Low & Bonar PLC
("Low & Bonar" or "the Group")

Half Year Results for the Six Months to 31 May 2018

Strategic actions progressing, despite tough first half

Low & Bonar PLC ("Low & Bonar" or "the Group"), the international performance materials group, today announces its half year results for the six months to 31 May 2018.

The Group consists of four divisions: Building & Industrial ("B&I"), Interiors & Transportation ("I&T"), Coated Technical Textiles ("CTT") and Civil Engineering ("CE").

	Six months to 31 May				12 months to 30 Nov
Key performance metrics[(1)]	**2018**	**2017**	**Actual**	**Adjusted Constant Currency[(2)]**	**2017**
Revenue	£206.2m	£210.3m	(2.0%)	3.0%	£446.5m
Underlying operating profit	£9.0m	£15.5m	(41.9%)	(38.8%)	£35.5m
Underlying operating margin [(3)]	4.4%	7.4%			8.0%
Underlying profit before tax	£6.5m	£13.1m	(50.4%)	(46.7%)	£30.7m
Basic Underlying EPS	1.38p	2.70p	(48.9%)	(45.2%)	6.42p
Net debt	£140.3m	£149.0	(5.8%)		£138.4m
Dividend per share	1.05p	1.05p			3.05p
Return on capital employed[(4)]	9.6%	10.4%			11.1%

(1) Figures in this table are presented on an underlying basis, and exclude all non-underlying items (outlined in note 7).
(2) Calculated by retranslating comparative period at current period exchange rates, and adjusted to exclude the impact of the Agro-textile business which was sold at the end of 2017 (refer note 3).
(3) Underlying operating profit as a percentage of revenue.
(4) Underlying operating profit for the last 12 months (£29m) as a percentage of net assets (£162.9m) plus net debt (£140.3m).

Statutory metrics:		
Operating (loss)/profit	£(10.4)m	£13.2m
(Loss)/profit before tax	£(13.2)m	£10.8m
Basic EPS	(4.27)p	1.85p

PROGRESS ON STRATEGIC ACTIONS

At the start of the year, the Group announced a series of strategic actions, designed to improve the performance of the business, and strengthen the balance sheet, and progress has been made as follows:

- Focused action on working capital resulted in a £5.3m cash inflow in the first half, versus a £27.8m cash outflow in the same period last year
- Net debt at 31 May 2018, of £140.3m, was 5.8% lower than at 31 May 2017 and only slightly higher than the year-end position
- Organisational change implemented
- Ongoing cost saving initiatives expected to deliver ahead of plan, with c£2.5m savings in FY18 and £4m on an annualised basis
- CE review phase 1 conclusions implemented – Ivanka closed and the Enka business transferred to B&I with integration in progress
- CE review phase 2 complete - the Board has now determined that it is in the Group's best interests to divest the remaining CE businesses and a sale process will be undertaken in an orderly manner so as to maximise shareholder value. This will allow us to focus on growth opportunities in other divisions and we will use the proceeds of a sale to reduce net debt
- Production consistency issues within CTT still to be resolved – aiming to address substantially by the end of the current year
- Investing for growth in B&I and I&T - c£6m of capital expenditure invested in the first half

FINANCIAL HIGHLIGHTS

(Figures are shown on an adjusted constant currency basis)

- First half performance reflects challenging market conditions
- Revenue growth of 3.0%, on an adjusted constant currency basis led by B&I and I&T divisions. Revenue, on a statutory basis, is 2.0% below the prior year, due mainly to the impact of the Agro-textiles disposal in the second half of 2017, offset by the growth referred to above
- Profits impacted by increased raw material costs, adverse sales mix, implementation of business improvement actions and ongoing production consistency issues in CTT
- Positive cash flow as a result of focus on working capital, resulting in only a modest increase in net debt despite seasonality
- Successful refinancing of five-year, €165m, revolving credit facility
- Statutory loss before tax of £13.2m is after £19.7m of non-underlying, mainly non-cash items, including a £13.3m partial impairment of CTT's goodwill
- Interim dividend maintained, reflecting the Board's confidence in the strategic actions being taken

OUTLOOK

This is a period of significant transformation for the Group, with various cost reduction initiatives and organisational changes being embedded within the Group. We are confident that, despite a challenging start to the year, these actions, together with an expected softening in raw material prices and the delayed impact of passing through previous raw material price rises, will underpin a much stronger second half to the current year. We will continue to focus on cash generation in order to further strengthen our balance sheet and provide a platform for sustainable long term growth for the Group.

Philip de Klerk, Group Chief Executive, said:

"*The first half has been challenging. Raw material prices have increased more than we anticipated and we have not been able to pass these on in full. Our operational performance is not yet at the level I expect, although we are confident that the organisational changes which we are implementing will improve this.*

There is a significant transformation programme underway at Low & Bonar, with a resolute focus on cash and business optimisation. The strategic actions underway will deliver against this objective and although it is early in the programme, good progress has been made. We have put the customer back at the centre of what we are doing and will drive further innovation and product development to meet market needs."

10 July 2018

A Capital Markets Day is planned for Q4 2018. Further details will be announced in due course.

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation EU no. 596/2014 ("MAR"). Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

OVERVIEW

Note: All H1 2017 figures are shown on a constant currency basis and where appropriate have been restated for the transfer of Enka from CE to B&I (refer note 17), and to reflect like-for-like operations following the disposal of the Agro-textile business in October 2017 (refer to note 3)

As set out in the AGM trading statement on 13 April 2018, conditions for the Group in the first half have been challenging. Sales grew by 3.0% (on a constant currency basis, and after excluding prior year sales from the divested Agro-textile business) to £206.2m (2017: £200.2m excluding Agro-textile business). However, increased capacity in the market, from both ourselves and some of our competitors, has meant that it has been difficult to pass on much of the raw material price increases experienced in the first half. This, together with the changed sales mix and the ongoing production consistency issues in CTT, has contributed to a 38.8% reduction in underlying operating profits to £9.0m (2017:£14.7m).

It has been a difficult first half, and the weaker performance can be attributed to both external and internal factors. External factors, such as input cost volatility, increased capacity and aggressive competition in certain key markets, have challenged the business very early in our transformation journey, and we aim to better anticipate the impact of these factors in the future. We are taking action to address our own internal shortcomings, such as production consistency and customer service levels.

STRATEGIC ACTIONS

At the time of the Group's results for the year ended 30 November 2017, the Board identified several strategic areas of focus for the current year in order to drive sustainable improvement in the Group's performance and financial position. Whilst there remains work to be done in all of these areas, actions have been implemented in the first half which are expected to deliver benefits over the remainder of 2018 and beyond. The transformation plan is progressing and we are confident this significant project will drive business optimisation in the medium term and improve our financial performance as we move forward.

