

31 January 2019

The Alumasc Group plc

("Alumasc")

Interim Results Announcement

Alumasc (ALU.L), the premium building products, systems and solutions group, announces its interim results for the half year ended 31 December 2018.

Paul Hooper, Chief Executive, said:

"The first half of the year has seen Alumasc continue to focus on the key strategic growth drivers for our portfolio of businesses. Whilst overall performance continues to reflect the continuing challenging market conditions, we expect the second half to benefit from strong order books and recent management action taken to increase profit. Together with strategic initiatives undertaken in the past eighteen months, we remain confident in the future."

Financial Review:

- Revenues from continuing operations up 4% to £44.3 million (2017/18: £42.6 million)
- Underlying profit before tax £2.3 million (2017/18: £3.5 million)
- Order book at 31 December 2018 of £27.5 million, up 17% year on year
- Basic earnings per share of 8.4 pence (2017/18: 6.9 pence) benefiting from net non-recurring credits
- Unchanged interim dividend of 2.95 pence per share
- Reduction in net debt from £4.8 million at 30 June 2018 to £0.3 million at 31 December 2018

Continued Strategic Development:

- Developing further opportunities for specification cross selling a "building envelope" of the group's exterior building products
- Improving the group's quality of earnings and operating margins through the proactive management of the group's portfolio of businesses

- Developing a more cost-efficient operating structure, with action taken to deliver £1 million of annualised cost savings in financial year 2019/20
- Prioritising and focusing investment to support both organic growth opportunities and acquisitions
- As previously announced, Alumasc intends to re-list its shares on the Alternative Investment Market (AIM) later this financial year

Outlook:

Despite the challenging market conditions, the Board is encouraged by order intake levels and expects a much stronger performance in the second half year than the first. The Board is though mindful of the risks posed by the current economic uncertainty to the UK construction sector as well as any further delays in project pipeline conversion.

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Notes to Editors:

Alumasc is a UK-based supplier of premium building products, systems and solutions. Almost 80% of group sales are driven by building regulations and specifications (architects and structural engineers) because of the performance characteristics offered.

The group has three business segments with strong positions and brands in their individual markets: Roofing & Water Management; Architectural Screening, Solar Shading & Balconies; and Housebuilding Products & Ancillaries.

REVIEW OF INTERIM RESULTS

Overview

Alumasc has been repositioned to become a dedicated supplier of premium building products to the UK construction industry and to seek opportunities to expand internationally. In the first half of the year, management's focus has been on accelerating delivery of the strategic objectives set out in our last annual report and taking restorative action in those businesses that did not perform to expectations in the first half year.

Trading in the first half of Alumasc's financial year reflected a lower than anticipated level of larger project activity, including exports, particularly in our Levolux and Gatic businesses mainly due to project delays. The group also saw a lower level of commercial new build activity in the UK construction market than in the first half of the prior year. This market sector represents circa 30% of Alumasc's business and is Levolux's principal market.

However, order intake in the first half of the financial year was 20% ahead of the prior first half, driven by Levolux, and this bodes well for the group's second half performance with an increased number of larger projects expected to convert into revenue later in the financial year.

Strategic development

1. Developing further opportunities for specification cross-selling a "building envelope" of the group's exterior building products

This initiative has been increasingly successful across our Roofing, Water Management and Levolux balconies businesses. Encouraged by progress in this area, we have now integrated Alumasc Roofing into our Water Management division to drive further growth in our "Rain to Drain" strategy.

2. Improving the group's quality of earnings and operating margins through the proactive management of our portfolio of businesses

Over the last eighteen months, through the acquisition of the Wade drainage business and divestment of our Scaffolding Products and Alumasc Facades businesses, the group has acquired incremental net operating profits of £0.7m for a net purchase consideration of £2.5m, representing a pro forma pre-tax return on investment of 28%. Whilst we continue to seek opportunities to grow the group through further acquisitions, we have no plans to make further divestments.

3. Developing a more cost-efficient operating structure

We plan to reduce the number of operating sites across the group from ten to six over the next three years and to share common overhead structures where it makes sense to do so. Towards the end of the first half of the current financial year, action was taken to reduce the fixed cost base of the group by over £1 million on an annualised basis from financial year 2019/20, with particular focus on simplifying the structure of the Roofing & Water Management Division.

As previously announced, Alumasc intends to re-list its shares on the Alternative Investment Market (AIM) later this financial year.

4. Prioritising and focusing investment to support both organic growth opportunities and acquisitions

Following the successful commissioning of the new Timloc factory last year, the Board considered in depth whether to undertake a similar project for our Rainwater and Drainage business, AWMS, near Kettering. In view of current market conditions and the availability of freehold land and buildings in the group, both nearby and elsewhere in the Roofing & Water Management division, we have decided not to invest in a move to a wholly new site where the estimated capital costs had been circa £8-9 million. Options are being evaluated to better focus investment in capacity at a far more modest capital cost where we see specific opportunities to deliver strong incremental returns for shareholders. We do not believe that this will impact our growth ambitions for the Roofing & Water Management division. However, it will preserve headroom within committed financing facilities to grow the group further through acquisitions, should the right opportunities be found at the right price.

First half performance

Group revenues from continuing operations were £44.3 million, some 4% above the prior first half of £42.6 million. On a like-for-like basis, excluding the benefit of Wade which was acquired on 31 January 2018, group revenues were 2% lower for the reasons described in the Overview section above. Like-for-like UK sales were up 3%, but export sales were down 33%.

Gross margins of 28.7% were lower than the prior year's 31.1% due to the lack of marginal profit contribution to fixed costs from larger construction projects, including exports, together with margin pressures in UK new build commercial and infrastructure markets, where competition is more intense against a background of currently lower market demand. This has impacted our solar shading business, Levolux, and Gatic within our Roofing & Water Management division in particular. Gross margin also reflected investment in project support resources at Levolux and the higher fixed cost of the new Timloc factory commissioned in December 2017.

