

**6 September 2018**  
**AIM: MPAC**



*This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No. 596/2014*

**Mpac Group plc**  
**("Mpac", "Company" or "Group")**

**Mpac, the global packaging solutions group, today announces its results for the six months to 30 June 2018**

**Key points**

- Increase in Group sales (continuing operations) of 11% to £28.2m (2017: £25.4m)
- Underlying profit before tax (continuing operations) of £nil (2017: £0.3m)
- Profitability constrained by £1.0m due to two loss making legacy contracts
- Reflecting headwinds from the challenging business environment, order intake for the period is c.20% below the level seen during the first half of 2017
- Despite this, the order book at end of the period is broadly in line with the level seen at the end of June 2017
- Underlying loss per share (continuing operations) of 1.6p (2017: earnings of 3.1p)
- Statutory loss before tax of £0.6m (2017: £0.2m). Basic loss per share of 3.9p (2017: earnings of 4.3p)
- Net cash of £24.9m (30 June 2017: net debt of £1.1m; 31 December 2017: £29.4m). Cash flows consistent with seasonal trend.

Tony Steels, Chief Executive, commented:

"It's been a mixed start to the year, with good progress in a number of areas, counter-balanced by delays in two legacy contracts. I am disappointed that the momentum built in the previous year has been slowed due to the current business environment with investment decisions taking longer to conclude, however since the end of June 2018 a significant value order was secured for delivery in 2019 which gives us further confidence that the strategic objectives will deliver long term revenue growth. The fundamentals of our business remain strong, we are well capitalised, and fully focused on executing our strategic plan"

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## **HALF-YEAR MANAGEMENT REPORT**

### **Introduction**

Mpac serves customer needs for ingenious, innovative packaging machinery encompassing, Make, Pack, Test and Service. We design, precision engineer and manufacture high speed packaging solutions, first-of-a-kind (FOAK) machinery and high specification automation, secondary packaging equipment, end-of-line robotics and at-line instrumentation and testing solutions. In addition, we provide complete turnkey solutions including the design and integration of packaging systems and a 'cradle to grave' service for our machinery.

The Group's packaging machinery business is focused on the high growth pharmaceutical, healthcare and food and beverage markets, which are expected to enjoy long term growth rates of between 4% to 5%.

The opportunities for the Group are based on the following fundamental strengths:

- Robust long-term growth drivers in our target markets
- Heritage of innovative, high speed packaging machinery solutions
- Global reach with embedded local presence providing exceptional service to our customers
- A talented and engaged workforce

The Board believes that these fundamental strengths place Mpac in a strong position for growth going forward.

Mpac continues to make good progress towards achieving the Board's strategic objectives to build the foundations for future revenue growth.

As outlined at the time of the Company's final results, Mpac started 2018 with a higher order book than at the start of 2017. Following a detailed review, the Board believes the order book is also of higher quality and lower project complexity than previously as a result of the strategic objectives being put in place.

Despite this positive start to the year and whilst we continue to grow revenues, it has become apparent to the Board that the business climate softened considerably as the year progressed, attributable in part to general economic uncertainty, leading to customers deferring machinery investment decisions. The Board believes these prospects will be delivered in future financial years.

### **Strategic Progress**

Our strategic plans continue to make good progress. An example was a significant cross selling order that was successfully secured for a combined FOAK solution and a cartoner packaging line for an existing customer, demonstrating group synergies. Also, the regional sales management team is now complete with the recruitment of a sales director covering EMEA.

Later this year a number of new product innovations will be showcased at the Chicago Pack Expo trade show. These include a new casepacker product together with a Human Machine Interface (HMI) which highlights our Industry 4.0 capabilities.

Progress was also made on improving platforms which enable the Group to operate under a single entity business model and implementing common processes and procedures to provide the necessary structures to support order book growth. Resources will be utilised across the businesses more effectively, leading to efficiency gains and customer benefits such as reduced project delivery periods, and an order book that is of higher quality and lower project complexity than previously.

Service revenue growth has been constrained in the period due to key technical field service resource being re-directed to support the high growth in the Original Equipment ("OE") installation and commissioning. These constraints have been addressed to ensure sufficient technical resource is available to support Services growth going forward.

The new senior management team in Canada is now embedded and is providing the leadership necessary to support our strategic ambitions.

## **Financial results**

The Group entered the year with a strong order book and accordingly, sales in the six months to 30 June 2018 were £28.2m (2017: £25.4m), an 11% increase on the prior year. The Group experienced significant order intake headwinds in the first half of 2018 with order intake approximately 20% below the level seen in the first half of 2017. Currently, order books are broadly in line with the level seen in June 2017 and, although the Group has a robust level of prospects, the conversion of prospects to orders is more difficult to predict in the current environment as customers defer discretionary investments. The current order book has been reviewed in detail to confirm that projects remain on track within contractual terms.

Engineering difficulties with two significant, technically challenging legacy projects, in the UK and Canada, contributed to a reduced gross margin from £7.1m to £5.9m.

