory provisions.

Other creditors principally comprise amounts outstanding for day to day purchases and ongoing costs and are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit terms. The directors consider that the carrying amount of other creditors approximates to their fair value due to the short-term nature of these instruments.

<i>In millions (\$)</i>	2019	2018
Amounts falling due after more than one year:		
Debt (net of issuance costs) - Note 10	633.7	617.0
Amounts due to subsidiary undertakings	364.7	—
At 31 December	998.4	617.0

At 31 December 2019, amounts due to subsidiary undertakings falling due after more than one year are unsecured and have an interest rate of 3.2821%.

10. LOANS AND BORROWINGS

Long-term debt consisted of the following:

<i>In millions (\$)</i>	2019	2018
Term Facility	238.8	656.3
3.500% Senior Notes due 2029	400.0	—
Revolving Facility	—	—
Total borrowings outstanding	638.8	656.3
Less discounts and debt issuance costs, net	5.1	4.3
Total debt	633.7	652.0
Less current portion of long-term debt	—	35.0
Total long-term debt	633.7	617.0

Unsecured Credit Facilities

As of 31 December 2019, the Parent Company has an unsecured Credit Agreement in place, consisting of a \$700.0 million term loan facility (the "Term Facility"), of which \$238.8 million is outstanding at 31 December 2019, and a \$500.0 million revolving credit facility (the "Revolving Facility" and, together with the Term Facility, the "Credit Facilities"). The Credit Facilities mature on 12 September 2022, and are unconditionally guaranteed jointly and severally on an unsecured basis by the Parent Company and Allegion US Holding Company Inc. ("Allegion US Hold Co"), the Parent Company's wholly-owned subsidiary.

At inception, the Term Facility was scheduled to amortise in quarterly installments at the following rates: 1.25% per quarter starting 31 December 2017 through 31 December 2020, 2.5% per quarter from 31 March 2021 through 30 June 2022, with the balance due on 12 September 2022. Principal amounts repaid on the Term Facility may not be reborrowed.

10. LOANS AND BORROWINGS (Continued)

During the year ended 31 December 2019, the Parent Company made a \$400.0 million principal payment to partially pay down the outstanding Term Facility balance, utilising all of the net proceeds from the issuance of the 3.500% Senior Notes due 2029 (see below), plus cash on hand. As a result of this payment, the Parent Company has satisfied its obligation to make quarterly installments on the Term Facility up to the maturity date, with the remaining outstanding balance due on 12 September 2022. In conjunction with this principal pay down, the Parent Company recognised a \$1.8 million charge related to the write-off of previously deferred financing costs related to the Term Facility, which is included in Interest payable and similar charges in the Parent Company profit and loss account for the year ended 31 December 2019. The Parent Company repaid a total of \$417.5 million of principal on its Term Facility during the year ended 31 December 2019.

The Revolving Facility provides aggregate commitments of up to \$500.0 million, which includes up to \$100.0 million for the issuance of letters of credit. At 31 December 2019, there were no borrowings outstanding on the Revolving Facility and the Parent Company had \$16.3 million of letters of credit outstanding. Commitments under the Revolving Facility may be reduced at any time without premium or penalty, and amounts repaid may be reborrowed. The Parent Company pays certain fees with respect to the Revolving Facility, including an unused commitment fee on the undrawn portion of the Revolving Facility of between 0.125% and 0.200% per year, depending on the Parent Company's credit rating, as well as certain other fees.

Outstanding borrowings under the Credit Facilities accrue interest at the option of the Parent Company of (i) a LIBOR rate plus the applicable margin or (ii) a base rate plus the applicable margin. The applicable margin ranges from 1.125% to 1.500% depending on the Parent Company's credit ratings. At 31 December 2019, the outstanding borrowings under the Term Facility accrue interest at LIBOR plus a margin of 1.250%. To manage the exposure to fluctuations in LIBOR rates, the Parent Company has interest rate swaps to fix the interest rate for \$200.0 million of the outstanding borrowings as of 31 December 2019. These interest rate swaps will expire in September 2020 (see Note 27 of the Consolidated Financial Statements). At 31 December 2019, the weighted-average interest rate for borrowings was 2.68% under the Term Facility (including the effect of interest rate swaps).

The Credit Facilities contain negative and affirmative covenants and events of default that, among other things, limit or restrict the Parent Company's ability to enter into certain transactions. In addition, the Credit Facilities require the Parent Company to comply with a maximum leverage ratio and a minimum interest expense coverage ratio, as defined within the agreement. As of 31 December 2019, the Parent Company was in compliance with all covenants.

Senior Notes

During the year ended 31 December 2019, Allegion plc issued \$400.0 million aggregate principal amount of its 3.500% Senior Notes due 2029 (the "3.500% Senior Notes"). The 3.500% Senior Notes require semi-annual interest payments on 1 April and 1 October, beginning 1 April 2020, and will mature on 1 October 2029. Net proceeds from the issuance of the 3.500% Senior Notes, along with cash on hand, were utilised to make the \$400.0 million principal payment on the Term Facility discussed above.