Net underlying operating expenses were well controlled amounting to £10.3 million in the first half year. Excluding the impact of the Wade acquisition, they were marginally below the prior year of £9.7 million. The action taken to reduce the group's cost base by £1 million, described above, did not have a material impact in the first half of the financial year but will begin to benefit in the second half year, with the full saving realised in 2019/20.

Underlying group operating profit was £2.4 million compared with £3.6 million in the prior first half year, with all the shortfall arising at Levolux and Gatic. Underlying group operating margins were 5.4% (2017/18: 8.4%).

Underlying profit before tax was £2.3 million (2017/18: £3.5 million) mainly due to the lower underlying operating profit, but also higher interest costs on borrowings reflecting a higher average level of net debt in the period following the acquisition of Wade last year.

Reported profit before tax of £3.4 million was 13% above the previous first half result of £3.0 million, benefiting from a net non-underlying credit of £1.1 million. This included a £2.8 million gain relating to Alumasc Facades, treated as a discontinued operation in the interim financial statements following the sale of this business on 31 October 2018, partly offset by a one-off past service cost pension charge of £1.1 million described further in the financial review below. A full reconciliation of underlying to reported profit is provided in note 4 to the interim financial statements.

Operational review

Roofing & Water Management

	2018/19	2017/18
Revenue (£ million)	28.6	26.0
Underlying operating profit (£ million)	2.3	2.3
Underlying operating margin	8.1%	8.8%

Following the divestment of Alumasc Facades and the strategy outlined above to simplify the management and operational structure in our Water Management division and accelerate the development of our "Rain to Drain" strategy, Alumasc Roofing has now been integrated into this division. Our divisional segmentation of group results in this report has changed accordingly, with comparators re-stated on a like-for-like basis.

Divisional revenues of £28.6 million were 10% ahead of the prior year's £26.0 million at the interim stage, reflecting the benefit of the acquisition of Wade on 31 January 2018. Wade continues to trade in line with our expectations at acquisition.

Overall, excluding the acquisition benefit, revenues were similar to prior year levels. The water management business experienced higher domestic sales at Gatic but at lower margins in a competitive civil drainage market place. Alumasc Roofing generated improved refurbishment project sales. This positive progress was offset by reduced export activity at Gatic and lower sales into the weaker UK commercial new build market at Alumasc Roofing and Alumasc Water Management Solutions.

The acquisition of Wade allowed divisional underlying operating profits of £2.3 million to match prior first half levels. However, like-for-like divisional underlying operating profits were some £0.5 million below prior year levels, in the main reflecting a below expected performance from Gatic, which experienced strong price competition in the UK and lacked any significant contribution to fixed costs from export project sales in the half year under review.

To address the performance of Gatic, management changes were made and the sales team was restructured during the period. In addition, selling prices were increased in November 2018 to improve margins. More broadly, and as described above, plans have been put in place to simplify management and operating structures and significantly reduce fixed costs across the Roofing & Water Management division. This includes plans to relocate the Gatic Slotdrain business to Wade when existing property leases expire in May and streamline operations at our freehold property in Dover to give greater focus to Gatic's Access Covers business.

Architectural Screening, Solar Shading & Balconies

	2018/19	2017/18
Revenue (£ million)	10.2	11.3
Underlying operating (loss)/profit (£ million)	(0.4)	0.7
Underlying operating margin	(4.2)%	6.5%

Levolux had a challenging first half year, incurring an operating loss of £0.4 million from revenues of £10.2 million that were down 10% compared with the prior first half. This was mainly explained by the reduction in commercial new build activity in the UK construction market. There were further delays in converting the strong sales pipeline into revenues both in the UK and USA with increased time being taken by clients and contractors to make investment decisions and in committing to new work on larger projects against a background of economic uncertainty.

A review of the development of Levolux in North America has been undertaken in the period and confirmed that significant demand exists. The company intends to further develop this market by increasing our local sales representation.

Levolux's UK balconies business is growing faster than anticipated, but project margin realisation has been below expectation. The company continues to improve project execution as we gain experience in developing this newer line of business.

Divisional revenues and marginal profit in the half year under review benefited by £1.5 million and £0.4 million respectively from the introduction of IFRS 15,

Revenue Recognition, effective from 1 July 2018. Further details are provided in note 14 to the interim financial statements.

Levolux continues to develop with a number of management changes made in the period and a profit improvement plan in place. An initial success was a record first half order intake of £13.8 million, almost double the prior first half year comparator, and this should underpin a return to divisional profitability in the second half year.

Housebuilding Products & Ancillaries

	2018/19	2017/18
Revenue (£ million)	5.6	5.0
Underlying operating profit (£ million)	0.9	0.9
Underlying operating margin	15.8%	17.4%

Timloc continues to outperform growth in the UK new housebuilding sector, increasing revenues by 11% from £5.0 million in the first half of last year to £5.6 million this first half. Timloc's next day service model is supporting further development of its merchant and distributor customer base.

The benefit of the additional sales volumes allowed Timloc to offset increased fixed property costs in the first half of the current financial year following the successful commissioning of its new factory in December 2017. This enabled Timloc's first half result to match last year's record first half operating profit of £0.9 million.

The new factory is bringing the greater operational flexibility and efficiency expected, which should benefit the division's financial performance in the future. In addition, there is significant capacity available for expansion and further investments are being made in plant, machinery and automation to help drive future profitable growth.

Financial review

The group's underlying tax rate was similar to the prior first half year at 20.3%.

Underlying earnings per share from continuing operations were 5.0 pence (2017/18: 7.8 pence), reflecting the lower underlying profit before tax as described above.

Basic earnings per share were 8.4 pence (2017/18: 6.9 pence) benefiting from the net non-underlying credit also described above.