The UK based project is a FOAK machine comprising a healthcare device production line of 22 interchangeable modules. The complexity around the software and control aspects was the main cause of the time and cost over-run. Once delivered this innovative line will provide our customer with a clear differentiator with new product time to market.

The Canadian based project encountered issues during the commissioning phase. The consumer products, which were previously hand packed to retain the homely feel, are now automated. Product variability compared with test samples caused low productivity and unforeseen issues with the packaging line. We are working with the customer to reduce the product variability and upgrade the robustness of the packaging line.

Tight control of overheads, including sales, marketing and consultancy costs partially mitigated the profit impact. Further cost cutting initiatives, including headcount reductions, were carried out soon after the half year end.

The Group broke even on an underlying profit before tax basis (2017: £0.3m). The underlying loss after tax for the period was £0.3m (2017: underlying profit of £0.7m) due to overseas tax charges. The underlying loss per share on continuing operations was 1.6p (2017: earnings of 3.1p).

The underlying results are stated before pension related charges of £0.4m (2017: £0.5m), comprising charges in respect of administering the Group's defined benefit pension schemes of £0.5m (2017: £0.4m) and financing income on pension scheme balances of £0.1m (2017: expense of £0.1m), together with restructuring costs of £0.1m (2017: £nil) and abortive acquisition costs of £0.1m (2017: £nil)

On a statutory basis, the loss for the period from continuing operations was £0.9m (2017: £0.3m profit). Discontinued operations in 2017 generated a profit after tax for the period of £0.6m, details of which are shown in note 16. The basic loss per share, which includes profit on discontinued operations in 2017, amounted to 3.9p (2017: earnings of 4.3p).

## *Finances*

Net cash at 30 June 2018 was £24.9m (30 June 2017: net debt of £1.1m; 31 December 2017: £29.4m). Net cash outflow from operating activities in the first half of the year was £3.7m. This is after an increase in working capital levels of £2.4m, reflecting growth in sales from working through the Group order backlog and after deficit recovery payments to the Group's defined benefit pension schemes of £1.0m. Tax paid in the period was £0.1m. Capital and product development expenditure was £0.5m (net).

## **Dividend**

Having considered the trading results to 30 June 2018, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay an interim dividend. No dividends were paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 trading performance and when the Board believes it is prudent to do so.

## **Operating performance**

The Group manages the business in two parts (OE and Service) and across three regions (Americas, EMEA and Asia Pacific). Individual contracts received by the OE business, and to a lesser extent the Service business, can be sizeable. Accordingly, one significant order can have a disproportionate impact on the growth rates seen in individual markets year on year.

## **Original Equipment (OE)**

The Group experienced significant order intake headwinds in the first half of 2018 with order intake at approximately 20% below the level seen in the first half of 2017. Currently, order books are broadly in line with the level at June 2017.

The Group entered 2018 with a strong order book and accordingly sales in the six months to 30 June 2018 were £23.2m (2017: £19.5m), a 19% increase on the prior year.

Sales in the EMEA region increased to £11.7m (2017: £7.3m) an increase of 60%. Sales in the Asia Pacific region also grew steadily to £2.4m (2017: £2.0m) an increase of 20%. Sales in the Americas dropped by 11% to £9.1m (2017: £10.2m).

Sales to the Healthcare sector increased by 27%. Sales to the Pharmaceutical and Food and Beverage markets also showed progress.

Operational difficulties with two technically challenging legacy contracts, in the UK and Canada, contributed to a reduction in gross margin from £4.7m (24%) to £4.2m (18%). The profit impact of these contracts is in the region of £1.0m.

The UK FOAK project is now in the commissioning phase and as such we are confident that the main technical challenges are understood and factored into the costings and delivery schedule which is expected to be in H2 2019.

The Canadian project is now performing to an agreed productivity level on site. A second phase of work is currently being agreed with the customer to further increase productivity and reduce non-conforming product which is expected to be completed in 2018.

## **Services**

Services order intake was 21% lower than 2017. The shortfall was primarily in the Americas which resulted in revenue in the half year of £2.4m (2017: £3.2m). Service sales in both EMEA and Asia Pacific were broadly in line with 2017.

A change in sales mix within Services contributed to reduced gross margins in the service business to £1.7m (34%) compared to £2.4m (41%) in 2017.

## **Investment Property**

The Group owns an investment property and land comprising of 10 acres in Monks Risborough, Buckinghamshire, UK, which is held at a net book value of £0.8m and is not required for the Group's operations. The Group is considering development opportunities and is seeking to have the site designated for residential housing. The Group is negotiating with the planning authorities if re-designation is granted, outline planning permission will then be sought to develop the site.

It is difficult to be precise about the future value of the land if planning approval was obtained for housing. It is not the Group's current intention to redevelop the site itself.

## **Pension schemes**

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members. The Company is responsible for the payment of a statutory levy to the Pension Protection Fund.

