Low& Bonar

Progress through performance

A global leader in performance materials

Interim Report 2017

We take plastics and convert them into yarns and fibres. From these we produce a mixture of woven, non-woven, coated and composite materials and sell them into a range of end markets and applications that affect everyday life.

We use our own process technology and know-how to produce performance materials that provide our customers with enhanced functional value.

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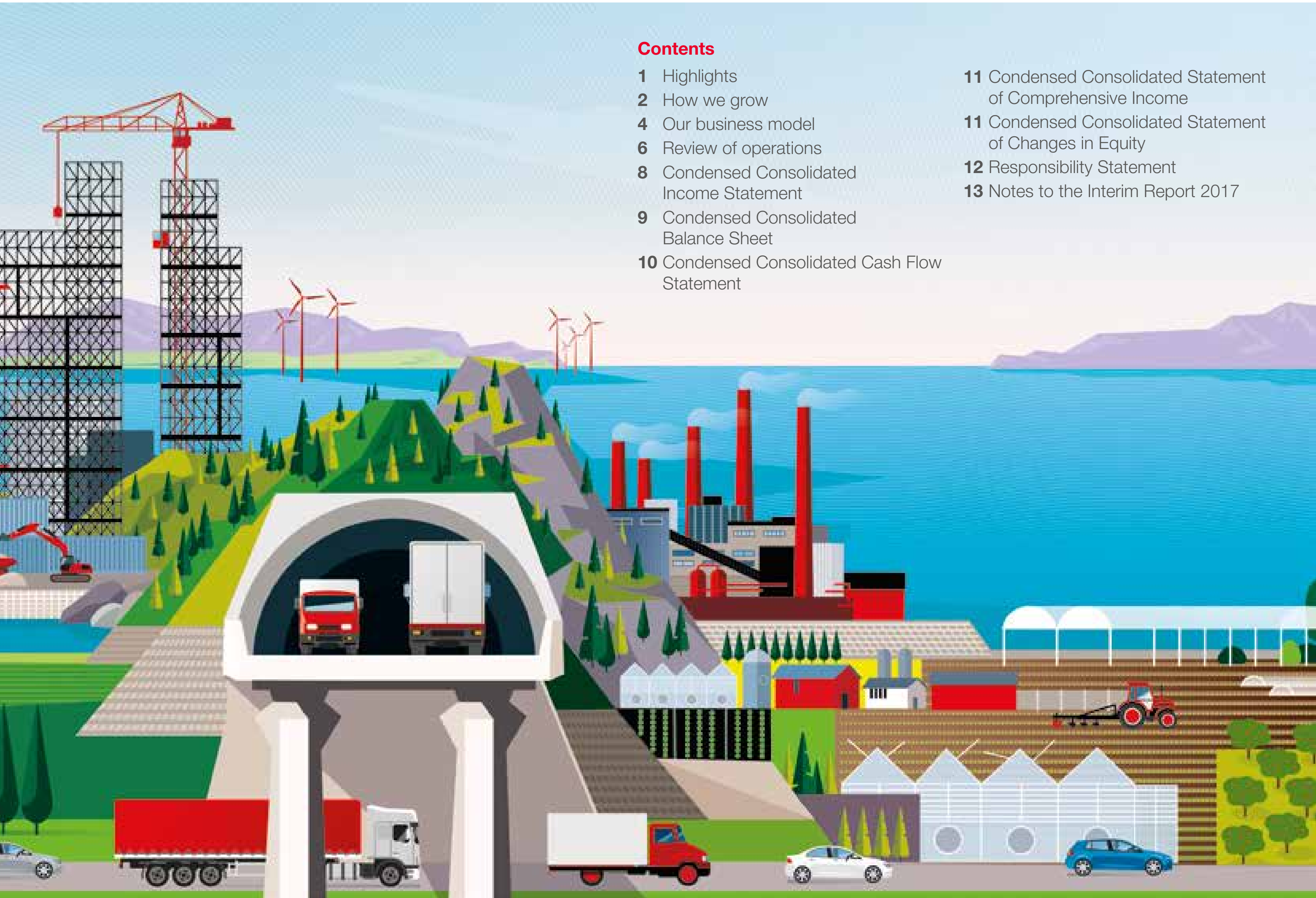


Highlights

	Six months to 31 May				12 months to 30 Nov 2016
	2017	2016	Actual	Constant Currency[1]	
Continuing operations					
Revenue	**£210.3m**	£180.6m	16.4%	4.6%	£400.0m
Operating profit before amortisation and non-recurring items	**£15.5m**	£13.3m	16.5%	3.3%	£34.7m
Operating margin before amortisation and non-recurring items[2]	**7.4%**	7.4%			8.7%
Profit before tax, amortisation and non-recurring items	**£13.1m**	£10.6m	23.6%	10.1%	£29.2m
Profit before taxation (statutory)	**£10.8m**	£8.3m	30.1%		£25.9m
Basic EPS before amortisation and non-recurring items	**2.70p**	2.16p	25.0%	11.1%	6.01p
Basic EPS (statutory)	**2.14p**	1.63p	31.3%		5.20p
Dividend per share	**1.05p**	1.00p	5.0%		3.00p
Return on capital employed[3]	**10.4%**	11.3%	-90 bps		11.1%
Net debt	**£149.0m**	£139.5m			£111.0m

(1) Constant currency is calculated by retranslating comparative period results at current period exchange rates.
(2) Operating profit before amortisation and non-recurring items as a percentage of revenue.
(3) Operating profit before amortisation and non-recurring items as a percentage of net assets plus net debt.

Operational

- Delivering effectively against strategic objectives despite challenging end markets
- Benefits being delivered from focus on operational excellence, customer intimacy and product development
- Good performance in B&I offsetting slower start in CTT and Civil Engineering
- Strengthened global footprint
  - Acquisition of Walflor Industries Inc. in North America integrating well and performing as expected
  - Commenced build of second manufacturing line in Changzhou, China
- Net debt seasonally high, expected to reduce to normal levels of gearing by November
- Post period end, agreed sale of agro-textile business, including the manufacturing site in Lokeren, Belgium for cash consideration of €7.0m (£6.1m)

Financial

Revenue
£210.3m
(Actual: +16.4%, Constant currency +4.6%)

Profit before tax, amortisation and non-recurring items
£13.1m
(Actual: +23.6%, Constant currency +10.1%)

Profit before tax (statutory)
£10.8m
(Actual: +30.1%)

Basic EPS before amortisation and non-recurring items
2.70p
(Actual: +25.0%, Constant currency +11.1%)

Basic EPS (statutory)
2.14p
(Actual: +31.3%)

Dividend per share
1.05p
(Actual: +5.0%)

How we grow

Our market drivers

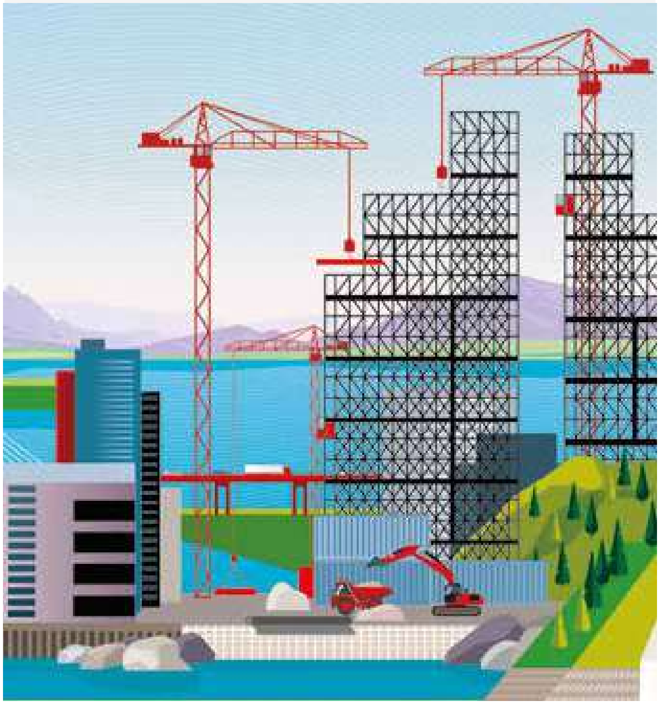
Our customers are facing growing global challenges. In helping them to meet the demands of social and environmental changes, our solutions are laying the foundations to improve the quality of daily life.