1. Focus on cash generation to reduce net debt

Good progress on strengthening the balance sheet has been made. The seasonal nature of the Group's activities normally results in peak levels of inventory at 31 May. However, the Group's focus on better working capital management has resulted in inventory levels that are £1.3m lower than at the year end. This is despite a c £2.0m adverse movement in stock values as a result of increased raw material prices since year end. Swift action has been taken in the short term to reduce inventory through managed production stoppages at certain plants, which has had a short term adverse impact on cost recoveries.

This working capital management has resulted in net debt, which normally is seasonally higher at the half year, of £140.3m, an increase of £1.9m from the year-end position, mainly due to the impact of exchange rates. The cash performance in the first half reflects the benefits of the actions being taken and the Group remains on track to deliver its year-end objective of reducing net debt from the position at November 2017 by at least £15m in constant currency.

2. Group operating structure optimisation

The matrix structure, which was introduced three years ago, led to an increase in headcount and costs, brought unnecessary complexity to decision making and confusion over accountability.

As part of the transformation programme, this structure has been partially dismantled, returning full operational and commercial responsibility to the CTT and CE businesses. For I&T and B&I, which share manufacturing sites, technology and innovation, a centrally led operations function is responsible for these processes. However, we have reduced the number of layers and roles in the organisation as part of the restructuring. This streamlined organisation model will lead to greater accountability and more agile decision making. As with most organisational changes, it has had a temporarily disruptive impact on the organisation, and whilst the new model will take some time to bed in, we are confident the new structure will deliver the necessary improvements.

Alongside this organisation change, a range of cost saving initiatives have been initiated during the first half to provide the Group with an operating base capable of sustaining higher returns over the medium term. These actions are progressing well, with £2.5m of savings expected to be realised in the current year and £4.0m on an annualised basis.

3. Civil Engineering review

Implementing the conclusions of the first phase of the review involved closing the loss-making Ivanka site and the transfer of the Enka business to B&I. The Ivanka site was closed at the end of March and good progress is being made on the disposal of residual assets and inventory which is expected to realise £3.0m - £5.0m of proceeds. The Enka business has been transferred in the first half although the full benefit will not be realised until the integration is completed later this year.

The new, experienced, management team in the CE business unit, in situ since February 2018, have been effective in reducing costs and delivering sales growth. After a thorough review of the business, the Board has determined that it is in the Group's best interests to divest the remaining CE businesses and a sale process will be undertaken in an orderly manner so as to maximise shareholder value. This will allow us to focus on growth opportunities in other divisions and we will use the proceeds of a sale to reduce net debt.

4. Coated Technical Textiles production consistency

Complexity in the production processes, and the large number of product lines, each with slightly different technical specifications and ingredients, has meant that resolving the production consistency issues has taken longer than first envisaged. Resolution, in tandem with actions to reduce surplus inventory levels, necessitated production stoppages which, in the short term, has resulted in higher operating costs. The new business unit director, appointed at the beginning of the year, is focused on tackling these issues as a priority, with the assistance of external resources. We expect the simplification of our organisational structure to accelerate the pace of improvement in this division and aim to have substantially addressed these issues by the end of the current year.

5. Continue to invest in growth in B&I and I&T

Sales growth in both divisions has continued, however, the scale of the increases in raw material costs and the inability to fully pass these on have held back expected levels of profitable growth. There is work to be done in tackling some temporary production challenges in the US and to bed in the Enka business transferred from the Civil Engineering division. The opportunities for both divisions remain strong.

The second Colback manufacturing line in Changzhou, China has been completed and production started in the first quarter of 2018. Whilst this additional capacity is being temporarily filled partially with sales of lower margin product, we expect margins to increase over time as we move to higher margin products. This will support further profitable growth in both our B&I and I&T divisions.

OPERATIONAL REVIEW

- **Coated Technical Textiles (33% of group sales)**

CTT's sales grew by 1.2% to £68.2m (2017: £67.4m), while underlying operating profits declined by 59.6% to £2.1m (2017: £5.2m). The production consistency problems are taking longer to resolve than anticipated and, together with higher raw material costs, this has meant that profitability in the business continued to be depressed. As set out in the April trading update, efforts to address the consistency issues and reduce surplus inventory levels have led to some production stoppages within CTT and consequently higher costs in the short term. The resolution of these issues should enable greater cost recovery in the business which, together with further identified efficiency measures, will result in margin recovery in the second half. The demand for CTT product remains strong and we are confident that we will improve the profitability of this division.

Given the current performance of CTT, the Board has determined it appropriate to recognise a non-cash partial impairment of the goodwill allocated to CTT of £13.3m which has been reported as a non-underlying item.

- **Interiors & Transportation (30% of group sales)**

I&T's sales grew by 10.0% to £60.7m (2017: £55.2m) and underlying operating profits grew by 2.7% to £7.7m (2017: £7.5m). Though higher raw material prices and extra capacity in the market meant that underlying operating profits grew at a slower rate, demand in most segments remained strong. Our second line in the Changzhou facility has contributed to the extra capacity in the market, and the business is selling some lower margin product in order to utilise this capacity as quickly as possible. This places pressure on margins, which is expected to reverse once the capacity has been filled. Innovation initiatives, such as decorative wallpaper applications for Colback, and Colback Gold, have been a source of growth, notably in the Asian markets.

- **Building & Industrial (20% of group sales)**

B&I's sales grew by 5.3% to £41.5m (2017: £39.4m) while underlying operating profits declined by 46.4% to £3.0m (2017: £5.6m). This was mainly due to the impact of integrating the Enka business, delays in passing on higher raw material and US freight prices and an adverse product mix, most notably in the roofing business following growth in the lower-margin European market. Increased capacity in the market reduced our ability to pass on raw material price increases to the extent we would normally expect.

Excluding the Enka business, transferred from CE during the year, sales grew 8.8% to £33.3m, and operating profits declined by £1.0m to £4.4m. Sales in the Enka business declined by 6.8% to £8.2m (2017: £8.8m), and this business incurred a loss of £1.4m in the period (2017: profit of £0.2m). Along with raw material price increases, temporary operational issues with Enka impacted product availability, and we expect full benefits of the transfer to B&I to come through once the integration is completed.

- **Civil Engineering (17% of group sales)**

CE's sales declined by 6.3% to £35.8m (2017: £38.2m), including the impact of closing Ivanka (£1.3m). Underlying operating loss of £0.9m was higher than the loss of £0.3m incurred in the first half of last year, driven mainly by raw material prices. The slow start to the year was attributable to competitive European markets and higher raw material price increases which negatively impacted margins. In February 2018 we redeployed a highly-experienced management team, with several years of experience in this market, to lead the turn-around of this division. Although still at an early stage, they have already taken action to improve commercial execution and reduce costs, and as a result we have seen improving profitability in recent months.