The group's net cash inflow in the first half of the year was £4.5 million, including the net disposal proceeds of £4.2 million from Alumasc Facades (2017/18: outflow of £3.7 million). As a consequence, the group's net debt reduced from £4.8 million at 30 June 2018 to £0.3 million at 31 December 2018 (31 December 2017: net cash of £2.4 million, prior to the £8.0 million acquisition of Wade on 31 January 2018).

Capital expenditure of £0.9 million in the first half was just below the depreciation charge in the period. The group continues to invest in automation and technology to improve operational efficiency and we expect capital spend in the second half to rise to be approximately double that in the first half.

The group's pension deficit reduced marginally from £15.1 million to £15.0 million in the period, despite a one-off £1.1 million increase in liabilities following a recent High Court decision, applicable generally to UK defined benefit pension schemes, relating to guaranteed minimum pension ("GMP") equalisation between men and women. The project to merge the group's two legacy defined benefit pension schemes remains on track to complete in the Spring, enabling the benefit to be reflected in the next formal triennial actuarial valuation later this year. This merger will enable further simplification of the group's legal structure.

Shareholders' funds increased from £24.4 million at 30 June 2018 to £25.8 million at 31 December 2018 mainly reflecting retained profit after tax and dividends in the period.

Interim Dividend

The Board has decided to declare an unchanged interim dividend of 2.95 pence per share, payable on 8 April 2019 to shareholders on the register on 1 March 2019.

Order book

Like-for-like order intake across the group was 21% higher in the first half of the 2018/19 financial year than in the previous first half, mainly driven by the improvement at Levolux described above. Order books at 31 December of £27.5 million were 17% up on a year ago, and pre-order pipelines remain strong. In addition, Gatic secured a £0.8 million export contract in January 2019 that is expected to convert to revenue prior to the financial year end.

Outlook

Despite the challenging market conditions, the Board is encouraged by order intake levels and expects a much stronger performance in the second half year than the first. The Board is though mindful of the risks posed by the current economic uncertainty to the UK construction sector as well as any further delays in project pipeline conversion.

More broadly, following management action taken in recent months to better leverage the strong strategic positioning of the group's businesses and improve profit, we remain confident in the future.

Paul Hooper, Chief Executive
31 January 2019

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME for the half year to 31 December 2018

	Half year to 31 December 2018			Half year to 31 December 2017			Year to 30 June 2018
	Underlying (Unaudited)	Non-underlying (Unaudited)	Total (Unaudited)	Underlying (Unaudited)	Non-underlying (Unaudited)	Total (Unaudited)	Total (Audited)
	Notes	£'000	£'000	£'000	£'000	Restated £'000	Restated £'000
Continuing operations:							

Revenue	6	44,345	-	44,345	42,627	-	42,627	87,336
Cost of sales		(31,609)	-	(31,609)	(29,352)	-	(29,352)	(60,389)
Gross profit		12,736	-	12,736	13,275	-	13,275	26,947
Net operating expenses								
Net operating expenses before non-underlying items		(10,334)	-	(10,334)	(9,688)	-	(9,688)	(20,723)
IAS 19 past service pension cost	4	-	(1,111)	(1,111)	-	-	-	-
Other non-underlying items	4	-	(333)	(333)	-	(240)	(240)	(588)
Net operating expenses		(10,334)	(1,444)	(11,778)	(9,688)	(240)	(9,928)	(21,311)
Operating profit	4, 6	2,402	(1,444)	958	3,587	(240)	3,347	5,636
Finance expenses	7	(143)	(196)	(339)	(84)	(250)	(334)	(706)
Profit before taxation		2,259	(1,640)	619	3,503	(490)	3,013	4,930
Tax expense	8	(357)	-	(357)	(583)	-	(583)	(967)
Profit for the period from continuing operations		1,902	(1,640)	262	2,920	(490)	2,430	3,963
Discontinued operations:								
Profit after taxation for the period from discontinued operations	5	-	2,767	2,767	-	21	21	354
Profit for the period		1,902	1,127	3,029	2,920	(469)	2,451	4,317
Other comprehensive income:								
Items that will not be recycled to profit or loss:								
Actuarial (loss)/gain on defined benefit pensions, net of tax				(120)			(1,158)	2,280
Items that are or may be recycled subsequently to profit or loss:								
Effective portion of changes in fair value of cash flow hedges, net of tax				96			54	(220)
Exchange differences on retranslation of foreign operations				16			(11)	2
				112			43	(218)
Other comprehensive (loss)/gain for the period, net of tax				(8)			(1,115)	2,062
Total comprehensive profit for the period, net of tax				3,021			1,336	6,379
Earnings per share				Pence			Pence	Pence
Basic earnings per share								
- Continuing operations				0.7			6.8	11.0
- Discontinued operations				7.7			0.1	1.0
	11			8.4			6.9	12.0
Diluted earnings per share								
- Continuing operations				0.7			6.6	10.9
- Discontinued operations				7.7			0.1	1.0
	11			8.4			6.7	11.9
Alternative Performance Measures:								
Underlying earnings per share (pence)				5.0			7.8	13.4

Full reconciliations of underlying to statutory profits and earnings per share are provided in notes 4 and 11 respectively.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION at 31 December 2018

	31 December 2018 (Unaudited) £'000	31 December 2017 (Unaudited) £'000	30 June 2018 (Audited) £'000
Assets			
Non-current assets			
Property, plant and equipment	10,825	6,743	10,661