Population growth

Resulting in rapid urbanisation, transport and infrastructure needs and requirements for clean water, air, and food.

Group drivers:

- Urbanisation and need for better infrastructure
- Food safety in agriculture and protection of food supplies in transportation
- Demand for air, water, home and automotive filtration
- Faster and safer construction
- Demands for infrastructure in areas of economic development



Limited resources

Sustainable production and consumption requiring materials efficiency, re-manufacturing and the use of renewables.

Group drivers:

- Water conservation in agriculture
- Lower carbon footprint and environmental benefits compared to traditional materials
- Growth in the renewable energy sector
- Carbon-emission reduction driving towards lighter weights and electric engines

Transformative technologies

Advancements accelerating and creating new markets in smart fabrics, lightweight materials and advanced robotics.

Group drivers:

- Improved durability of construction
- Ease of handling, aesthetic and design flexibility driving substitution of wall-to-wall carpets with carpet tiles
- Economic and environmental requirements driving high strength, low weight flooring solutions
- Design of "healthier" buildings with better air flow, moisture control and acoustic performance

Quality of life

Lifestyle and buying habits which emphasise safety, attitudes to product quality, customer service and imported products.

Group drivers:

- Increased quality control in performance and safety
- Demands for quality of life improvements in areas of economic development
- Higher disposable income and emerging middle class driving demand for luxury cars
- Outdoor advertising trends

Our business model

We seek to gain competitive advantage through new product development, customer insight and applied technology

Our resources

Strong product portfolio of leading brands
Our portfolio of premium brands are well positioned in their respective markets for growth.

Strong customer insight
Our technology and understanding of customers processes, as well as our close working partnerships co-developing solutions, enables us to meet their unique needs.

International manufacturing capability
Our commitment to developing global supply capability in all regions with local technical service support, whilst leveraging our European experience and knowledge, makes us more responsive to changing market needs.

Differentiated technology
Our advanced research and development capabilities, own manufacturing technologies and in-depth knowledge of each local market enables us to focus on engineering products for specific transformational applications.

Experienced and expert workforce
We invest wisely in our people and our organisation to ensure that we realise their full potential and leverage their skills to deliver our promises.

Financial strength
Our financial strength gives us the ability to invest in attractive opportunities that will allow us to maximise value for our shareholders.

How we do it

We use our resources

- Strong product portfolio of leading brands
- Strong customer insight
- International manufacturing capability
- Differentiated technology
- Experienced and expert workforce
- Financial strength

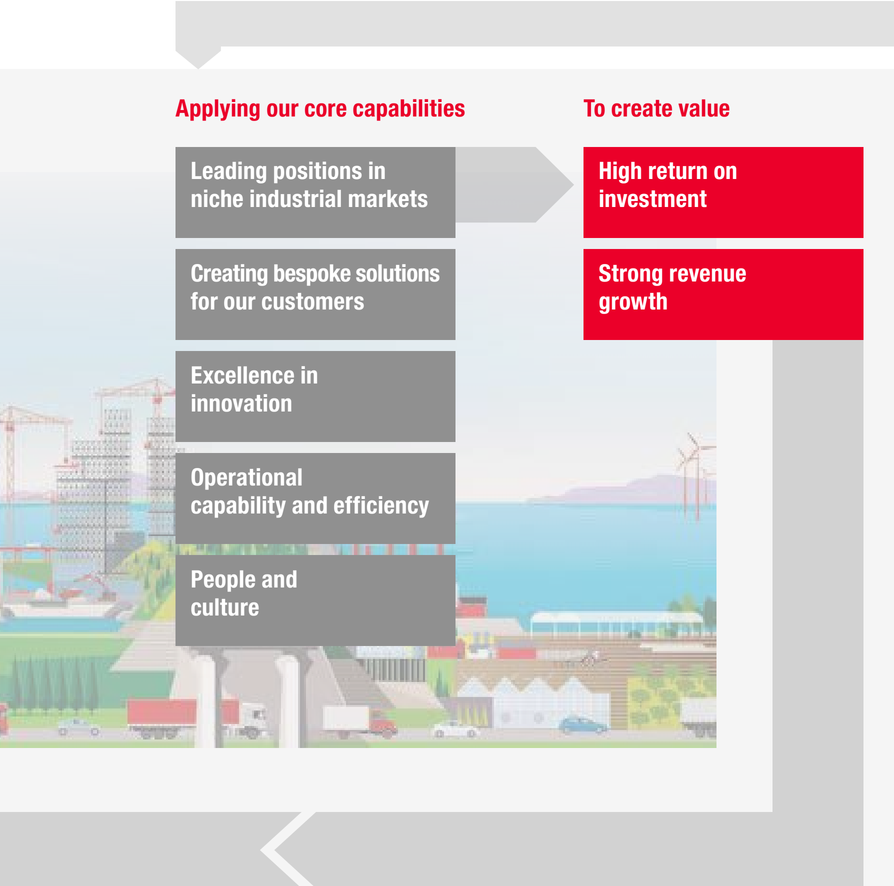
In our chosen markets

- Building & Industrial
- Civil Engineering
- Coated Technical Textiles
- Interiors & Transportation

Our values underpin how we operate

Be world class
Be market leaders across the full range of our products and services, delivering solutions that are the best in our industry.

Empower and perform
Collaborate across functions and geographies to make the right decisions and take the best to our customers.



Embrace the new
Enhance our offer through innovation and customer collaboration, thereby anticipating where the opportunities and challenges lie.

Collaborate to transform
Work together and form strong and meaningful relationships for the benefit of our customers.

Our core capabilities

Leading positions in niche industrial markets
We hold leading positions in attractive niche markets, sustained through our innovative design and component manufacture, and our ability to meet the evolving demands of our customers and markets.

Creating bespoke solutions for our customers
Our businesses are aligned to the global market areas we serve ensuring we put customers at the centre of everything we do.

Excellence in innovation
We focus our innovation on delivering improved sustainability, increased functionality and greater efficiencies. Our development pipelines are populated with ideas and insight from our customers and markets. Our research and development teams focus on meeting our customers' needs with engineered products for specific applications. We dedicate a controlled amount of focussed resource to identifying transformational growth opportunities in new and existing markets.

Operational capability and efficiency
We operate Group-wide capability and efficiency improvement programmes.