The Parent Company incurred and deferred \$4.2 million of discounts and financing costs associated with the 3.500% Senior Notes, which will be amortised to Interest payable and similar charges over the 10-year term of the 3.500% Senior Notes.

The 3.500% Senior Notes are senior unsecured obligations of Allegion plc, are guaranteed by Allegion US Hold Co and rank equally with all of the Parent Company's existing and future senior unsecured indebtedness.

Debt issuance costs

Debt issuance costs consisted of the following:

<i>In millions (\$)</i>	2019	2018
At 1 January	5.9	7.4
Incurred during the year	4.2	—
Debt extinguishment costs	(1.8)	—
Amortisation charge for the year	(1.6)	(1.5)
At 31 December	6.7	5.9

10. LOANS AND BORROWINGS (Continued)

At 31 December 2019, future retirements for the amounts outstanding under the Term Facility and the 3.500% Senior Notes are as follows:

<i>In millions (\$)</i>	
2020	—
2021	—
2022	238.8
2023	—
Thereafter	400.0
Total	638.8

Cash paid for interest for the year ended 31 December 2019 was approximately \$21.8 million (2018: \$25.1 million). Note 26 of the Consolidated Financial Statements provides additional details of loans and borrowings in the Group.

11. CALLED UP SHARE CAPITAL PRESENTED AS EQUITY

<i>In millions (\$)</i>	2019	2018
Authorised:		
40,000 ordinary shares of €1 par value	—	—
400,000,000 ordinary shares of \$0.01 par value	4.0	4.0
10,000,000 preferred shares of \$0.001 par value	—	—
At 31 December	4.0	4.0

Allotted, called up and fully paid equity:

Ordinary shares of \$0.01 each	Number(m)	\$m
At 31 December 2018	94.6	0.9
Shares issued under incentive plans	0.4	—
Repurchase of ordinary shares	(2.3)	—
At 31 December 2019	92.7	0.9

Share repurchases

On 2 February 2017, the Group's Board of Directors approved a stock repurchase authorisation of up to \$500 million of the Parent Company's ordinary shares. The 2017 Share Repurchase Authorisation replaced the authorisation previously established in 2014. During the year ended 31 December 2019, the Parent Company paid \$226.0 million to repurchase 2.3 million ordinary shares of \$0.01 each, at a weighted-average price of \$97.70 on the open market under the 2017 Share Repurchase Authorisation. Subsequent to year end, the Group's Board of Directors approved a new share repurchase authorisation, see Note 15 for further details.

Distributable reserves have been reduced by \$226.0 million being the consideration, including expenses paid for these shares. The repurchase transactions were financed by internally generated funds. The shares repurchased were cancelled and an amount equivalent to their nominal value was transferred to the capital redemption reserve in accordance with the requirements of Section 106(4) of the 2014 Act. The transfer to capital redemption reserve and the premium paid on the shares repurchased were made out of retained profits. During the year ended 31 December 2018, the Parent Company paid \$67.3 million to repurchase 0.9 million ordinary shares of \$0.01 each, at a weighted-average price of \$84.44 on the open market under the 2017 Share Repurchase Authorisation.

12. RESERVES

<i>In millions (\$)</i>	Capital redemption reserve	Share premium	Share based payment reserve	Profit and loss account	Total
At 31 December 2017	—	55.4	46.6	4,449.4	4,551.4
Issuance of ordinary shares in respect of share based payment plans	—	8.8	—	—	8.8
Share based payment charge for the year	—	—	12.9	—	12.9
Profit for the year	—	—	—	202.4	202.4
Repurchase of ordinary shares	—	—	—	(67.2)	(67.2)
Dividends	—	—	—	(79.7)	(79.7)
At 31 December 2018	—	64.2	59.5	4,504.9	4,628.6
Issuance of ordinary shares in respect of share based payment plans	—	11.7	—	—	11.7
Share based payment charge for the year	—	—	15.0	—	15.0
Loss for the year	—	—	—	(34.8)	(34.8)
Repurchase of ordinary shares	0.1	—	—	(226.0)	(225.9)
Dividends	—	—	—	(100.9)	(100.9)
At 31 December 2019	0.1	75.9	74.5	4,143.2	4,293.7

The Parent Company's share premium, capital redemption reserve and share-based payment reserves are not available for distribution.

Dividends declared and paid during the year

<i>In millions (\$)</i>	2019	2018
Equity dividends on ordinary shares:		
First interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.5	19.9
Second interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.2	19.9
Third interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.1	20.0
Fourth interim dividend for 2019 of \$0.27c (2018: \$0.21c)	25.1	19.9
At 31 December	100.9	79.7

Future dividends

Future dividends on our ordinary shares, if any, will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant, as well as our ability to pay dividends in compliance with the 2014 Act. Under the 2014 Act, dividends and distributions may only be made from distributable reserves. Distributable reserves, broadly, means the accumulated realised profits of Allegion plc (ALLE-Ireland). In addition, no distribution or dividend may be made unless the net assets of ALLE-Ireland are equal to, or in excess of, the aggregate of ALLE-Ireland's called up share capital plus undistributable reserves and the distribution does not reduce ALLE-Ireland's net assets below such aggregate.