Non-underlying items

Non-underlying items reduced profit before tax by £19.7m (2017: £2.3m). This includes the non-cash, partial impairment of CTT's goodwill of £13.3m. Full details are set out in note 7.

Interim dividend

The Board is pleased to announce an interim dividend of 1.05 pence per share. The dividend to ordinary shareholders is payable on 21 September 2018 to shareholders registered on 17 August 2018.

Net debt, interest and pensions

As noted above, net debt was broadly unchanged from the year-end (£140.3m as compared to £138.4m at 30 November 2017).

Action was taken by management to manage carefully all aspects of working capital. As a result of these actions, working capital represented a cash inflow of £5.3m in the six months to May 2018, as compared to a cash outflow of £27.8m in the six months to May 2017. This reflected a reduction in inventory, before accounting for fluctuations in foreign exchange, of £1.2m (2017: an increase of £13.9m), a reduction in trade debtors of £7.1m (2017: increase of £9.6m) reflecting tighter focus on cash collection, and a reduction in trade creditors and other payables of £3.0m (2017: reduction of £4.3m).

A further £8.5m (2017: £15.0m) was spent on capital expenditure, with the majority (£6.2m) invested in B&I and I&T. This includes £2.3m (2017: £7.5m) of investment in the second production line at our facility in Changzhou, China.

The Group's €165m, five-year, revolving credit facility was refinanced successfully in May 2018. Gearing at 31 May 2018 was 2.9 times (2017: 2.5 times), below the 3.5 times covenant contained within the Group's new financing facilities. With the improvement plans being executed within the Group, and the anticipated reduction in net debt, gearing is expected to reduce from this peak, and the Board remains committed to reducing leverage to below 2 times.

The underlying interest charge for the period of £2.5m was 4.2% higher than the charge for the same period last year, reflecting the higher level of average borrowings during the period.

Following the completion of the triennial review of the Group's UK defined benefit pension scheme, annual contributions have reduced from £4m to £3.5m.

Return on capital
The Group's return on capital, excluding assets written off, on a 12-month trailing basis was 9.6%, compared to 10.4% in the first half of last year, principally due to the reduced profitability in the first half of this year.

Capital Markets Day
We intend to update the market on our strategy during a Capital Markets Day in London, in the fourth quarter of this year. Further details will be announced in due course.

Board changes
Philip de Klerk was appointed to the role of Group Chief Executive with effect from 1 March 2018, following which, Trudy Schoolenberg, who had stepped in as interim Group Chief Executive in December 2017, returned to her role as Senior Independent Director. Simon Webb joined the Board as Group Chief Financial Officer on 30 April 2018, and Peter Bertram joined the board as non-executive director on 1 February 2018.

Philip de Klerk
Group Chief Executive

Simon Webb
Group Chief Financial Officer

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 and may be beyond our ability to control or predict. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this announcement. Forward looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and liquidity may differ materially from those expressed or implied in 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. The Group’s principal risks and uncertainties are described in greater detail in the section of this announcement headed *Risks and uncertainties.* 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. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

INDEPENDENT REVIEW REPORT TO Low & Bonar Plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 May 2018 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Balance Sheet, Condensed Consolidated Cash Flow Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 May 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Whilst the company has previously produced a half-yearly report containing a condensed set of financial statements, those financial statements have not previously been subject to a review by an independent auditor. As a consequence, the review procedures set out above have not been performed in respect of the comparative period for the six months ended 31 May 2017.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Anthony Hambleton
for and on behalf of KPMG LLP
Chartered Accountants
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10 July 2018

LOW & BONAR PLC
Condensed Consolidated Income Statement

		Six months ended 31 May 2018 Unaudited			Six months ended 31 May 2017 Unaudited		
	Note	**Underlying £m**	**Non-Underlying (Note 7) £m**	**Total £m**	Underlying £m	Non-underlying (Note 7) £m	Total £m
Revenue	3	**206.2**	**-**	**206.2**	210.3	-	210.3
Operating profit/(loss)	3	**9.0**	**(19.4)**	**(10.4)**	15.5	(2.3)	13.2
Financial income		**-**	**-**	**-**	-	-	-
Financial expense		**(2.5)**	**(0.3)**	**(2.8)**	(2.4)	-	(2.4)
Net financing costs		**(2.5)**	**(0.3)**	**(2.8)**	(2.4)	-	(2.4)
Profit/(loss) before taxation		**6.5**	**(19.7)**	**(13.2)**	13.1	(2.3)	10.8
Taxation		**(1.7)**	**1.5**	**(0.2)**	(4.0)	0.5	(3.5)
Profit/(loss) after taxation		**4.8**	**(18.2)**	**(13.4)**	9.1	(1.8)	7.3
Profit/(loss) for the period from continuing operations		**4.8**	**(18.2)**	**(13.4)**	9.1	(1.8)	7.3
Loss for the period from discontinued operations		**-**	**(0.4)**	**(0.4)**	-	(0.9)	(0.9)
Profit/(loss) for the period		**4.8**	**(18.6)**	**(13.8)**	9.1	(2.7)	6.4
Attributable to							
Equity holders of the Company		**4.5**	**(18.6)**	**(14.1)**	8.8	(2.7)	6.1
Non-controlling interest		**0.3**	**-**	**0.3**	0.3	-	0.3
		4.8	**(18.6)**	**(13.8)**	9.1	(2.7)	6.4
Earnings per share							
Continuing operations:							
Basic		**1.38p**		**(4.16)p**	2.70p		2.14p
Diluted		**1.37p**		**(4.16)p**	2.66p		2.10p
Discontinued operations:							
Basic		**-**		**(0.11)p**	-		(0.29p)
Diluted		**-**		**(0.11)p**	-		(0.29p)
Total:							
Basic		**1.38p**		**(4.27)p**	2.70p		1.85p
Diluted		**1.37p**		**(4.27)p**	2.66p		1.82p