People and culture
We value the diversity of experiences of our people. We have resourceful individuals who bring ideas and initiatives to contribute to the growth of our Group.

Review of operations

Results Overview

We are pleased to report that the Group overall had a solid first half, and that we continue to make good strategic progress in exiting legacy businesses and plants and improving the quality of our core businesses. Sales of £210.3m were 16.4% ahead of 2016 (£180.6m) and 4.6% ahead at constant currency. Profit before tax, amortisation and non-recurring items from continuing operations for the six months ended 31 May 2017 increased by 23.6% to £13.1m (2016: £10.6m). On a constant currency basis, profit before tax, amortisation and non-recurring items was up 10.1% (2016: £11.9m).

Disposal

As announced separately today, we have successfully agreed the sale of our agro-textile business, including the manufacturing facility based in Lokeren, Belgium, for a cash consideration of £6.1m (€7.0m). The disposal is expected to complete before the end of September 2017, after a period of employee consultation. The agro-textile business comprises a part of the Building & Industrial global business unit and contributed £9.5m of sales and a £(0.1)m loss in the six months to May 2017 (2016: £7.5m sales, £(0.4)m loss). An estimated net loss of £10.0m will be recorded as a non-recurring item on completion of the disposal. This disposal continues the Group's strategy of active portfolio management to improve the quality of its businesses and to focus its resources on the areas of highest return. Estimated net cash proceeds, after costs, of £5.1m, will be used to reduce Group borrowings.

Operational review

Building & Industrial

Building & Industrial performed strongly; on a constant currency basis sales of £40.9m were 14.2% ahead of the prior period (2016: £35.8m) and operating profits before amortisation and non-recurring items were up 17.6% to £6.0m (2016: £5.1m), driven by robust demand across all its markets, particularly North America, and the strength of its sales and marketing approach to developing niche markets. Walfor Industries Inc, acquired in January 2017, is integrating well and performed in line with our expectations, contributing £0.4m to sales and £0.1m to profit in the period. The disposal of the agro-textile business, announced today, will improve the quality of business and margins within Building & Industrial over the medium term and focus management time and resources on the core business.

Civil Engineering

Civil Engineering made a slower than expected start to the year, with demand in its core European markets remaining subdued. While sales were up 5.0% at constant currency to £45.8m (2016: £43.6m) the business broke even in the period, compared to an operating profit of £1.0m (before amortisation and non-recurring items) in 2016, due to an adverse sales mix in the period. Transactional sales volumes grew well, however seasonal factors delayed the major project start dates this year, meaning that the majority of the higher margin specification business is expected to fall in the second half this year. The sharp increase in raw material input costs in Q1 2017 also meant margins were squeezed in the low-margin, high volume transactional business. Pricing has now been adjusted and margins are expected to improve in the second half of the year.

Coated Technical Textiles

On a constant currency basis, Coated Technical Textiles sales were flat at £66.5m (2016: £66.6m), although operating profits before amortisation and non-recurring items of £4.9m were 32.4% above the prior period (2016: £3.7m). The manufacturing problems which impacted profits in 2016 have been resolved and product availability has improved. As expected, despite a relatively supportive market, trailer market volumes were subdued as the business rebuilds it reputation for service delivery and product quality. This was partially offset by improved sales of building products, assisted by ongoing tensile architecture projects. We anticipate volumes will continue to recover over the second half of 2017.

Interiors & Transportation

Interiors & Transportation sales of £57.1m were 3.8% ahead of 2016 (£55.0m) at constant currency, however higher raw material input costs held operating profits before amortisation and non-recurring items at £7.9m, 3.7% below 2016 (£8.2m) on a constant currency basis. Interiors sales performed well, compensating for flat demand in transportation, and raw material cost pressure is expected to reduce over the second half. Sales in China continue to grow strongly, and, with export sales, the plant in Changzhou is running at capacity. Work has commenced on adding a second manufacturing line in the facility, which will complete in early 2018; total spend is expected to be around £22m of which £10m had been incurred by May 2017.

Discontinued Operations

We reached agreement with the purchaser of the artificial grass yarns business, sold in 2016, on the level of deferred purchase consideration receivable; half of the €4.3m agreed amount was received in April 2017 with the balance due in September 2017. A non-recurring charge to discontinued operations of £0.9m has been made to reflect the difference between the final amount agreed and the debtor held at the end of 2016.

Good progress has been made on agreeing our exit from the Bonar Natpet JV. We wrote off our investment in 2015, and anticipate that the £1.1m provision held at May 2017 will be sufficient to cover any resultant costs of exit, and no further charge has been accrued in the period.

Amortisation and non-recurring items

The charge for amortisation of acquired intangible assets was £1.8m (2016: £1.9m) in the period. During the period, the Group incurred £0.5m of non-recurring costs from continuing operations; £0.2m of acquisition-related costs and £0.3m of costs associated with the disposal of the agro-textile business.

Interim dividend

To reflect the solid first half of the year and the Board's confidence in the Group's future, we are declaring an interim dividend of 1.05 pence per share, an increase of 5.0% on last year, payable on 22 September 2017 to shareholders registered on 25 August 2017.

Net debt and interest

Net debt, which is seasonally higher at the half year, increased to £149.0m (2016: £139.5m) from £111.0m (2016: £102.1m) at the start of the year. Foreign exchange rate differences account for £2m (2016: £4m) of the increase in the period. Cash outflow into working capital was £27.8m in the six months to May 2017 (2016: £26.0m). The seasonal stock build was higher than normal, with inventories brought forward from 2016 taking longer to unwind than expected, particularly within Civil Engineering in preparation for a more specification-weighted second half. Higher sales in May 2017 also increased trade debtors. As anticipated, a further £15.0m (2016: £14.3m) was spent on capital expenditure. This includes £7.5m (2016: £nil) of investment in the second production line at our facility in Changzhou, China and £2.2m (2016: £1.2m) of spend relating to the new Group ERP system. The first ERP roll-out went ahead at the end of Q2 2017 and to date the project has gone to plan. Gearing at 31 May 2017 was 2.5 times (2016: 2.7 times), we expect the net consideration receivable from the agro-textile business disposal, working capital efficiency measures and the normal seasonal pattern of sales to reduce this to normal levels by November 2017.

Return on capital

The Group's return on capital on a 12-month trailing basis was 10.4%, compared to 11.3% in the first half of last year, principally due to higher working capital and the assets under construction in China.

Outlook

This is expected to be a year of significant progress for the Group, with our focus on operational excellence and product development starting to bear fruit, and we are confident of achieving our objectives for the second half. Whilst we have seen little evidence of a sustained pick-up in demand in our markets, we are pleased that growth continues to come as a result of our disciplined approach to sales and marketing and offering clients innovative solutions.

Overall we remain confident of meeting the Board's expectations for the full year.

Martin Flower
Chairman
11 July 2017

Brett Simpson
Group Chief Executive
11 July 2017

Forward looking statements

This announcement includes statements that are, or may be deemed to be, "forward looking statements". These forward looking statements can be identified by the use of forward looking terminology, including, but not limited to, the terms "believes", "estimates", "anticipates", "expects", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include matters that are not historical facts.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and liquidity may differ materially from the impression created by the forward looking statements contained in this announcement. In addition, even if the results of operations, financial condition, and liquidity are consistent with the forward looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to: changes in the competitive framework in which the Group operates and its ability to retain market share; the Group's ability to generate growth or profitable growth; the Group's ability to generate sufficient cash to service its debt; the Group's ability to control its capital expenditure and other costs; significant changes in exchange rates, interest rates and tax rates; significant technological and market changes; future business combinations or dispositions; and general local and global economic, political, business and market conditions. In light of these risks, uncertainties and assumptions, the events described in the forward looking statements in this announcement may not occur.