Goodwill	18,705	16,488	18,705
Other intangible assets	3,606	2,286	3,913
Deferred tax assets	2,548	3,509	2,574
	35,684	29,026	35,853
Current assets			
Inventories	9,584	10,749	10,440
Trade and other receivables	15,883	18,870	23,755
Cash and cash equivalents	5,685	5,344	4,656
Derivative financial assets	-	4	-
	31,152	34,967	38,851
Total assets	66,836	63,993	74,704
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	(5,982)	(2,953)	(9,468)
Employee benefits payable	(14,989)	(20,639)	(15,140)
Provisions	(1,355)	(861)	(1,525)
Deferred tax liabilities	(974)	(529)	(905)
	(23,300)	(24,982)	(27,038)
Current liabilities			
Trade and other payables	(16,395)	(18,057)	(22,413)
Provisions	(811)	(166)	(100)
Corporation tax payable	(351)	(539)	(405)
Derivative financial liabilities	(211)	-	(327)
	(17,768)	(18,762)	(23,245)
Total liabilities	(41,068)	(43,744)	(50,283)
Net assets	25,768	20,249	24,421
Equity			
Called up share capital	4,517	4,517	4,517
Share premium	445	445	445
Capital reserve - own shares	(178)	(526)	(241)
Hedging reserve	(175)	3	(271)
Foreign currency reserve	102	73	86
Profit and loss account reserve	21,057	15,737	19,885
Total equity	25,768	20,249	24,421

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH
FLOWS
for the half year to 31 December 2018**

	Half year to 31 December 2018 (Unaudited)	Half year to 31 December 2017 (Unaudited)	Year to 30 June 2018 (Audited)
Notes	£'000	£'000	£'000
Operating activities			
Operating profit	958	3,347	5,636
Adjustments for:			
Depreciation	597	444	1,081
Amortisation	356	186	434
Gain on disposal of property, plant and equipment	(6)	(6)	(18)
Loss on disposal of business assets	-	218	218
Gain on disposal of available-for-sale assets	-	(426)	(426)
IAS 19 past service pension cost	1,111	-	-

Decrease/(increase) in inventories	179	(578)	580
Decrease/(increase) in receivables	7,796	2,428	(1,110)
Decrease in trade and other payables	(6,076)	(4,751)	(1,444)
Movement in provisions	(236)	(20)	242
Cash contributions to retirement benefit schemes	(1,601)	(1,601)	(3,203)
Share based payments	(15)	-	160
Cash generated/(absorbed) by operating activities of continuing operations	3,063	(759)	2,150
Cash generated/(absorbed) by operating activities of discontinued operations	223	(147)	251
Tax paid	(346)	(392)	(679)
Net cash inflow/(outflow) from operating activities	2,940	(1,298)	1,722
Investing activities			
Purchase of property, plant and equipment - continuing operations	(823)	(1,755)	(2,967)
Purchase of property, plant and equipment - discontinued operations	(15)	(29)	(75)
Payments to acquire intangible fixed assets	(49)	(108)	(229)
Proceeds from sales of property, plant and equipment	6	6	26
Acquisition of subsidiary undertaking, prior to payment for cash acquired	-	-	(7,807)
Net proceeds from sale of business activity	4,175	677	767
Proceeds from sale of available-for-sale assets	-	443	443
Net cash inflow/(outflow) from investing activities	3,294	(766)	(9,842)
Financing activities			
Interest paid	(138)	(69)	(185)
Equity dividends paid	(1,583)	(1,538)	(2,594)
(Repayment)/draw down of amounts borrowed	(3,500)	-	6,500
Exercise of share based incentives	-	12	39
Net cash (outflow)/inflow from financing activities	(5,221)	(1,595)	3,760
Net increase/(decrease) in cash and cash equivalents	1,013	(3,659)	(4,360)
Net cash and cash equivalents brought forward	4,656	9,014	9,014
Net increase/(decrease) in cash and cash equivalents	1,013	(3,659)	(4,360)
Effect of foreign exchange rate changes	16	(11)	2
Net cash and cash equivalents carried forward	12 5,685	5,344	4,656

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 31 December 2018

	Share capital £'000	Share premium £'000	Capital reserve - own shares £'000	Hedging reserve £'000	Foreign currency reserve £'000	Profit and loss account reserve £'000	Total £'000
At 1 July 2018, as previously reported	4,517	445	(241)	(271)	86	19,885	24,421
Impact of change in accounting policy - IFRS 15 (see note 1)	-	-	-	-	-	(76)	(76)
Adjusted balance at 1 July 2018	4,517	445	(241)	(271)	86	19,809	24,345
Profit for the period	-	-	-	-	-	3,029	3,029
Exchange differences on retranslation of foreign operations	-	-	-	-	16	-	16
Net gain on cash flow hedges	-	-	-	116	-	-	116
Tax on derivative financial liability	-	-	-	(20)	-	-	(20)
Actuarial loss on defined benefit pension schemes, net of tax	-	-	-	-	-	(120)	(120)
Dividends	-	-	-	-	-	(1,583)	(1,583)
Share based payments	-	-	-	-	-	(15)	(15)
Exercise of share based incentives	-	-	63	-	-	(63)	-
At 31 December 2018	4,517	445	(178)	(175)	102	21,057	25,768
	Share	Share	Capital reserve -	Hedging	Foreign currency	Profit and loss account	

	capital £'000	premium £'000	own shares £'000	reserve £'000	reserve £'000	reserve £'000	Total £'000
At 1 July 2017	4,517	445	(541)	(51)	84	15,983	20,437
Profit for the period	-	-	-	-	-	2,451	2,451
Exchange differences on retranslation of foreign operations	-	-	-	-	(11)	-	(11)
Net gain on cash flow hedges	-	-	-	66	-	-	66
Tax on derivative financial asset	-	-	-	(12)	-	-	(12)
Actuarial loss on defined benefit pension schemes, net of tax	-	-	-	-	-	(1,158)	(1,158)
Dividends	-	-	-	-	-	(1,538)	(1,538)
Share based payments	-	-	-	-	-	2	2
Exercise of share based incentives	-	-	15	-	-	(3)	12
At 31 December 2017	4,517	445	(526)	3	73	15,737	20,249

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the half year to 31 December 2018

1. Basis of preparation

The condensed consolidated interim financial statements of The Alumasc Group plc and its subsidiaries have been prepared on the basis of International Financial Reporting Standards (IFRS), as adopted by the European Union, that are effective at 31 December 2018.