LOW & BONAR PLC
Condensed Consolidated Balance Sheet

	Note	**31 May 2018 Unaudited £m**	30 November 2017 £m
Non-current assets			
Goodwill	12	**53.3**	66.9
Intangible assets		**24.8**	24.8
Property, plant and equipment		**141.4**	144.5
Investment in associate		**0.7**	0.7
Deferred tax assets		**11.8**	10.1
Post-employment benefits	8	**12.2**	10.0
		244.2	257.0
Current assets			
Inventories		**96.0**	97.3
Trade and other receivables		**79.6**	86.9
Cash and cash equivalents	9	**55.0**	38.2
Assets classified as held for sale	14	**4.2**	-
		234.8	222.4
Current liabilities			
Interest-bearing loans and borrowings	9	**4.8**	2.7
Current tax liabilities		**1.3**	2.2
Trade and other payables		**84.1**	86.7
Provisions	10	**2.6**	1.7
Liabilities directly associated with assets classified as held for sale	14	**1.5**	1.4
		94.3	94.7
Net current assets		**140.5**	127.7
Total assets less current liabilities		**384.7**	384.7
Non-current liabilities			
Interest-bearing loans and borrowings	9	**190.5**	173.9
Deferred tax liabilities		**18.3**	17.5
Post-employment benefits	8	**12.2**	12.2
Other payables		**0.8**	0.8
		221.8	204.4
Net assets		**162.9**	180.3
Equity attributable to equity holders of the parent			
Share capital		**47.4**	47.4
Share premium account		**74.7**	74.6
Translation reserve		**(25.0)**	(26.4)
Retained earnings		**58.9**	78.3
Total equity attributable to			
Equity holders of the parent		**156.0**	173.9
Non-controlling interest		**6.9**	6.4
Total equity		**162.9**	180.3

LOW & BONAR PLC
Condensed Consolidated Cash Flow Statement

	Note	**Six months ended 31 May 2018 Unaudited £m**	Six months ended 31 May 2017 Unaudited £m
(Loss)/profit for the period from continuing operations		**(13.4)**	7.3
Loss for the period from discontinued operations		**(0.4)**	(0.9)
(Loss)/profit for the period		**(13.8)**	6.4
Adjustments for:			
Depreciation		**7.7**	8.0
Amortisation		**2.1**	2.3
Income tax expense		**0.2**	3.5
Net financing costs		**2.8**	2.4
Non-cash pension charges		**0.4**	0.3
Decrease/(increase) in inventories		**1.2**	(13.9)
Decrease/(increase) in trade and other receivables		**7.1**	(9.6)
Decrease in trade and other payables		**(3.0)**	(4.3)
Increase/(decrease) in provisions		**1.0**	(0.2)
Loss on disposal of land and buildings		**0.2**	-
CTT impairment charge		**13.3**	-
Loss of disposal of grass yarns business		**-**	0.9
Loss on disposal of property, plant and equipment		**-**	0.2
Equity-settled share-based (credit)/expense		**(0.3)**	0.7
Other non-cash items		**-**	(0.4)
Cash inflow/(outflow) from operations		**18.9**	(3.7)
Interest paid		**(2.8)**	(2.1)
Tax paid		**(2.8)**	(6.0)
Pension cash contributions		**(0.1)**	(0.2)
Net cash inflow/(outflow) from operating activities		**13.2**	(12.0)
Proceeds from the disposal of the grass yarns business		**-**	1.5
Acquisition of Walflor Industries Inc.		**-**	(2.9)
Acquisition of property, plant and equipment		**(6.7)**	(12.8)
Intangible assets purchased		**(1.8)**	(2.2)
Net cash outflow from investing activities		**(8.5)**	(16.4)
Drawdown of borrowings		**17.8**	36.8
Proceeds of other share issues to employees		**0.1**	-
Dividends paid to non-controlling interests		**-**	(0.6)
Equity dividends paid		**(6.6)**	(6.6)
Net cash inflow from financing activities		**11.3**	29.6
Net cash inflow	9	**16.0**	1.2
Cash and cash equivalents at start of period		**38.2**	26.3
Foreign exchange differences		**0.8**	0.2
Cash and cash equivalents at end of period		**55.0**	27.7

LOW & BONAR PLC
Condensed Consolidated Statement of Comprehensive Income

	Six months ended 31 May 2018 Unaudited £m	Six months ended 31 May 2017 Unaudited £m
(Loss)/profit for the period	**(13.8)**	6.4
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**1.6**	2.1
Items that will not be reclassified to profit or loss:		
Actuarial gain on defined benefit pension scheme	**2.4**	1.3
Deferred tax on defined benefit pension schemes	**(0.8)**	-
Total other comprehensive income for the period, net of tax	**3.2**	3.4
Total comprehensive (loss)/income for the period	**(10.6)**	9.8
Attributable to		
Equity holders of the parent	**(11.1)**	9.0
Non-controlling interest	**0.5**	0.8
	(10.6)	9.8

Condensed Consolidated Statement of Changes in Equity

	Six months ended 31 May 2018 Unaudited £m	Six months ended 31 May 2017 Unaudited £m
Shareholders' equity at start of period	**173.9**	196.0
Total comprehensive (loss)/income for the period	**(11.1)**	9.0
Dividends paid to Ordinary Shareholders	**(6.6)**	(6.6)
Shares issued	**0.1**	-
Share-based (credit)/expense	**(0.3)**	0.7
Net (decrease)/increase in shareholders' funds	**(17.9)**	3.1
Shareholders' equity at end of period	**156.0**	199.1

LOW & BONAR PLC

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
Philip de Klerk
Group Chief Executive
10 July 2018

1. 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 2018 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 2017 are available on request from the Company’s head office or from the Group’s website at www.lowandbonar.com.

2. 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. 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 2017.

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 2017.

Other information

The comparative figures for the financial year ended 30 November 2017 are not the Company’s statutory accounts for that financial year. Those accounts have been reported on by the Company’s auditor and delivered to the Registrar of Companies. The report of the auditor 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 2017.

At 31 May 2018, the Group held a trade payable of £0.9m (31 May 2017: £1.5m, 30 November 2017: £0.1m) due to Bonar Natpet General Trading LLC, a joint venture. 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.

3. Segmental information for the six months ended 31 May 2018

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**	
	2018	2017*
	£m	£m
Building & Industrial	**41.5**	49.9
Civil Engineering	**35.8**	36.8
Coated Technical Textiles	**68.2**	66.5
Interiors & Transportation	**60.7**	57.1
Revenue for the period	**206.2**	210.3

Operating profit/(loss)

	Underlying		**Non-underlying**		**Total**	
	Six months ended 31 May		**Six months ended 31 May**		**Six months ended 31 May**	
	2018	2017*	**2018**	2017*	**2018**	2017*
	£m	£m	**£m**	£m	**£m**	£m
Building & Industrial	**3.0**	6.2	**(0.9)**	(0.7)	**2.1**	5.5
Civil Engineering	**(0.9)**	(0.2)	**(1.2)**	(0.1)	**(2.1)**	(0.3)
Coated Technical Textiles	**2.1**	4.9	**(16.1)**	(1.5)	**(14.0)**	3.4
Interiors & Transportation	**7.7**	7.9	**(0.4)**	-	**7.3**	7.9
Unallocated Central	**(2.9)**	(3.3)	**(0.8)**	-	**(3.7)**	(3.3)
Total	**9.0**	15.5	**(19.4)**	(2.3)	**(10.4)**	13.2

*Restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in note 17.