Other than in accordance with its legal or regulatory obligations, the Group does not undertake any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise.

Condensed Consolidated Income Statement

	Six months ended 31 May 2017 Unaudited			Six months ended 31 May 2016 Unaudited			Year ended 30 November 2016		
	Before amortisation and non-recurring items £m	Amortisation and non-recurring items £m	Total £m	Before amortisation and non-recurring items £m	Amortisation and non-recurring items £m	Total £m	Before amortisation and non-recurring items £m	Amortisation and non-recurring items £m	Total £m
Revenue	**210.3**	**–**	**210.3**	180.6	–	180.6	400.0	–	400.0
Operating profit/(loss)	**15.5**	**(2.3)**	**13.2**	13.3	(2.3)	11.0	34.7	(3.3)	31.4
Financial income	**–**	**–**	**–**	0.1	–	0.1	0.2	–	0.2
Financial expense	**(2.4)**	**–**	**(2.4)**	(2.8)	–	(2.8)	(5.7)	–	(5.7)
Net financing costs	**(2.4)**	**–**	**(2.4)**	(2.7)	–	(2.7)	(5.5)	–	(5.5)
Profit/(loss) before taxation	**13.1**	**(2.3)**	**10.8**	10.6	(2.3)	8.3	29.2	(3.3)	25.9
Taxation	**(4.0)**	**0.5**	**(3.5)**	(3.2)	0.6	(2.6)	(8.8)	0.6	(8.2)
Profit/(loss) after taxation	**9.1**	**(1.8)**	**7.3**	7.4	(1.7)	5.7	20.4	(2.7)	17.7
Profit/(loss) for the period from continuing operations	**9.1**	**(1.8)**	**7.3**	7.4	(1.7)	5.7	20.4	(2.7)	17.7
Loss for the period from discontinued operations	**–**	**(0.9)**	**(0.9)**	–	(2.6)	(2.6)	0.5	(3.7)	(3.2)
Profit/(loss) for the period	**9.1**	**(2.7)**	**6.4**	7.4	(4.3)	3.1	20.9	(6.4)	14.5
Attributable to									
Equity holders of the Company	**8.8**	**(2.7)**	**6.1**	7.1	(4.3)	2.8	20.3	(6.4)	13.9
Non-controlling interest	**0.3**	**–**	**0.3**	0.3	–	0.3	0.6	–	0.6
	9.1	**(2.7)**	**6.4**	7.4	(4.3)	3.1	20.9	(6.4)	14.5
Earnings per share									
Continuing operations:									
Basic	**2.70p**		**2.14p**	2.16p		1.63p	6.01p		5.20p
Diluted	**2.66p**		**2.10p**	2.14p		1.61p	5.95p		5.15p
Discontinued operations:									
Basic	**–**		**(0.29p)**	–		(0.79p)	0.14p		(0.98p)
Diluted	**–**		**(0.28p)**	–		(0.78p)	0.14p		(0.97p)
Total:									
Basic	**2.70p**		**1.85p**	2.16p		0.84p	6.15p		4.22p
Diluted	**2.66p**		**1.82p**	2.14p		0.83p	6.09p		4.18p

Condensed Consolidated Balance Sheet

	31 May 2017 Unaudited £m	31 May 2016 Unaudited £m	30 November 2016 £m
Non-current assets			
Goodwill	**85.7**	75.2	82.6
Intangible assets	**25.2**	21.1	22.2
Property, plant and equipment	**156.1**	134.1	150.3
Investment in joint venture	**–**	–	–
Investment in associate	**0.6**	0.5	0.5
Deferred tax assets	**6.0**	4.6	5.6
Post-employment benefits	**–**	–	–
	273.6	235.5	261.2
Current assets			
Inventories	**113.1**	86.2	97.5
Trade and other receivables	**87.3**	67.9	79.1
Cash and cash equivalents	**27.7**	21.5	26.3
Assets classified as held for sale	**–**	31.3	–
	228.1	206.9	202.9
Current liabilities			
Interest-bearing loans and borrowings	**0.2**	34.4	0.1
Current tax liabilities	**2.8**	4.1	4.4
Trade and other payables	**81.7**	62.3	84.4
Provisions	**–**	0.8	–
Derivative liabilities	**–**	0.1	–
Liabilities directly associated with assets classified as held for sale	**1.1**	8.4	1.3
	85.8	110.1	90.2
Net current assets	**142.3**	96.8	112.7
Total assets less current liabilities	**415.9**	332.3	373.9
Non-current liabilities			
Interest-bearing loans and borrowings	**176.5**	126.6	137.2
Deferred tax liabilities	**19.0**	17.5	19.1
Post-employment benefits	**14.0**	14.5	15.0
Other payables	**0.6**	0.2	0.2
	210.1	158.8	171.5
Net assets	**205.8**	173.5	202.4
Equity attributable to equity holders of the parent			
Share capital	**47.4**	47.4	47.4
Share premium account	**74.4**	74.2	74.4
Translation reserve	**(24.5)**	(47.8)	(26.0)
Retained earnings	**101.8**	93.6	100.2
Total equity attributable to			
Equity holders of the parent	**199.1**	167.4	196.0
Non-controlling interest	**6.7**	6.1	6.4
Total equity	**205.8**	173.5	202.4

Condensed Consolidated Cash Flow Statement

	Six months ended 31 May 2017 Unaudited £m	Six months ended 31 May 2016 Unaudited £m	Year ended 30 November 2016 £m
Profit for the period from continuing operations	**7.3**	5.7	17.7
Loss for the period from discontinued operations	**(0.9)**	(2.6)	(3.2)
Profit for the period	**6.4**	3.1	14.5
Adjustments for:			
Depreciation	**8.0**	7.6	15.8
Amortisation	**2.3**	2.4	5.2
Income tax expense	**3.5**	2.6	8.2
Net financing costs	**2.4**	2.7	5.5
Share of results of joint venture	**–**	–	1.3
Loss on disposal of discontinued assets	**0.9**	2.6	1.3
Increase in working capital	**(27.8)**	(26.0)	(15.0)
Non-cash pension charges	**0.3**	0.4	1.0
Decrease in provisions	**(0.2)**	(0.1)	(0.1)
Loss/(gain) on disposal of property, plant and equipment	**0.2**	–	(0.1)
Equity-settled share-based payment	**0.7**	0.4	0.9
Other non-cash items	**(0.4)**	–	–
Cash (outflow)/inflow from operations	**(3.7)**	(4.3)	38.5
Net financing costs paid	**(2.1)**	(2.9)	(4.9)
Tax paid	**(6.0)**	(4.8)	(10.8)
Pension cash contributions	**(0.2)**	(0.2)	(4.6)
Net cash (outflow)/inflow from operating activities	**(12.0)**	(12.2)	18.2
Proceeds from the disposal of the grass yarns business	**1.5**	–	21.7
Acquisition of property, plant and equipment	**(12.8)**	(12.9)	(18.9)
Dividends paid to non-controlling interests	**(0.6)**	(0.3)	(0.3)
Intangible assets purchased	**(2.2)**	(1.4)	(3.3)
Acquisition of Walflor Industries Inc.	**(2.9)**	–	–
Net cash outflow from investing activities	**(17.0)**	(14.6)	(0.8)
Drawdown of borrowings	**36.8**	19.1	17.8
Repayment of borrowings	**–**	–	(37.9)
Movement in cash flow hedges	**–**	–	0.1
Proceeds of share issues	**–**	–	0.2
Equity dividends paid	**(6.6)**	(5.9)	(9.2)
Net cash inflow/(outflow) from financing activities	**30.2**	13.2	(29.0)
Net cash inflow/ (outflow)	**1.2**	(13.6)	(11.6)
Cash and cash equivalents at start of period	**26.3**	33.9	33.9
Foreign exchange differences	**0.2**	1.2	4.0
Cash and cash equivalents at end of period	**27.7**	21.5	26.3