The condensed consolidated interim financial statements have been prepared using the accounting policies set out in the statutory accounts for the financial year to 30 June 2018 and in accordance with IAS 34 "Interim Financial Reporting".

The consolidated financial statements of the group as at and for the year ended 30 June 2018 are available on request from the company's registered office at Burton Latimer, Kettering, Northants, NN15 5JP or on the website www.alumasc.co.uk.

The comparative figures for the financial year ended 30 June 2018 are not the company's statutory accounts for that financial year but have been extracted from those accounts. 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 condensed consolidated interim financial statements for the half year ended 31 December 2018 are not statutory accounts and have been neither audited nor reviewed by the group's auditors. They do not contain all of the information required for full financial statements, and should be read in conjunction with the consolidated financial statements of the group as at and for the year ended 30 June 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors on 31 January 2019.

On the basis of the group's financing facilities and current financial plans and

sensitivity analyses, the Board is satisfied that the group has adequate resources to continue in operational existence for twelve months from the date of signing this report and accordingly continues to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

Changes in accounting policy

Except as described below, the accounting policies adopted in the preparation of the unaudited condensed group interim financial statements to 31 December 2018 are consistent with the policies applied by the group in its consolidated financial statements as at and for the year ended 30 June 2018. The changes in accounting policies are also expected to be reflected in the group's consolidated financial statements as at and for the year ending 30 June 2019.

IFRS 15 Revenue from Contracts with Customers

The directors have completed their assessment of the impact of IFRS 15 "Revenue from Contracts with Customers" and the group has adopted the new standard for the financial year ending 30 June 2019 using the cumulative effect method, as the net impact of adopting the new standard is not significant. As a result of adopting the input method of revenue recognition under the new standard as opposed to the output method in the old standard, the group has re-stated its opening equity position as at 1 July 2018 by reducing its profit and loss reserve by £76,000 to reflect the impact of transitioning to IFRS 15, see note 14. The comparative information for the six month period to 31 December 2017 and the twelve month period to 30 June 2018 has not been re-stated and continues to be reported under IAS 18 Revenue and IAS 11 Construction contracts, the accounting policies stated in the annual report for the year ended 30 June 2018.

IFRS 15 has impacted the group in the following ways:

Architectural screening, solar shading & balconies:

All revenue within the Architectural screening, solar shading & balconies division, for which revenue was previously recognised over time measured by reference to the stage of completion of the contract on an output cost method based on Quantity Surveyor assessments, will now be recognised on an input cost method over time. Revenue and associated margin are therefore recognised progressively as costs are incurred, having regard to latest estimates of cost to complete and expected project margins. The group has determined that this method more fairly reflects progress in satisfying customer performance obligations.

Within trade and other receivables in the consolidated statement of financial position:

- Previously, under IAS 11, amounts recoverable on construction contracts reflected amounts invoiced for payment of work performed based on quantity surveyor assessments
- Under IFRS 15, invoices for payment are presented as trade receivables with revenue recognised at the balance sheet date not yet invoiced presented as a contract asset.

Within trade and other payables in the consolidated statement of financial position:

- Previously, under IAS 11, payments in advance of revenue recognised were presented as construction deposits received on account
- Under IFRS 15, payments in advance of revenue recognised are presented as contract liabilities.

Other revenue streams:

The group has concluded that the impact of adopting IFRS 15 in our Roofing & Water Management and Housebuilding & Ancillary Products divisions at 30 June

2018 is immaterial because the point at which performance obligations to customers were satisfied under IFRS 15 at that date was similar to the point at which risks and rewards were transferred under IAS 18. It is possible that, should the value of bespoke contract work in the Roofing & Water Management division become material in the future, IFRS 15 could result in earlier recognition of revenue and profit over time.

Changes in accounting policy:

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's adoption of IFRS 15 are set out below:

Revenue represents the total amounts receivable by the group for goods supplied and services provided, excluding VAT and rebates

Architectural screening, solar shading & balconies:

The performance obligations and transaction price are defined within signed contracts between the customer and Levolux. These contracts contain one performance obligation as the scope of work and pricing of the contract is to deliver an interrelated service. *Effect of change in accounting policy: The contracts with customers as defined under IFRS 15 correspond in almost all circumstances to construction contracts as previously defined under IAS 11.* The revenue for the performance obligation is recognised on an input cost method over time, measured by reference to the stage of completion of the contract. Revenue and associated profit are therefore recognised progressively as costs are incurred and having regard to latest estimates of cost to complete and expected project margins. *Effect of change in accounting policy: Revenue was previously recognised on an output cost method based on Quantity Surveyor assessments. The group has determined that an input method more fairly reflects progress in satisfying customer performance obligations and, depending on stage of completion of each contract at the reporting date, will generally result in earlier recognition of revenue and profit.*

Due to the nature of the services provided, instructed variations to contracts are usually accounted for as if it was part of the existing contract, as the variations do not result in a distinct good or service being delivered. Where the variation to the original contract is for extra goods or services which are distinct from the original performance obligations under the contract, this is accounted for as a separate contract. Claims for extra revenue for variations or extra work over and above the original contract are only recognised when management determines the revenue to be highly probable. *Effect of change in accounting policy: The move from "probable" under IAS 37 to "highly probable" under IFRS 15 did not create a material change in the timing of revenue recognition for the group at the transition date.*

Within trade and other receivables in the consolidated statement of financial position:

- Trade receivables represent invoiced rights to payment. Contract assets represent revenue recognised at the balance sheet date not yet invoiced.

Within trade and other payables in the consolidated statement of financial position:

- Contract liabilities represent payments received in advance of revenue recognised.