Geographical analysis

	Six months ended 31 May 2018	Six months ended 31 May 2017
	£m	£m
Western Europe	**112.4**	116.2
Eastern Europe	**18.0**	18.8
North America	**45.6**	48.2
Middle East	**6.4**	3.9
Asia	**17.7**	17.3
Rest of World	**6.1**	5.9
	206.2	210.3

LOW & BONAR PLC
Notes to the Interim Report 2018 – continued

3. Segmental information for the six months ended 31 May 2018 (continued)

Adjusted constant currency analyses

Adjusted constant currency analyses retranslate prior period results at the current period's rates of exchange. Management believe this allows a better understanding of underlying business performance. For the period ended 31 May 2017, the results of the Agro-textile business disposed of in October 2017 have been removed to present the figures on a consistent basis as the current period results.

	Six months ended 31 May 2018 (reported)	Six months ended 31 May 2017 (restated)*	Period on period change	Six months ended 31 May 2017 (adjusted constant currency)*	Period on period change
	£m	£m	%	£m	%
Revenue					
Building & Industrial	**41.5**	49.9	(16.8)%	39.4	5.3%
Civil Engineering	**35.8**	36.8	(2.7)%	38.2	(6.3)%
Coated Technical Textiles	**68.2**	66.5	2.6%	67.4	1.2%
Interiors & Transportation	**60.7**	57.1	6.3%	55.2	10.0%
Revenue for the period	**206.2**	210.3	(2.0)%	200.2	3.0%
Underlying profit before tax from continuing operations					
Building & Industrial	**3.0**	6.2	(51.6)%	5.6	(46.4)%
Civil Engineering	**(0.9)**	(0.2)	(350.0)%	(0.3)	(200.0)%
Coated Technical Textiles	**2.1**	4.9	(57.1)%	5.2	(59.6)%
Interiors & Transportation	**7.7**	7.9	(2.5)%	7.5	2.7%
Unallocated Central	**(2.9)**	(3.3)	(12.1)%	(3.3)	(12.1)%
Underlying operating profit	**9.0**	15.5	(41.9)%	14.7	(38.8)%
Net financing costs	**(2.5)**	(2.4)	4.2%	(2.5)	-
Total	**6.5**	13.1	(50.4)%	12.2	(46.7)%

*Restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in note 17.

		Six months ended 31 May 2017				
		As reported	Agro-textile divestment	Enka	Foreign exchange	Adjusted constant currency
Group						
Revenue	£m	210.3	(9.1)	-	(1.0)	200.2
Operating profit	£m	15.5	(0.3)	-	(0.5)	14.7
Operating margin	%	7.4	0.2	-	(0.3)	7.3
Profit before tax	£m	13.1	(0.3)	-	(0.6)	12.2
Basic underlying EPS	pps	2.70	(0.06)	-	(0.12)	2.52
Building & Industrial						
Revenue	£m	40.9	(9.1)	9.0	(1.4)	39.4
Operating profit	£m	6.0	(0.3)	0.2	(0.3)	5.6

Segment assets, liabilities, other information **31 May 2018**	**Building & Industrial £m**	**Civil Engineering £m**	**Coated Technical Textiles £m**	**Interiors & Transportation £m**	**Unallocated Central £m**	**Total £m**
Reportable segment assets	**63.7**	**47.3**	**134.7**	**147.0**	**1.1**	**393.8**
Investment in associate						**0.7**
Cash and cash equivalents						**55.0**
Post-employment benefits						**12.2**
Assets classified as held for sale						**4.2**
Other unallocated assets						**13.1**
Total Group assets						**479.0**
Reportable segment liabilities	**(12.1)**	**(18.7)**	**(26.9)**	**(24.4)**	**-**	**(82.1)**
Loans and borrowings						**(195.3)**
Post-employment benefits						**(12.2)**
Liabilities directly associated with assets classified as held for sale						**(1.5)**
Other unallocated liabilities						**(25.0)**
Total Group liabilities						**(316.1)**
Other information						
Additions to property, plant and equipment	**0.7**	**0.6**	**1.4**	**4.0**	**-**	**6.7**
Additions to intangible assets and goodwill	**0.5**	**-**	**0.1**	**0.9**	**0.3**	**1.8**
Depreciation	**(1.5)**	**(0.5)**	**(1.9)**	**(3.7)**	**(0.1)**	**(7.7)**
Amortisation of acquired intangible assets	**(0.3)**	**-**	**(1.1)**	**-**	**-**	**(1.4)**
Non-underlying items – continuing operations	**(0.6)**	**(1.2)**	**(15.0)**	**(0.4)**	**(0.8)**	**(18.0)**

30 November 2017*	Building & Industrial £m	Civil Engineering £m	Coated Technical Textiles £m	Interiors & Transportation £m	Unallocated Central £m	Total £m
Reportable segment assets	81.1	39.0	154.0	145.5	0.8	420.4
Investment in associate						0.7
Cash and cash equivalents						38.2
Post-employment benefits						10.0
Other unallocated assets						10.1
Total Group assets						479.4
Reportable segment liabilities	(19.0)	(13.8)	(26.1)	(30.1)	-	(89.0)
Loans and borrowings						(176.6)
Post-employment benefits						(12.2)
Liabilities directly associated with assets classified as held for sale						(1.4)
Other unallocated liabilities						(19.9)
Total Group liabilities						(299.1)
Other information						
Additions to property, plant and equipment	3.4	2.2	3.0	20.7	-	29.3
Additions to intangible assets and goodwill	6.8	0.1	0.1	1.6	0.8	9.4
Depreciation	(3.8)	(2.8)	(3.6)	(8.2)	(0.1)	(18.5)
Amortisation of acquired intangible assets	(0.6)	(0.1)	(3.0)	-	-	(3.7)
Non-underlying items – continuing operations	(13.1)	(31.5)	-	-	(2.1)	(46.7)

*The 30 November 2017 figures have been restated for transfer of Enka business from Civil Engineering to Building & Industrial as set out in note 17.

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 26.0% for the six months ended 31 May 2018 which is the estimated rate of tax for the full year (six months ended 31 May 2017: 30.0%; year ended 30 November 2017: 29.0%). The reduction in the tax rate is due principally to the reduction in tax rates in the United States.

5. Dividend

The Board has declared an interim Ordinary dividend of 1.05p per share, payable on 21 September 2018 to Ordinary Shareholders on the register of members at close of business on 17 August 2018. 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 2017.

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 2018).

During the period 233,702 Ordinary Shares were issued (six months ended 31 May 2017: 81,784; year ended 30 November 2017: 408,008).