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 May 2017 Unaudited £m	Six months ended 31 May 2016 Unaudited £m	Year ended 30 November 2016 £m
Profit for the period	**6.4**	3.1	14.5
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations, net of hedging	**2.1**	13.2	36.7
Exchange differences recycled from reserves	**–**	–	(1.7)
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme	**1.3**	(9.0)	(11.8)
Deferred tax on defined benefit pension schemes	**–**	–	0.3
Total other comprehensive income for the period, net of tax	**3.4**	4.2	23.5
Total comprehensive income for the period	**9.8**	7.3	38.0
Attributable to			
Equity holders of the parent	**9.0**	7.0	37.4
Non-controlling interest	**0.8**	0.3	0.6
	9.8	7.3	38.0

Condensed Consolidated Statement of Changes in Equity

	Six months ended 31 May 2017 Unaudited £m	Six months ended 31 May 2016 Unaudited £m	Year ended 30 November 2016 £m
Shareholders' equity at start of period	**196.0**	165.9	165.9
Total comprehensive income for the period	**9.0**	7.0	37.4
Dividends paid to Ordinary Shareholders	**(6.6)**	(5.9)	(9.2)
Disposal of equity participation in subsidiary	**–**	–	0.8
Shares issued	**–**	–	0.2
Share-based payment	**0.7**	0.4	0.9
Net increase in shareholders' funds	**3.1**	1.5	30.1
Shareholders' equity at end of period	**199.1**	167.4	196.0

Responsibility Statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and
- the Interim Report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Brett Simpson
Group Chief Executive
11 July 2017

Notes to the Interim Report 2017

1. Segmental information for the six months ended 31 May 2017

The Group's principal activities are in the international manufacturing and supply of those performance materials commonly referred to as technical textiles. For the purposes of management reporting to the chief operating decision maker, the Group is split into four reportable business units: Building & Industrial, Civil Engineering, Coated Technical Textiles and Interiors & Transportation. Segment assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly cash and cash equivalents, interest-bearing loans, borrowings, investments in joint ventures and associates, post-employment benefits and corporate assets and expenses. Inter-segment sales are not material.

Segment analysis

Revenue from external customers	**Six months ended 31 May 2017 £m**	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m
Building & Industrial	**40.9**	31.8	73.4
Civil Engineering	**45.8**	39.5	90.8
Coated Technical Textiles	**66.5**	60.1	129.8
Interiors & Transportation	**57.1**	49.2	106.0
Revenue for the period	**210.3**	180.6	400.0

	Before amortisation and non-recurring items			**After amortisation and non-recurring items**		
Profit for the period	**Six months ended 31 May 2017 £m**	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m	**Six months ended 31 May 2017 £m**	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m
Building & Industrial	**6.0**	4.5	10.9	**5.3**	4.3	10.8
Civil Engineering	**-**	1.0	4.2	**(0.1)**	0.7	3.7
Coated Technical Textiles	**4.9**	3.5	8.7	**3.4**	2.2	5.9
Interiors & Transportation	**7.9**	7.3	17.1	**7.9**	7.0	17.6
Unallocated Central	**(3.3)**	(3.0)	(6.2)	**(3.3)**	(3.2)	(6.6)
Operating profit	**15.5**	13.3	34.7	**13.2**	11.0	31.4
Financial income				**–**	0.1	0.2
Financial expense				**(2.4)**	(2.8)	(5.7)
Net financing costs				**(2.4)**	(2.7)	(5.5)
Profit before taxation				**10.8**	8.3	25.9
Taxation				**(3.5)**	(2.6)	(8.2)
Profit for the period – continuing operations				**7.3**	5.7	17.7
Loss for the period – discontinued operations				**(0.9)**	(2.6)	(3.2)
Profit for the period				**6.4**	3.1	14.5

Notes to the Interim Report 2017 continued

1. Segmental information for the six months ended 31 May 2017 continued

Segment assets, liabilities, other information

31 May 2017	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	77.2	96.7	152.2	139.1	0.2	465.4
Investment in joint venture						–
Investment in associate						0.6
Cash and cash equivalents						27.7
Post-employment benefits						–
Assets classified as held for sale						–
Other unallocated assets						8.0
Total Group assets						**501.7**
Reportable segment liabilities	(16.3)	(19.6)	(23.2)	(21.4)	–	(80.5)
Loans and borrowings						(176.7)
Derivative liabilities						–
Post-employment benefits						(14.0)
Liabilities directly associated with assets classified as held for sale						(1.1)
Other unallocated liabilities						(23.6)
Total Group liabilities						**(295.9)**
Other information:						
Additions to property, plant and equipment	1.3	1.3	1.0	9.2	–	12.8
Additions to intangible assets and goodwill	4.4	0.7	–	0.7	0.2	6.0
Depreciation	1.4	1.4	1.7	3.4	0.1	8.0
Amortisation of acquired intangible assets	0.2	0.1	1.5	–	–	1.8
Non-recurring items	0.5	–	–	–	–	0.5

31 May 2016	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	59.6	81.4	133.2	106.4	–	380.6
Investment in joint venture						–
Investment in associate						0.5
Cash and cash equivalents						21.5
Post-employment benefits						–
Assets classified as held for sale						31.3
Other unallocated assets						8.5
Total Group assets						442.4
Reportable segment liabilities	(13.5)	(15.8)	(16.1)	(16.7)	–	(62.1)
Loans and borrowings						(161.0)
Derivative liabilities						(0.1)
Post-employment benefits						(14.5)
Liabilities directly associated with assets classified as as held for sale						(8.4)
Other unallocated liabilities						(22.8)
Total Group liabilities						(268.9)
Other information:						
Additions to property, plant and equipment	0.7	3.5	0.7	5.5	–	10.4
Additions to intangible assets and goodwill	0.5	0.4	–	0.5	–	1.4
Depreciation	1.2	1.3	1.5	3.6	–	7.6
Amortisation of acquired intangible assets	0.2	0.3	1.3	0.1	–	1.9
Non-recurring items	–	–	–	0.2	0.2	0.4