13. GUARANTEES

On 2 October 2017, Allegion US Holding Company Inc. completed the offering of 3.20% Senior Notes and 3.55% Senior Notes in the aggregate principal amount of \$800.0 million maturing in 2024 and 2027, respectively.

As of 31 December 2019 and 2018, the full balance of \$800.0 million remained outstanding. The five-year Revolving Facility includes up to \$100.0 million available for the issuance of letters of credit. As of 31 December 2019, letters of credit of \$16.3 million (2018: \$17.1 million) have been issued.

Allegion plc has guaranteed the above borrowings and letters of credit of Group undertakings, and the amounts total \$816.3 million as of 31 December 2019 (2018: \$817.1 million). Note 26 of the Consolidated Financial Statements provides additional details of loans and borrowings in the Group.

14. RELATED PARTY TRANSACTIONS

The Parent Company has not disclosed any other related party transactions as it has availed of the exemption available under the provisions of FRS 102 Section 33.1A “Related Party Disclosures” which exempts disclosure of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by a member of that group.

15. EVENTS SINCE YEAR END

Dividends declared and paid

On 6 February 2020, the Group's Board of Directors declared a quarterly dividend of \$0.32 cents per ordinary share. The dividend was paid on 31 March 2020 to shareholders of record on 17 March 2020.

Share repurchases

On 6 February 2020, the Group's Board of Directors approved 2020 Share Repurchase Authorisation, replacing the existing 2017 Share Repurchase Authorisation. The 2020 Share Repurchase Authorisation does not have a prescribed expiration date.

As of 8 April 2020, the Group had repurchased and cancelled approximately 0.9 million ordinary shares of \$0.01 each, at a weighted-average price of approximately \$110 since the year ended 31 December 2019. The Group had approximately \$728.9 million available under the 2020 Share Repurchase Authorisation.

Retirement of director

On 27 January 2020, Carla Cico, a member of the Board of Directors of Allegion plc, retired from the Board.

Appointment of director

On 6 February 2020, Steven C. Mizell, was appointed as a member of the Board of Directors of Allegion plc.

Loan facility agreement

On 19 March 2020, the Parent Company entered into new interest bearing loan facilities for \$160.0 million with subsidiary undertakings. As of 8 April 2020, the Parent Company had drawn down \$25.0 million of the available facilities.

COVID-19 pandemic

In March 2020, a global pandemic was declared by the WHO related to the rapidly growing outbreak of COVID-19. This pandemic has created significant uncertainties to the global economy.

Allegion remains focused on business continuity and ensuring our facilities remain operational where safe and appropriate to do so. As of 8 April 2020, we have temporarily suspended operations in Italy and Spain as a result of compliance with general public health decrees. At this time, we expect to reopen these operations upon expiration of the local orders or earlier, if permitted. Allegion will comply with future government orders if and as they apply to our operations. In addition, we anticipate periodic work stoppages at certain plants due to temporary reduction in customer demand or material shortages. We will continue to serve our customers when possible through our channel partners or inventory on hand. These temporary measures are implemented in a way that allows prompt production startup when public health and market conditions improve. To the extent any additional temporary closures or adjustments to production are necessary, such measures will be implemented in a way that minimises disruption to customers and our overall business, including continuing to take prudent measures to mitigate, to the extent possible, any financial impacts. We will continue to closely monitor, evaluate and manage our operating plans, inventory levels and supply of materials around the world.

The Group has updated its Principal Risks and Going Concern sections on Pages 22 and 31, respectively, in light of the COVID-19 pandemic and its potential impact. Although, we do not believe there is any impact to amounts recorded at 31 December 2019, the COVID-19 pandemic may materially impact our results of operations, financial condition and cash flows in 2020, including a likely material impairment charge to the carrying value of goodwill and certain indefinite-lived trade names within the Asia Pacific segment. In addition, there is the potential for an impairment charge related to the carrying value of goodwill and certain indefinite-lived trade names within the EMEIA segment. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration and magnitude.

Restructuring activities

On 8 April 2020, the Group committed to certain strategic restructuring initiatives to be implemented across several businesses and functions outside of the United States. These initiatives are intended to optimize and simplify the Group's non-U.S. operations and cost structure. The majority of these restructuring initiatives are expected to be completed during fiscal year 2020, with all initiatives expected to be completed by the end of fiscal year 2021.

15. EVENTS SINCE YEAR END (Continued)

As a result of these initiatives, the Group currently expects to record restructuring charges of approximately \$30 to \$35 million in total, of which \$20 to \$25 million are expected to be incurred during fiscal year 2020 with the remainder expected to be incurred during fiscal year 2021. The expected charges are primarily comprised of approximately \$20 to \$22 million in employee termination benefits, \$4 to \$6 million in contract termination costs, and \$6 to \$8 million in other costs. Future cash expenditures related to these charges are anticipated to be approximately \$25 to \$30 million.

16. APPROVAL OF FINANCIAL STATEMENTS

The Parent Company Financial Statements were approved by the Board of Directors of the Group on 8 April 2020.