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 2018	31 May 2017
Total operations			
Earnings: Statutory	**£m**	**(14.1)**	6.1
Earnings: Before underlying items – continuing operations	**£m**	**4.5**	8.8
Weighted average number of shares	**(millions)**	**329.774**	329.323
Effect of dilutive shares	**(millions)**	**4.124**	5.672
Diluted weighted average number of shares	**(millions)**	**333.898**	334.995
Statutory			
Basic earnings per share	**p**	**(4.27)**	1.85
Diluted earnings per share	**p**	**(4.27)**	1.82
Before underlying items – continuing operations			
Basic earnings per share	**p**	**1.38**	2.70
Diluted earnings per share	**p**	**1.37**	2.66

7. Non-underlying items

During the period the Group recognised non-underlying items and amortisation of acquired intangible assets as detailed below:

		Six months ended 31 May 2018 £m	Six months ended 31 May 2017 £m
Amounts charged to operating profit			
Restructuring costs	(a)	**2.2**	-
CTT impairment	(b)	**13.3**	-
Provision for custom duties & fees	(c)	**1.4**	-
Acquisition-related costs	(d)	**0.1**	0.2
Amortisation of acquired intangible assets	(e)	**1.4**	1.8
Closure of the Ivanka plant	(f)	**0.7**	-
Loss on the disposal of land and buildings	(g)	**0.2**	-
Costs associated with the disposal of the Agro-textile business	(h)	**0.1**	0.3
Write off of arrangement fees	(i)	**0.3**	-
Total charge to operating profit		**19.7**	2.3
Tax credit in the period		**(1.5)**	(0.5)
Total charge to discontinued operations		**0.4**	0.9
Total charge to profit for the period		**18.6**	2.7

Current period

(a) Restructuring costs
During the period restructuring costs were incurred amounting to £2.2m relating to efforts to reduce cost across the business.

(b) CTT impairment
Following the reduction in profitability of CTT in recent years impairment reviews of its asset base were conducted. This has resulted in a partial impairment of £13.3m of the goodwill balance.

(c) Provision in relation to customs duties & fees
During the prior year, the Group identified irregularities in relation to customs duties. The non-underlying charge during the period of £1.4m represents the increase in the estimated costs to settle this issue, together with an estimate of the associated legal fees. Refer note 10 for further details.

(d) Acquisition related costs
In the period the Group incurred costs of £0.1m (six months ended 31 May 2017: £0.2m) relating to the acquisition of Walflor Industries Inc.

(e) Amortisation of acquired intangible assets
The amortisation of acquired intangibles of £1.4m (six months ended 31 May 2017: £1.8m) is excluded from underlying business profit in accordance with Group's accounting policies.

7. Non-underlying items (continued)

(f) Closure of Ivanka plant
As part of the first stage review of Civil Engineering, it was decided to exit from the loss-making weaving plant in Ivanka, Slovakia. In the period the Group incurred costs of £0.7m relating to the closure of the plant. In the year ended 30 November 2017, the assets were written down to the proceeds expected to be realised from the exit, resulting in a charge of £4.7m.

(g) Disposal of land and buildings
In the period a loss of £0.2m was recorded relating to the disposal of unused land and buildings at the Group's manufacturing site in Lomnice, Czech Republic.

(h) Costs associated with the disposal of the Agro-textile business
In October 2017, the Group completed the disposal of the Lokeren-based agro-textile business. During the period the Group incurred costs amounting to £0.1m (six months ended 31 May 2017: £0.3m).

(i) Write off of arrangement fees
During the six months ended 31 May 2018, the Group refinanced its five-year, €165m revolving credit facility, with a new revolving credit facility of the same tenor and quantum. As a consequence of the extinguishment of the previous facility, the remaining £0.3m of unamortised arrangement fees were written off to the income statement.

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' in the six months ended 31 May 2018 is summarised below:

	UK schemes £m	**Overseas schemes £m**	**Six months ended 31 May 2018 Total £m**	Six months ended 31 May 2017 Total £m	Year ended 30 November 2017 Total £m
Net asset/(liability) at start of period	**10.0**	**(12.2)**	**(2.2)**	(15.0)	(15.0)
Interest income/(cost)	**0.1**	**-**	**0.1**	(0.1)	(0.6)
Contributions from employers	**-**	**0.1**	**0.1**	0.2	4.4
Administration costs	**(0.3)**	**(0.1)**	**(0.4)**	(0.3)	(0.7)
Actuarial gain	**2.4**	**-**	**2.4**	1.3	9.8
Exchange adjustments	**-**	**-**	**-**	(0.1)	(0.1)
Net asset/(liability) at end of period	**12.2**	**(12.2)**	**-**	(14.0)	(2.2)

In applying IAS 19, the Company has considered the requirements of IFRIC 14 and whether the Company has an 'unconditional right' to a refund of surplus, in particular assuming the gradual settlement of the Scheme liabilities over time until all members have left the Scheme (i.e. on the death of the last beneficiary). The company has concluded that it does have an effective unconditional right to a refund under these circumstances, and on these grounds IFRIC 14 does not require an adjustment to the net pension liability.

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

	Six months ended 31 May 2018 £m	Six months ended 31 May 2017 £m	Year ended 30 November 2017 £m
Net increase in cash and cash equivalents	**16.0**	1.2	12.5
Net cash flow from movements in debt financing	**(18.9)**	(36.8)	(36.4)
Bank arrangement fees paid	**1.1**	-	-
Amortisation of bank arrangement fees	**(0.5)**	(0.2)	(0.4)
Foreign exchange differences	**0.4**	(2.2)	(3.1)
Movement in net debt in period	**(1.9)**	(38.0)	(27.4)
Net debt at start of period	**(138.4)**	(111.0)	(111.0)
Net debt at end of period	**(140.3)**	(149.0)	(138.4)

	31 May 2018 £m	31 May 2017 £m	30 November 2017 £m
Analysis of net debt			
Cash at bank and in hand	**55.0**	27.7	38.2
2.57% €60m Senior Note due 2022-2026	**(52.6)**	(52.3)	(52.9)
€165m multi-currency revolving credit facility	**(128.5)**	(112.2)	(107.8)
RMB150m facility	**(14.8)**	(12.5)	(13.6)
Bank overdrafts	**-**	-	(2.7)
Prepaid arrangement fees	**1.0**	0.7	0.8
Preference shares	**(0.4)**	(0.4)	(0.4)
Net debt	**(140.3)**	(149.0)	(138.4)

During the six months ended 31 May 2018, the Group agreed and executed a new 5 year, €165m revolving credit facility with a syndicate of five relationship banks. The facility bears interest at between 0.9% to 1.95% above LIBOR depending on the ratio of the Group's net debt to EBITDA at each of its half-year and year end reporting dates. Until 31 May 2019 the ratio can exceed 3.0 up to 3.5 which would result in an increased interest rate of 2.45%.