Notes to the Interim Report 2017 continued

1. Segmental information for the six months ended 31 May 2017 continued

Segment assets, liabilities, other information continued

30 November 2016	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	64.2	83.4	145.7	127.0	–	420.3
Investment in joint venture						–
Investment in associate						0.5
Cash and cash equivalents						26.3
Post-employment benefits						–
Other unallocated assets						17.0
Total Group assets						464.1
Reportable segment liabilities	(17.2)	(17.7)	(24.2)	(25.4)	–	(84.5)
Loans and borrowings						(137.3)
Derivative liabilities						–
Post-employment benefits						(15.0)
Other unallocated liabilities						(24.9)
Total Group liabilities						(261.7)
Other information:						
Additions to property, plant and equipment	1.6	4.6	2.2	9.4	0.7	18.5
Additions to intangible assets and goodwill	1.0	1.0	0.2	1.1	–	3.3
Depreciation	2.6	2.6	3.3	7.1	0.2	15.8
Amortisation of acquired intangible assets	0.5	0.5	2.8	0.2	–	4.0
Non-recurring items	(0.4)	–	–	(0.7)	0.4	(0.7)

Geographical analysis

	External revenue by location of customers			**Non-current assets by location of assets***		
	Six months ended 31 May 2017 £m	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m	**31 May 2017 £m**	31 May 2016 £m	30 November 2016 £m
Western Europe	**116.2**	101.2	219.2	**183.2**	163.1	176.7
Eastern Europe	**18.8**	16.0	36.0	**17.8**	15.7	17.4
North America	**48.2**	41.3	89.2	**26.1**	23.1	26.2
Middle East	**3.9**	3.5	12.4	**0.1**	0.1	0.1
Asia	**17.3**	13.5	32.5	**40.4**	28.9	35.2
Rest of World	**5.9**	5.1	10.7	**–**	–	–
	210.3	180.6	400.0	**267.6**	230.9	255.6

* Non-current assets exclude those relating to non-current assets held for sale and deferred tax assets.

Revenues arising in the UK, which is the parent company's country of domicile, were £10.2m (six months ended 31 May 2016: £9.4m; year ended 30 November 2016: £15.6m). The net book value of non-current assets located in the UK at 31 May 2017 was £2.1m (31 May 2016: £3.0m; 30 November 2016: £2.1m). More than 10% of the Group's revenues arose in Germany. The net book value of non-current assets located in Germany at 31 May 2017 was £75.7m (31 May 2016: £70.4m; 30 November 2016: £76.1m) and revenues arising in Germany in the period ended 31 May 2017 were £34.5m (six months ended 31 May 2016: £32.1m; year ended 30 November 2016: £69.5m).

Constant currency analyses

Constant currency analyses retranslate prior period results at the current period's rates of exchange. Management believe this allows a better understanding of underlying business performance.

	Six months ended 31 May 2017 (reported) £m	Six months ended 31 May 2016 (reported) £m	Period on period change %	Six months ended 31 May 2016 (constant currency) £m	Period on period change %
Revenue					
Building & Industrial	**40.9**	31.8	28.6%	35.8	14.2%
Civil Engineering	**45.8**	39.5	15.9%	43.6	5.0%
Coated Technical Textiles	**66.5**	60.1	10.6%	66.6	(0.2)%
Interiors & Transportation	**57.1**	49.2	16.1%	55.0	3.8%
Revenue for the period	**210.3**	180.6	16.4%	201.0	4.6%
PBTA					
Building & Industrial	**6.0**	4.5	33.3%	5.1	17.6%
Civil Engineering	**–**	1.0	(100.0)%	1.0	(100.0)%
Coated Technical Textiles	**4.9**	3.5	40.0%	3.7	32.4%
Interiors & Transportation	**7.9**	7.3	8.2%	8.2	(3.7)%
Unallocated Central	**(3.3)**	(3.0)	10.0%	(3.0)	10.0%
Operating profit before non-recurring items	**15.5**	13.3	16.5%	15.0	3.3%
Net financing costs	**(2.4)**	(2.7)	(11.1)%	(3.1)	(22.6)%
PBTA before non-recurring items and discontinued operations	**13.1**	10.6	23.6%	11.9	10.1%

2. General information

Low & Bonar PLC is a company domiciled and incorporated in Scotland. The interim condensed consolidated financial statements (the "interim financial statements") of the Company as at and for the six months ended 31 May 2017 comprise the Company and its subsidiaries (together the "Group") and the Group's interests in its associates and joint ventures. The consolidated financial statements of the Group as at and for the year ended 30 November 2016 are available on request from the Company's head office or from the Group's website at www.lowandbonar.com.

3. Basis of preparation

The interim financial statements are prepared in accordance with IAS 34, "Interim Financial Reporting", as endorsed and adopted for use in the European Union. This interim condensed consolidated financial information has not been audited or reviewed by the Group's auditors in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. The information has been prepared on the basis of accounting policies consistent with those applied in the consolidated financial statements for the year ended 30 November 2016.

The interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the Group as at and for the year ended 30 November 2016.

3. Basis of preparation continued

Other information

The comparative figures for the financial year ended 30 November 2016 are based on the Company's statutory accounts for that financial year and do not constitute the Group's statutory accounts for that period as defined in section 434 of the Companies Act 2006. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial statements are presented in Pounds Sterling, rounded to the nearest hundred thousand Pounds. They are prepared on the historical cost basis except for the valuation to fair value of certain financial instruments.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except as described above, in preparing these condensed interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those applied to the consolidated financial statements as at and for the year ended 30 November 2016.

Included within Net current assets is £(1.5)m due to Bonar Natpet LLC, a joint venture (31 May 2016: £(0.9)m; 30 November 2016: £(0.1)m). Other than these transactions, there have been no related party transactions or changes in related party transactions described in the latest Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

The Group's business has a seasonal bias towards the second half of the financial year due to higher levels of infrastructure and civil engineering spend in the Northern hemisphere summer period.

4. Taxation

Taxation on profit/(loss) before amortisation, non-recurring items and share of results of joint ventures has been provided at a rate of 30.0% for the six months ended 31 May 2017 which is the estimated rate of tax for the full year (six months ended 31 May 2016: 30.4%; year ended 30 November 2016: 30.4%).

5. Dividend

The Board has declared an interim Ordinary dividend of 1.05p per share payable on 22 September 2017 to Ordinary Shareholders on the register of members at close of business on 25 August 2017. In accordance with IAS 10 "Events after the Balance Sheet Date", this dividend has not been reflected in the interim accounts. During the period a final dividend of 2.00p was paid to Ordinary Shareholders in respect of the financial year ended 30 November 2016.

6. Earnings per share

Basic earnings per share and earnings per share before amortisation and non-recurring items are based on the weighted average number of Ordinary Shares in issue during the half year. The calculation of fully-diluted earnings per share is based on the weighted average number of Ordinary Shares in issue plus the dilutive effect of outstanding share options and the Low & Bonar 2003 Long-Term Incentive Plan (the "2003 LTIP") awards (to the extent to which performance criteria had been achieved at 31 May 2017).

During the period 81,784 Ordinary Shares were issued (six months ended 31 May 2016: 1,468; year ended 30 November 2016: 314,549).