Other revenue streams:

The revenue for each performance obligation is generally recognised at a point in time upon despatch of goods, or receipt of goods by the customer, depending on

the terms of trade of each operating entity. *Effect of change in accounting policy: The satisfaction of performance obligations to customers under IFRS 15 matches the point at which risks and rewards were transferred under IAS 18.*

However, should the value of bespoke contract work in the Roofing & Water Management division become material, IFRS 15 could result in earlier recognition of revenue and profit over time.

The impact of the adoption of IFRS 15, both at the transition date and on the six month accounting period ended 31 December 2018, is set out in note 14.

IFRS 9 Financial Instruments

The group has adopted IFRS 9 "Financial Instruments" from 1 July 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and specifies how an entity should classify and measure financial assets and liabilities.

The most significant area of change which could potentially impact the group's reported results is the introduction of an "expected loss" model for impairment provisioning of receivables, which now also includes contract assets recognised under the adoption of IFRS 15 "Revenue from Contracts with Customers".

Based on an assessment of historic credit losses and the likelihood of the occurrence of future credit losses on existing financial assets, and the existence of credit insurance for the majority of group receivables, the directors consider that there are no further material impairment losses to be recognised against the group's financial assets as a result of the transition to IFRS 9.

Changes in accounting policy:

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's adoption of IFRS 9 are set out below:

The group's principal financial instruments comprise cash and cash equivalents, trade receivables, contract assets, trade payables, contract liabilities and interest-bearing borrowings. Based on the way these financial instruments are managed and their contractual cash flow characteristics, all the group's financial assets and liabilities are measured at amortised cost, which in most cases in the group is materially the same as their original invoiced or recognition value, due to the relatively short credit periods involved.

Effect of change in accounting policy: Cash and cash equivalents and trade receivables were previously treated as financial assets under IAS 39 and were measured at amortised cost. Trade payables and interest-bearing borrowings were previously treated as financial liabilities under IAS 39 and were measured at amortised cost. Contract assets and contract liabilities under IFRS 15, previously classified as amounts recoverable on construction contracts and construction deposits received on account under IAS 11, continue to be measured at amortised cost. The adoption of IFRS 9 has therefore not had any impact on the measurement of the group's financial assets and liabilities.

Impairment losses against financial assets carried at amortised cost are recognised by reference to any expected credit losses against those assets. *Effect of change in accounting policy: IFRS 9 replaces the incurred loss model in IAS 39 with the expected credit loss model, which requires that future events are considered when calculating impairments to financial assets. Based on an assessment of historic*

credit losses on the group's financial assets and the likelihood of the occurrence of future credit losses on existing financial assets, the Directors consider that any increase in impairment provision to be recognised against the group's financial assets on transition to IFRS 9 is immaterial.

Update on new standards not yet applied

The group is currently assessing the impact that IFRS 16 "Leases" will have on the group's assets and liabilities. This standard will be applicable to the group from 1 July 2019. The ongoing assessment is consistent with that published in Report and Accounts 2018.

2. Estimates

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

Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

During the six months ended 31 December 2018, management reassessed and updated its estimates in respect of retirement benefit obligations based on market data available at 31 December 2018. The resulting impact was a £0.1 million pre-tax actuarial loss (excluding the £1.1 million past service cost included in the operating profit for the period), calculated using IAS 19 conventions, recognised in the six month period to 31 December 2018.

3. Risks and uncertainties

A summary of the group's principal risks and uncertainties was provided on pages 28 and 29 of Alumasc's Report and Accounts 2018. The Board considers these risks and uncertainties remain relevant to the current financial year.

Specific risks and uncertainties relating to the group's performance in the second half year are:

- The progress and outcome of current Brexit negotiations

Ongoing uncertainty over Brexit is impacting customer decision making, leading to project delays and also conversion of some work in our sales pipeline into orders being deferred. Whilst we have some allowance for this built into in our forecasts, revenue and profit performance in the second half year could be impacted.

Alumasc is a UK based group and does not have operations located in the Eurozone. Circa 5% of sales are made to, and over 10% of material supplies are sourced from, the Eurozone. We are working closely with both customers and suppliers to ensure known risks to all parties are managed as far as possible. We have no "just in time" supply chain exposures. We are increasing inventories in the second half year to mitigate the shorter-term risks of any "hard" or "no deal" Brexit and to maintain continuity of supply. We have operational flexibility to have supplies shipped to UK ports in

numerous locations should any bottlenecks arise. We have significantly increased our forward foreign currency hedging to manage the impact of potential foreign exchange rate volatility on revenues and profits. We are also in the final phase of implementing hedging strategies to mitigate inflation and interest rate risk in our pension schemes and we have a well diversified pension investment portfolio.

· Changing environmental regulations in China

Government policy and action in China could result in unexpected supplier factory closures and this might disrupt our operations, particularly in the Roofing & Water Management division. We are working with our long standing suppliers in China and investing in tooling compatible with their planned newer and cleaner manufacturing facilities to mitigate risks in this area.

4. Underlying to statutory profit reconciliation

<u>Profit before tax</u>	Half year to 31 December 2018 £'000	Half year to 31 December 2017 £'000	Year to 30 June 2018 £'000
Underlying profit before tax	2,259	3,503	6,012
Brand amortisation	(119)	(126)	(239)
IAS 19 net pension scheme finance costs	(196)	(250)	(494)
Operating profit of Alumasc Facades*	163	26	444
Gain on disposal of Alumasc Facades*	2,637	-	-
Guaranteed minimum pension equalisation - past service cost	(1,111)	-	-
Restructuring & relocation costs	(214)	(322)	(322)
Loss on disposal of SCP assets	-	(218)	(218)
Profit on disposal of available-for-sale assets	-	426	426
Wade acquisition costs	-	-	(235)
Statutory profit before tax	3,419	3,039	5,374

Analysed by continuing and discontinued operations:

Continuing	619	3,013	4,930
Discontinued	2,800	26	444
Statutory profit before tax	3,419	3,039	5,374

*Alumasc Facades meets the definition of a discontinued operation under international accounting standards. See note 5.