EBITDA for covenant purposes is calculated as underlying operating profit, adding back depreciation, underlying amortisation, IFRS 2 charge and pension administration costs.

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	<3.50*
EBITA / Net interest payable	>3.00

* For the next 3 test dates (31 May 2018, 30 November 2018 and 31 May 2019) before reverting to <3.0

10. Provisions

	£m
At 30 November 2017	**1.7**
Created in the period	**1.4**
Utilised in the period	**(0.5)**
At 31 May 2018	**2.6**

The provision relates to irregularities in relation to customs duties that were identified in 2017. In the six months ended 31 May 2018, the Group recognised a further charge of £1.4m in respect of these irregularities. This charge has been treated as a non-underlying item, and the resulting provision of £2.6m represents the Group's best estimate of the remaining costs to settle this issue. In forming a view as to the adequacy of the provision, management have taken account of the findings of the investigation to date. The investigation is ongoing and until matters have been resolved with the relevant authorities the final costs to settle this issue may be subject to change.

11. Impairment testing

At 31 May 2018, there were no indications of potential impairment in either the Building & Industrial or Interiors & Transportation CGUs. There were however, indicators of impairment at both Civil Engineering and Coated Technical Textiles (CTT). In the case of Civil Engineering, this was driven by a weaker first half than expected due to the high level of competition in the market and increasing raw material costs. For CTT the impairment indicators were the slower start to the year than expected, due in a large part to the ongoing production consistency issues.

Impairment tests for both CGUs have been prepared following an approach that is consistent with the approach taken at the year-end. For both CGUs, the cash flows reflect management's updated five-year projections. Annual growth rates of 2.5% from 2023 thereafter have been applied (2017: 2%), and the cash flows have been discounted at a post-tax rate of 10.2% (2017:9.0%). In the case of CTT, management's cash flows assume that the production consistency issues are resolved during the course of 2018, leading to a growth in both sales and profitability.

The CTT analysis indicated an estimated recoverable value of £60.1m for the CGU and results in an impairment to the carrying value of the goodwill amounting to £13.3m.

Whilst no impairment exists in Civil Engineering, the estimated recoverable values provide only £1.2m of headroom over the carrying value of the assets of £14.0m. Accordingly, any reduction in the assumptions may result in an impairment.

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 a further impairment in either CGU. Accordingly a sensitivity analysis has been performed by varying key assumptions whilst holding other variables constant.

The below table outlines the impairment that would be recorded if certain key assumptions were reduced:

	Civil Engineering	**CTT**
	£m	**£m**
5% reduction in cash flows	0.6	6.7
1% increase in discount rate	2.1	11.6
1% reduction on long term growth rate	1.2	8.8

12. Goodwill

	31 May 2018 £m	30 November 2017 £m
Cost		
At 1 December	**86.3**	82.6
Acquisition of Walflor Industries Inc.	**-**	0.9
Exchange adjustments	**(0.3)**	2.8
Total	**86.0**	86.3
Accumulated impairment losses		
At 1 December	**19.4**	-
Impairment loss recognised (note 11)	**13.3**	19.4
Total	**32.7**	19.4
Net book value	**53.3**	66.9

A summary of the carrying value presented at CGU level is shown below:

	31 May 2018 £m	30 November 2017 £m
Cash generating units		
Building & Industrial	**15.3**	12.2
Civil Engineering	**-**	-
Coated Technical Textiles	**25.6**	39.0
Interiors & Transportation	**12.4**	15.7
Net book value	**53.3**	66.9

13. Fair value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Fair value 31 May 2018 £m	Book value 31 May 2018 £m	Fair value 30 November 2017 £m	Book value 30 November 2017 £m
Loans and receivables				
Cash and cash equivalents	**55.0**	**55.0**	38.2	38.2
Trade and other receivables	**76.4**	**76.4**	83.3	83.3
Financial liabilities at amortised cost				
Trade and other payables	**(86.2)**	**(86.2)**	(89.7)	(89.7)
Bank overdrafts	**-**	**-**	(2.7)	(2.7)
Preference shares	**(0.4)**	**(0.4)**	(0.4)	(0.4)
Prepaid arrangement fees	**1.0**	**1.0**	0.8	0.8
Floating rate borrowings	**(143.5)**	**(143.5)**	(121.4)	(121.4)
Fixed rate borrowings	**(53.3)**	**(52.6)**	(53.5)	(52.9)
Total	**(151.0)**	**(150.3)**	(145.4)	(144.8)

No financial assets or liabilities in the balance sheet of the Group are held at fair value.

14. Assets held for sale

Ivanka

During the period, as an outcome of the first phase of the Board's review of the Civil Engineering Global Business Unit, a decision was taken to close the loss-making weaving plant in Ivanka, Slovakia. The assets are being actively marketed and are expected to be sold in the next 12 months. The non-current assets in connection with this plant have therefore been presented as assets held for sale.

As at 31 May 2018, the assets held for sale of £4.2m, were as follows:

	31 May 2018 £m
Land and buildings	**2.6**
Plant and equipment	**1.6**
	4.2

Bonar Natpet

In January 2018, the Board agreed to exit from the Bonar Natpet joint venture. The expected costs to exit, which primarily include a contribution to Bonar Natpet of 50% of all trade debts older than six months, total £1.5m (30 November 2017: £1.4m). This liability is classified as *Liabilities directly associated with assets classified as held for sale.*

15. 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 42 to 44 of the 2017 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

The Group may be adversely affected by global economic conditions, particularly in its principal markets in mainland Europe and North America. The volatility of international markets could result in reduced levels of demand for the Group's products, a greater risk of customers defaulting on payment terms, supply chain risk and a higher risk of inventory obsolescence. Changes in international trade regulations or tariffs, including the impact of Brexit, could potentially disrupt the Group's supply chains.

Organic growth/ competition

The markets in which the Group operates are competitive with respect to price, geographic distinction, functionality, brand recognition and marketing and customer service.

Cyber security

Disruption to or penetration of our information technology platforms could have a significant adverse effect on the Group.

Growth strategy

The Board believes that growth, both organic and through acquisitions, is a fundamental part of its strategy for the Group. The Board reviews such growth opportunities on an ongoing basis and its acquisition strategy is based on appropriate acquisition targets being available and on acquired companies being integrated rapidly and successfully into the Group.

15. Risks and uncertainties (continued)

Business continuity

The occurrence of major operational problems could have a material adverse effect on the Group. These could include risks of fire or major environmental damage such as hurricanes.