The Directors consider that the calculation of earnings per share before amortisation and non-recurring items gives a more meaningful indication of the Group's underlying performance. Reconciliations of the earning and weighted average number of shares used in the calculation are set out below:

		31 May 2017	31 May 2016	30 November 2016
Total operations				
Earnings - Statutory	£m	**6.1**	2.8	13.9
Earnings - Before amorisation and non-recurring items	£m	**8.8**	7.1	20.3
Weighted average number of shares	(millions)	**329.323**	328.958	328.984
Effect of dilutive items	(millions)	**5.672**	2.586	3.330
Diluted weighted average number of shares	(millions)	**334.995**	331.544	332.314
Statutory				
Basic earnings per share	p	**1.85**	0.84	4.22
Diluted earnings per share	p	**1.82**	0.83	4.18
Before amortisation and non-recurring items				
Basic earnings per share	p	**2.70**	2.16	6.15
Diluted earnings per share	p	**2.66**	2.14	6.09

7. Amortisation and non-recurring items

	Six months ended 31 May 2017 £m	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m
Amounts charged to operating profit			
China factory start-up costs	**–**	0.2	–
Profit from land sale	**–**	–	(1.1)
Acquisition-related costs	**0.2**	–	0.1
Costs associated with the disposal of the agro-textile business	**0.3**	–	–
Pension administration costs	**–**	0.1	0.1
Pension buy-in costs	**–**	0.1	0.2
Total non-recurring items	**0.5**	0.4	(0.7)
Amortisation of acquired intangible assets	**1.8**	1.9	4.0
Total charge to operating profit	**2.3**	2.3	3.3
Tax credit in the period	**(0.5)**	(0.6)	(0.6)
Total charge to discontinued operations	**0.9**	2.6	3.7
Total charge to profit for the period	**2.7**	4.3	6.4

Notes to the Interim Report 2017 continued

7. Amortisation and non-recurring items continued

Total charge to operating profit

Current period

In the period the Group incurred costs of £0.2m (six months ended 31 May 2016: £nil, year ended 30 November 2016: £0.1m) relating to the acquisition of Walflor Industries Inc. and £0.3m relating to the disposal of the agro-textile business (2016: £nil).

The Group incurred £nil (six months ended 31 May 2016: £0.1m; year ended 30 November 2016: £0.1m) of non-recurring pension administration costs relating to its UK defined benefit scheme. We expect further costs to be incurred in the six months to 30 November 2017.

Prior period

During the prior period initial costs relating to the Group's construction of a new manufacturing location in Changzhou, China, represented £0.2m.

Professional fees of £nil (six months ended 31 May 2016: £0.1m; year ended 30 November 2016: £0.2m) were incurred in respect of the medically-underwritten buy-in of £34m of UK pension scheme liabilities, which completed on 3 December 2015.

In the year ended 30 November 2016, the Group recorded a profit of £1.1m on the sale of unused land at our North American manufacturing site in Asheville.

Total charge to discontinued operations

Current period

The Group recorded a loss of £0.9m in discontinued operations relating to the settlement of the deferred purchase consideration with the purchaser of the artificial grass yarns business. The £0.9m reflects the difference between the final amount agreed and the debtor held at the end of 2016.

Prior period

In the six months ended 31 May 2016, the £2.6m loss reflected the anticipated loss from the sale of the artificial grass yarns business. In the year ended 30 November 2016, the £3.7m loss reflected the actual loss from the sale of the artificial grass yarns business.

8. Pensions and other post-employment assets and liabilities

The Group operates a number of pension schemes in the UK and overseas. These are either defined benefit or defined contribution in nature. The assets of the schemes are held separately from those of the Group.

The movement in the Group's UK and overseas defined benefit schemes' deficits in the six months ended 31 May 2017 is summarised below.

	UK schemes £m	Overseas schemes £m	Six months ended 31 May 2017 Total £m	Six months ended 31 May 2016 Total £m	Year ended 30 November 2016 Total £m
Net liability at start of period	**(2.2)**	**(12.8)**	**(15.0)**	(4.7)	(4.7)
Current service cost	**–**	**–**	**–**	(0.1)	(0.4)
Interest (cost)/income	**–**	**(0.1)**	**(0.1)**	0.1	(0.1)
Contributions from employers	**–**	**0.2**	**0.2**	0.2	4.6
Administration costs	**(0.3)**	**–**	**(0.3)**	(0.3)	(0.5)
Actuarial gain/(loss)	**1.3**	**–**	**1.3**	(9.0)	(11.8)
Exchange adjustments	**–**	**(0.1)**	**(0.1)**	(0.7)	(2.1)
Net liability at end of period	**(1.2)**	**(12.8)**	**(14.0)**	(14.5)	(15.0)

9. Reconciliation of net cash flow to movement in net debt

	Six months ended 31 May 2017 £m	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m
Net increase/(decrease) in cash and cash equivalents	**1.2**	(13.6)	(11.6)
Net cash flow from movements in debt financing	**(36.8)**	(19.1)	20.1
Amortisation of bank arrangement fees	**(0.2)**	(0.3)	(0.4)
Foreign exchange differences	**(2.2)**	(4.4)	(17.0)
Movement in net debt in period	**(38.0)**	(37.4)	(8.9)
Net debt at start of period	**(111.0)**	(102.1)	(102.1)
Net debt at end of period	**(149.0)**	(139.5)	(111.0)
Derivative liabilities	**–**	(0.1)	–
Total net debt and derivative liabilities	**(149.0)**	(139.6)	(111.0)

	31 May 2017 £m	31 May 2016 £m	30 November 2016 £m
Analysis of net debt			
Cash at bank and in hand	**27.7**	21.5	26.3
2.57% €60m Senior Note due 2022-2026	**(52.3)**	–	(50.9)
5.9% €45m Senior Note due 2016	**–**	(34.4)	–
Bank loans and overdrafts falling due after more than one year	**(124.7)**	(127.2)	(86.9)
Prepaid arrangement fees	**0.7**	1.0	0.9
Preference shares	**(0.4)**	(0.4)	(0.4)
Net debt	**(149.0)**	(139.5)	(111.0)

There are two principal covenants within both the private placement financing and the bank loans which relate to interest cover and financial gearing. These are tested bi-annually on a 12 month trailing basis using average exchange rates on both income statement items and net debt. The covenants are as follows:

Measure	**Covenant**
Consolidated net debt / EBITDA	<3.00
EBITA / Net interest payable	>3.00

Notes to the Interim Report 2017 continued

10. Discontinued operations and disposal of the agro-textile business

Discontinued operations

During the prior year, the Board announced the disposal of the Group's artificial grass yarns production business (previously comprising the majority of its Sport & Leisure global business unit). The disposal was completed on 1 September 2016. In the prior periods, the results were presented within discontinued operations on the face of the income statement and as a disposal group held for sale on the balance sheet. The £0.9m loss for the current period primarily represents the true-up of the final settlement of the deferred purchased consideration receivable outstanding at 30 November 2016.

In addition to this, the Board are pursuing the disposal of the Group's interest in the joint venture, Bonar Natpet LLC and negotiations are well under way with our partner, Natpet. In the period to 31 May 2017 we have not recognised our share of the loss from the joint venture as we anticipate that the £1.1m provision held at 31 May 2017 will be sufficient to cover any exit costs.