<u>Operating profit</u>	Half year to 31 December 2018 £'000	Half year to 31 December 2017 £'000	Year to 30 June 2018 £'000
Underlying operating profit	2,402	3,587	6,224
Brand amortisation	(119)	(126)	(239)
Operating profit of Alumasc Facades*	163	26	444
Guaranteed minimum pension equalisation - past service cost	(1,111)	-	-
Restructuring & relocation costs	(214)	(322)	(322)
Loss on disposal of SCP assets	-	(218)	(218)
Profit on disposal of available-for-sale assets	-	426	426

Wade acquisition costs	-	-	(235)
Statutory operating profit	1,121	3,373	6,080

Analysed by continuing and discontinued operations:

Continuing	958	3,347	5,636
Discontinued	163	26	444
Statutory operating profit	1,121	3,373	6,080

*Alumasc Facades meets the definition of a discontinued operation under international accounting standards. See note 5.

In the presentation of underlying profits, management treats the amortisation of acquired brands and IAS 19 pension costs as non-underlying items because they are material non-cash and non-trading items that typically would be excluded in assessing the value of the business.

In addition, management has presented the following items as non-underlying as they are non-recurring items that are judged to be significant enough to affect the understanding of the year-on-year evolution of the underlying trading performance of the business:

- The one off IAS 19 past service pension cost relating to Guaranteed Minimum Pension ("GMP") equalisation between men and women, following a High Court decision on 26 October 2018;
- The loss on disposal of the Scaffold and Construction Products ("SCP") business, which was sold on 31 July 2017;
- The profit on disposal of the group's share of Amorim Isolamentos S.A, a previously available-for-sale asset on 21 November 2017;
- Cost of restructuring and relocation of businesses within the group in 2018/19 and 2017/18; and
- Acquisition costs relating to the purchase of Wade International Limited on 31 January 2018.

5. Discontinued operations

Discontinued operations relate to the Alumasc Facades business which was divested by the group on 31 October 2018.

	Half year to 31 December 2018 £'000	Half year to 31 December 2017 £'000	Year to 30 June 2018 £'000
Revenue	3,763	5,146	11,071
Operating profit	163	26	444
Net gain on disposal of discontinued operation	2,637	-	-
Profit before taxation	2,800	26	444
Tax charge	(33)	(5)	(90)
Profit after taxation	2,767	21	354
			£'000
Gross sales proceeds			4,500
Costs of disposal			(325)
Net sales proceeds			4,175
Net assets disposed of:			
Plant & equipment			(84)
Working capital at completion			(677)

Provisions for consequential restructuring and plant decommissioning costs	(777)
Net gain on disposal	2,637

6. Segmental analysis - continuing operations

In accordance with IFRS 8 Operating Segments, the segmental analysis below follows the group's internal management reporting structure.

The group sold the Alumasc Facades business on 31 October 2018. This has been treated as a discontinued operation (see note 5). Revenues and operating results from this business have been excluded from the segmental analysis below. This business was formerly part of the group's Roofing & Walling operating segment in prior years. Due to changes to internal management reporting and responsibilities to the Chief Operating Decision Maker in respect of the Roofing business following the sale of Alumasc Facades, this business is now included within the Roofing & Water Management segment.

	Revenue £'000	Segmental operating result £'000
Half Year to 31 December 2018		
Roofing & Water Management	28,558	2,321
Architectural Screening, Solar Shading & Balconies	10,193	(429)
Housebuilding Products & Ancillaries	5,594	883
Sub-total	44,345	2,775
Unallocated costs		(373)
Total	44,345	2,402
		£'000
Segmental operating result		2,402
Brand amortisation		(119)
Past service cost in respect of GMP equalisation (see note 4)		(1,111)
Restructuring & relocation costs		(214)
Total operating profit		958
		£'000
Half Year to 31 December 2017		
Roofing & Water Management	26,008	2,299
Architectural Screening, Solar Shading & Balconies	11,309	731
Housebuilding Products & Ancillaries	5,022	876
Sub-total	42,339	3,906
Unallocated costs		(319)
Total*	42,339	3,587
		£'000
Segmental operating result		3,587
Brand amortisation		(126)
Loss on disposal of SCP assets		(218)
Profit on disposal of available-for-sale assets		426
Restructuring & relocation costs		(322)
Total operating profit		3,347

* Total excludes the SCP business sold on 31 July 2017.

	Revenue £'000	Segmental operating result £'000
Full Year to 30 June 2018		
Roofing & Water Management	54,608	4,935
Architectural Screening, Solar Shading & Balconies	21,957	786
Housebuilding Products & Ancillaries	10,483	1,660
Sub-total	87,048	7,381
Unallocated costs		(1,157)
Total	87,048	6,224
		£'000
Segmental operating result		6,224
Brand amortisation		(239)
Loss on disposal of SCP assets		(218)
Profit on disposal of available-for-sale assets		426
Restructuring & relocation costs		(322)
Wade acquisition costs		(235)
Total operating profit		5,636

7. Finance expenses

	Half year to 31 December 2018 £'000	Half year to 31 December 2017 £'000	Year to 30 June 2018 £'000
Finance costs	11	11	33
- Bank overdrafts	132	73	179
- Revolving credit facility	143	84	212
- IAS 19 net pension scheme finance costs	196	250	494
	339	334	706

8. Tax expense

	Half year to 31 December 2018 £'000	Half year to 31 December 2017 £'000	Year to 30 June 2018 £'000
Current tax:			
UK corporation tax - continuing operations	263	433	469
- discontinued operations	33	5	90
Overseas tax	-	-	33
Amounts over provided in previous years	-	-	(2)
Total current tax	296	438	590
Deferred tax:			
Origination and reversal of temporary differences	94	150	491
Amounts under provided in previous years	-	-	5
Rate change adjustment	-	-	(29)
Total deferred tax	94	150	467
Total tax expense	390	588	1,057
Deferred tax recognised in other comprehensive income:			
Actuarial losses on pension schemes	(24)	(238)	467
Cash flow hedges	20	12	(45)