Employee

The Group is reliant on its ability to attract, develop and retain talented leaders, professionals and specialists throughout the organisation.

Raw material pricing

The Group's profitability can be affected by the purchase price of its key raw materials and its ability to reflect any changes through its selling prices. The Group's main raw materials are polypropylene, polyester, nylon, polyethylene and PVC. The prices of these raw materials are volatile and they are influenced ultimately by oil prices and the balance of supply and demand for each polymer.

Treasury

Foreign exchange is the most significant treasury risk for the Group. The reported value of profits earned by the Group's overseas entities is sensitive to the strength of Sterling, particularly against the Euro and the US Dollar. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and counterparty credit risk.

Funding

The Group, like many other companies, is dependent on its ability to both service its existing debts, and to access sufficient funding to refinance its liabilities when they fall due and to provide sufficient capital to finance its growth strategy.

Laws and regulations

The Group's operations are subject to a wide range of laws and regulations, including tax, employment, environmental and health and safety legislation, along with product liability and contractual terms. Non-compliance with these laws and regulations could result in compromising our ability to conduct business in certain jurisdictions and exposing the Group to potential reputational damage and financial penalties.

Health and safety

The nature of the Group's operations presents risks to the health and safety of employees, contractors and visitors. Furthermore, inadequate health and safety practices could lead to business disruption, financial penalties or loss of reputation.

Going concern

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 May 2023, a €60m private placement note with which is scheduled for repayment between September 2022 and September 2026 in even tranches, 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.

16. Post balance sheet event

In July 2018 the Board determined that it is in the Group's best interests to divest the remaining Civil Engineering businesses and a sale process will be undertaken in an orderly manner so as to maximise shareholder value. Refer to note 3 for the assets and liabilities in the Civil Engineering businesses.

17. Segmental restatement

As indicated in our 2017 Annual Report, the Group took the decision, effective 1 December 2017, to transfer the profitable Enka business (erosion control and drainage applications) from the Civil Engineering GBU into the B&I GBU. This transfer was part of the strategy review of Civil Engineering, and the Directors believe that the Enka business, a portion of which was already part of B&I, would perform better under single leadership within B&I.

The tables below show the impact of this restatement on the segment information previously provided.

	Six months ended 31 May 2017			Year ended 30 Nov 2017		
£m	**Reported**	**Enka reclass**	**Restated**	**Reported**	**Enka reclass**	**Restated**
Revenue						
Building & Industrial	40.9	9.0	49.9	85.9	22.3	108.2
Civil Engineering	45.8	(9.0)	36.8	102.0	(22.3)	79.7
Coated Technical Textiles	66.5	-	66.5	138.3	-	138.3
Interiors & Transportation	57.1	-	57.1	120.3	-	120.3
Revenue for the year	**210.3**	**-**	**210.3**	**446.5**	**-**	**446.5**
Underlying profit before tax from continuing operations						
Building & Industrial	6.0	0.2	6.2	12.4	0.6	13.0
Civil Engineering	-	(0.2)	(0.2)	0.1	(0.6)	(0.5)
Coated Technical Textiles	4.9	-	4.9	9.3	-	9.3
Interiors & Transportation	7.9	-	7.9	19.1	-	19.1
Unallocated Central	(3.3)	-	(3.3)	(5.4)	-	(5.4)
Underlying operating profit	**15.5**	**-**	**15.5**	**35.5**	**-**	**35.5**
Return on sales						
Building & Industrial	14.7%	(2.3)%	12.4%	14.4%	(2.4)%	12.0%
Civil Engineering	0.0%	(0.5)%	(0.5)%	0.1%	(0.7)%	(0.6)%
Coated Technical Textiles	7.4%	-	7.4%	6.7%	-	6.7%
Interiors & Transportation	13.8%	-	13.8%	15.9%	-	15.9%
Total	**7.4%**	**-**	**7.4%**	**8.0%**	**-**	**8.0%**
Reportable segment assets						
Building & Industrial	77.2	12.8	90.0	67.3	13.8	81.1
Civil Engineering	96.7	(12.8)	83.9	52.8	(13.8)	39.0
Coated Technical Textiles	152.2	-	152.2	154.0	-	154.0
Interiors & Transportation	139.1	-	139.1	145.5	-	145.5
Unallocated Central	0.2	-	0.2	0.8	-	0.8
Total	**465.4**	**-**	**465.4**	**420.4**	**-**	**420.4**
Reportable segment liabilities						
Building & Industrial	(16.3)	(3.3)	(19.6)	(15.4)	(3.6)	(19.0)
Civil Engineering	(19.6)	3.3	(16.3)	(17.4)	3.6	(13.8)
Coated Technical Textiles	(23.2)	-	(23.2)	(26.1)	-	(26.1)
Interiors & Transportation	(21.4)	-	(21.4)	(30.1)	-	(30.1)
Total	**(80.5)**	**-**	**(80.5)**	**(89.0)**	**-**	**(89.0)**

17. Segmental restatement (continued)

The impact of the Segmental restatement on the Other segment information disclosed is set out below:

£m	Restated						As reported					
Six months ended 31 May 2017	**B&I**	**Civil Engineering**	**CTT**	**I&T**	**Unallocated Central**	**Total**	**B&I**	**Civil Engineering**	**CTT**	**I&T**	**Unallocated Central**	**Total**
Additions to property, plant & equipment	1.5	1.1	1.0	9.2	-	**12.8**	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**	4.4	0.7	-	0.7	0.2	**6.0**
Depreciation	(1.0)	(1.8)	(1.7)	(3.4)	(0.1)	**(8.0)**	(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)**	(0.2)	(0.1)	(1.5)	-	-	**(1.8)**
Non-underlying items - continuing operations	(0.5)	-	-	-	-	**(0.5)**	(0.5)	-	-	-	-	**(0.5)**
Year ended 30 Nov 2017												
Additions to property, plant & equipment	3.4	2.2	3.0	20.7	-	**29.3**	3.0	2.6	3.0	20.7	-	**29.3**
Additions to intangible assets and goodwill	6.8	0.1	0.1	1.6	0.8	**9.4**	5.3	1.6	0.1	1.6	0.8	**9.4**
Depreciation	(3.8)	(2.8)	(3.6)	(8.2)	(0.1)	**(18.5)**	(3.6)	(3.0)	(3.6)	(8.2)	(0.1)	**(18.5)**
Amortisation of acquired intangible assets	(0.6)	(0.1)	(3.0)	-	-	**(3.7)**	(0.6)	(0.1)	(3.0)	-	-	**(3.7)**
Non-underlying items - continuing operations	(13.1)	(31.5)	-	-	(2.1)	**(46.7)**	(13.1)	(31.5)	-	-	(2.1)	**(46.7)**