The results of the discontinued operations, which have been included in the condensed consolidated income statement, were as follows:

	Six months ended 31 May 2017 £m	Six months ended 31 May 2016 £m	Year ended 30 November 2016 £m
Revenue	**–**	14.0	22.3
Expenses	**–**	(14.3)	(22.9)
Loss before tax	**–**	(0.3)	(0.6)
Attributable tax expense	**–**	(0.1)	–
Loss recognised on the measurement to fair value less costs to sell	**–**	(1.6)	–
Loss on disposal of grass yarns business	**(0.9)**	–	(2.2)
Tax on loss of disposal of grass yarns business	**–**	–	0.9
Net loss from the disposal of the grass yarns business	**(0.9)**	(2.0)	(1.9)
Share of results from Bonar Natpet LLC	**–**	(0.6)	(1.3)
Net loss attributable to discontinued operations (attributable to owners of the Company)	**(0.9)**	(2.6)	(3.2)

During the six months ended 31 May 2017, the discontinued businesses contributed £(0.9)m (six months ended 31 May 2016: £(1.6m), year ended 30 November 2016: (£3.6m)) to the Group's net operating cash flows and paid £nil (six months ended 31 May 2016: £nil, year ended 30 November 2016: £nil) in respect of investing activities.

Disposal of the agro-textile business

In 2017, the Board commenced a plan to sell the Group's Lokeren-based agro-textile business which is part of its Building & Industrial global business unit and operating segment. At 31 May 2017, the status of the disposal did not meet the definition of a disposal group held for sale however, since the balance sheet date, the disposal has progressed and as announced on 11th July 2017, agreement was reached to dispose of the trade and assets of the agro-textile business. The disposal is expected to complete no later than 30 September 2017, subject to the fulfilment of a number of conditions, including the satisfactory completion of an information and consultation process with the employees affected by the disposal, which commenced on the 11th July 2017. The loss on disposal is expected to be £10.0m including £1.0m of transaction costs.

11. Business combinations

On 17 January 2017, Low & Bonar acquired 100% of the share capital of Walflor Industries Inc., a company registered in Washington State, USA, on a debt-free, cash basis for a total consideration of $3.6m and a contingent consideration of up to $0.9m in cash based on the commercial performance of the business in the 12 months following acquisition. The contingent consideration has been fair-valued upon acquisition at $0.6m. The company produce rain screens and acoustic mats and the acquisition significantly strengthens our customer relationships in the US building products market and provides a West Coast platform for further growth.

Costs of £0.2m relating to the acquisition have been charged to non-recurring items. Results of the acquired business are included with the results of the Building & Industrial global business unit.

The acquired business contributed £0.4m to the Group's consolidated revenue for the period and increased the Group's consolidated profit before interest, tax, amortisation and non-recurring items for the period by £0.1m. Had the business been owned by the Group for the entire period, the contribution to the Group's consolidated revenue and consolidated profit before interest, tax, amortisation and non-recurring items would have been £0.6m and £0.1m respectively.

Details of the purchase consideration, the provisional fair values of net assets acquired and provisional goodwill arising on the acquisition of Walflor Industries Inc. are as follows:

	Book value at acquisition £m	Fair value adjustments £m	Provisional fair value £m
Intangible assets			
Customer related	–	2.5	2.5
Technology related	–	0.1	0.1
Non-compete agreement related	–	0.2	0.2
Property, plant and equipment	0.2	0.3	0.5
Inventories	0.1	–	0.1
Deferred tax liabilities	(0.1)	(1.0)	(1.1)
Net assets acquired	0.2	2.1	2.3
Cash consideration			2.9
Contingent consideration			0.5
Fair value of consideration			3.4
Goodwill arising on acquisition			1.1

Goodwill of £1.1m arising from the acquisition is attributable to revenue synergies expected to be generated from new cross-selling opportunities across the enlarged US building products market. It also includes expected benefits from the existing workforce and expertise as a result of being part of the enlarged Building & Industrial global business unit.

The fair values ascribed to the assets and liabilities are provisional. Should new information be obtained within one year of the acquisition date about facts and circumstances that existed at the acquisition date which would necessitate adjustments to the above amounts or the recognition of additional liabilities that existed at the acquisition date, then the acquisition accounting will be revised.

Notes to the Interim Report 2017 continued

12. Goodwill

The Group tests goodwill values annually for impairment or more frequently if there are any indications that goodwill might be impaired. At 31 May 2017, there are no indications of potential impairment in any of the cash generating units ("CGUs") apart from Civil Engineering, who have made a slower start to the year than expected, with divisional margins impacted by a sharp increase in raw material input costs in the first quarter of the period and seasonal factors delaying the majority of the higher margin specification sales into the second half of the year.

As in the annual impairment review process, the recoverable amount of the Civil Engineering CGU has been determined using value in use calculations based on projected cash flows, discounted to calculate the net present value. The methodology applied in preparing the impairment review is in line with that dislosed in the 2016 Annual Report with the exception that cash flow projections for the Civil Engineering CGU are based on management's updated five-year projections for the CGU.

Sensitivity

Whilst management believe that the assumptions used in the impairment testing are realistic, it is reasonably possible that variations in key assumptions, particularly a material under-performance in their forecast short term cash flows over the next 5 years could lead to an impairment in the Civil Engineering CGU. Accordingly a sensitivity analysis has been performed by varying key assumptions whilst holding other variables constant.

A summary of the Civil Engineering CGU's sensitivity to changes in the key assumptions, setting out the required changes in cash flow, growth rate and discount rate beyond which an impairment would be triggered, is shown below:

	Cash flow	Long term growth rate		Discount rate		Goodwill 2017
	Sensitivity (decrease)	Current assumption	Sensitivity (rate)	Current assumption	Sensitivity (rate)	£m
Civil Engineering	14.6%	2%	0.3%	9.1%	10.2%	19.0

13. Fair value of financial instruments

Estimation of fair value

The major methods and assumptions used in estimating the fair values of financial instruments are summarised as follows:

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Trade and other receivables/payables

The fair value of trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Interest-bearing financial assets and liabilities

The fair value of interest-bearing assets and liabilities that bear interest at floating rates approximates to their carrying value. The fair value of the fixed interest financial liabilities is determined by discounting future contracted cash flows, using appropriate yield curves, to their net present value.

Forward exchange contracts

The fair value of forward foreign exchange contracts is based on their publicly available market price. If this is not available, forward contracts are marked to market based on the current spot rate.

All financial instruments have been measured using a Level 2 valuation method.

14. Risks and uncertainties

The Board has considered the principal risks and uncertainties affecting the Group in the second half of the year. The Group has in place processes for identifying, evaluating and managing key risks. The principal risks and uncertainties, together with the approach to their mitigation, are discussed in the Business Review on pages 30 to 33 of the 2016 Annual Report, which is available on the Group's website at www.lowandbonar.com, remain relevant and there are no significant changes. In summary, the Group's principal risks and uncertainties are:

- Global activity
- Organic growth/competition
- Cyber security
- Growth strategy
- Business continuity
- Employee
- Raw material pricing
- Treasury
- Pension funding
- Funding
- Laws and regulations
- Health and safety

The Directors have reviewed the Group's medium-term forecasts along with possible changes in trading performance arising from these uncertainties to determine whether the Group's committed banking facilities are sufficient to support its projected liquidity requirements and whether the forecast earnings are sufficient to meet the covenants associated with its facilities. The Directors believe that the Group's current committed borrowing facilities, which comprise a €165m revolving loan facility maturing in July 2019, a €60m private placement note with an average maturity of 8 years from September 2016, and RMB150m of revolving and term loan facilities expiring in June 2020 are sufficient to support the current requirements of the Group, and that the Group will continue to operate within the associated covenants.

After making enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the interim financial statements.

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Progress through performance

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