Tax (credited)/charged to other comprehensive income	(4)	(226)	422
Total tax charge in the statement of comprehensive income	386	362	1,479

9. Dividends

The Directors have approved an interim dividend per share of 2.95p (2017/18: 2.95p) which will be paid on 8 April 2019 to shareholders on the register at the close of business on 1 March 2019. The cash cost of the dividend is expected to be £1,062,000. In accordance with accounting requirements, as the dividend was approved after the statement of financial position date, it has not been accrued in the interim consolidated financial statements. A final dividend per share of 4.4p in respect of the 2017/18 financial year was paid at a cash cost of £1,583,000 during the six months to 31 December 2018.

10. Share Based Payments

During the period the group awarded 90,000 options (2017/18: 210,000) under the Executive Share Option Scheme ("ESOS"). These options have an exercise price of 126.5p and require certain criteria to be fulfilled before vesting. No existing options (2017/18: 20,000) were exercised during the period and 200,000 existing options lapsed (2017/18: 40,000).

Total awards granted under the group's Long Term Incentive Plans ("LTIP") amounted to 373,267 (2017/18: 282,629). LTIP awards have no exercise price but are dependent on certain vesting criteria being met. 42,166 existing LTIP awards were exercised during the period (2017/18: none) and 222,464 existing LTIP awards lapsed (2017/18: none).

11. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares in issue during the period, after allowing for the exercise of outstanding share options. The following sets out the income and share data used in the basic and diluted earnings per share calculations:

	Half year to 31 December 2018	Half year to 31 December 2017	Year to 30 June 2018
	£'000	Restated £'000	Restated £'000
Net profit attributable to equity holders of the parent - continuing operations	262	2,430	3,963
Net profit attributable to equity holders of the parent - discontinued operations	2,767	21	354
	3,029	2,451	4,317
	000s	000s	000s
Basic weighted average number of shares	35,983	35,772	35,830
Dilutive potential ordinary shares - employee share options	23	694	361
Diluted weighted average number of shares	36,006	36,466	36,191

Calculation of underlying earnings per share from continuing operations:

	Half year to 31 December 2018	Half year to 31 December 2017	Year to 30 June 2018
	£'000	Restated £'000	Restated £'000
Reported profit before taxation from continuing operations	619	3,013	4,930
Brand amortisation	119	126	239
IAS 19 net pension scheme finance costs	196	250	494
Pension GMP equalisation	1,111	-	-
Restructuring & relocation costs	214	322	322
Loss on disposal of SCP assets	-	218	218
Profit on disposal of available-for-sale assets	-	(426)	(426)
Wade acquisition costs	-	-	235
Underlying profit before taxation from continuing operations	2,259	3,503	6,012
Tax at underlying group tax rate of 20.3% (2017/18 first half year: 20.3%; full year: 20.3%)	(459)	(711)	(1,220)
Underlying earnings from continuing operations	1,800	2,792	4,792
Weighted average number of shares	35,983	35,772	35,830
Underlying earnings per share from continuing operations	5.0p	7.8p	13.4p

12. Movement in net cash/(debt)

	Cash and bank overdrafts £'000	Bank loans £'000	Net cash £'000
At 1 July 2017	9,014	(2,938)	6,076
Cash flow movements	(3,659)	-	(3,659)
Non-cash movements	-	(15)	(15)
Effect of foreign exchange rates	(11)	-	(11)
At 31 December 2017	5,344	(2,953)	2,391
	Cash and bank overdrafts £'000	Bank loans £'000	Net debt £'000
At 1 July 2018	4,656	(9,468)	(4,812)
Cash flow movements	1,013	3,500	4,513
Non-cash movements	-	(14)	(14)
Effect of foreign exchange rates	16	-	16
At 31 December 2018	5,685	(5,982)	(297)

13. Related party disclosure

The group has a related party relationship with its Directors and with its UK pension schemes. There has been no material change in the nature of the related party transactions described in the Report and Accounts 2018. Related party information is disclosed in note 28 of that document.

14. IFRS 15 impact of transition and first half year

Transition

The group has taken advantage of the relief in IFRS 15 to reflect the aggregate

effect of all modifications that occur before 1 July 2018 as a reduction to the group's profit and loss account reserve at 1 July 2018 by £76,000, because the net impact of adopting the new standard is not significant on the previously reported profit.

Impact on six months to 31 December 2018

Had the group continued to report in accordance with IAS 18 "Revenue" for the six months ended 31 December 2018, it would have reported the following amounts in these financial statements;

	As would have been reported £'000	Effect £'000	As reported under IFRS 15 £'000
Income statement extract:			
Revenue	42,856	1,489	44,345
Underlying profit before tax	1,909	350	2,259
Statutory profit before tax	3,069	350	3,419
Tax expense	(319)	(71)	(390)
Statutory profit after tax	2,750	279	3,029
Statement of financial position extract:			
Contract assets/Accrued income (included in Trade & other receivables)	2,236	243	2,479
Contract liabilities/Deferred income (included in Trade & other payables)	(922)	548	(374)

The main reasons for the differences are;

- Recognition of revenue and profit on an input cost method over time, measured by reference to the stage of completion of the contract, rather than on an output cost method over time based on Quantity Surveyor assessments;
- Resultant changes in the tax expense arising from the above adjustment.

Responsibility Statement

The Directors confirm that, to the best of their knowledge:

a) the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU; and

b) the interim management report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure Guidance 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
- DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

G P Hooper
Chief Executive

A Magson
Group Finance Director

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