The IAS 19 valuation of the UK scheme at 30 June 2018 shows a surplus of £35.1m (£22.8m net of deferred tax), compared with a surplus of £17.6m (£11.3m net of deferred tax) at 31 December 2017. The main driver of the increase in the surplus was a change in the discount rate.

The UK scheme was subject to a formal triennial actuarial valuation as at 30 June 2015, which was completed in the first half of 2017. The principal terms of the deficit funding agreement between the Company and the Trustees are set out in note 7. The next funding valuation will be carried out as at 30 June 2018 and every three years thereafter, and the agreement between the Company and the Fund will be reassessed at each of those valuations. The Company and the Trustees will continue to work closely together to resolve the future funding of the scheme.

The net valuation of the USA pension schemes at 30 June 2018, with total assets of £16.7m, showed a deficit of £5.8m, compared with a deficit of £6.2m at the 31 December 2017.

The aggregate expense of administering the pension schemes was £0.5m (2017: £0.4m). The net financing income on pension scheme balances was £0.1m (2017: expense of £0.1m).

### **Acquisition strategy**

The Board continues to evaluate potential acquisition opportunities, the focus of which is to find businesses that will enhance our presence in packaging solutions in the pharmaceutical, healthcare, food and beverage markets. The Group has developed a good pipeline of acquisition opportunities, and during the period the Group incurred aborted acquisition costs relating to due diligence on a potential acquisition that the Board decided not to proceed with.

### **Outlook**

Given the challenges with the two identified legacy contracts, the order book has been reviewed to identify any possible challenges in our capability to deliver high quality packaging solutions to our customers at the level of profitability expected and is also of higher quality and lower project complexity. The order prospects remain high and of good quality and so the Group will continue its key focus on commercial activities aimed at converting these prospects to orders.

The Group has both the financial and managerial resources available to develop its operations, with the prime focus being on organic growth, through the leveraging of its global position, development of its products and most particularly through an improved service offering to its customers. In conjunction with this, we are looking at a number of acquisition opportunities which will be complementary to the Group's existing operations.

Overall progress in the development of the Group's operations is expected to continue and the Board believes that the future prospects remain strong.

### **Tony Steels**

Chief Executive

6 September 2018

## CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months to 30 June 2018			6 months to 30 June 2017			
	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m	Underlying £m	Non- underlying (note 5) £m	Total £m
<b>Continuing operations</b>							
Revenue	4	28.2	-	28.2	25.4	-	25.4
Cost of sales		(22.3)	-	(22.3)	(18.3)	-	(18.3)
<b>Gross profit</b>		<b>5.9</b>	<b>-</b>	<b>5.9</b>	<b>7.1</b>	<b>-</b>	<b>7.1</b>
Other income		-	-	-	-	-	-
Distribution expenses		(2.4)	-	(2.4)	(2.8)	-	(2.8)
Administrative expenses		(3.3)	(0.7)	(4.0)	(3.7)	(0.4)	(4.1)
Other operating expenses		(0.2)	-	(0.2)	(0.2)	-	(0.2)
<b>Operating (loss) / profit</b>	4, 5	<b>-</b>	<b>(0.7)</b>	<b>(0.7)</b>	0.4	(0.4)	-
Financial income	6	-	0.1	0.1	-	-	-
Financial expenses	6	-	-	-	(0.1)	(0.1)	(0.2)
<b>Net financing expense</b>	4, 6	<b>-</b>	<b>0.1</b>	<b>0.1</b>	(0.1)	(0.1)	(0.2)
<b>(Loss)/profit before tax</b>	4	<b>-</b>	<b>(0.6)</b>	<b>(0.6)</b>	0.3	(0.5)	(0.2)
Taxation	8	(0.3)	-	(0.3)	0.4	0.1	0.5
<b>Profit/(loss) for the period from continuing operations</b>		<b>(0.3)</b>	<b>(0.6)</b>	<b>(0.9)</b>	0.7	(0.4)	0.3
Profit for the period from discontinued operations	16	-	-	-	-	0.6	0.6
<b>Profit/(loss) for the period</b>		<b>(0.3)</b>	<b>(0.6)</b>	<b>(0.9)</b>	<b>0.7</b>	<b>0.2</b>	<b>0.9</b>
<b>(Loss) / earnings per ordinary share</b>							
Basic	9			<b>(3.9)p</b>			4.3p
Diluted	9			<b>(3.9)p</b>			4.3p
<b>(Loss) / earnings per ordinary share from continuing operations</b>							
Basic	9			<b>(3.9)p</b>			1.2p
Diluted	9			<b>(3.9)p</b>			1.2p

## CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

12 months to 31 December 2017

	Notes	Underlying £m	Non- underlying (note 5) £m	Total £m
<b>Continuing operations</b>				
Revenue	4	53.4	-	53.4
Cost of sales		(38.9)	-	(38.9)
<b>Gross profit</b>		<b>14.5</b>	<b>-</b>	<b>14.5</b>
Other income		-	4.8	4.8
Distribution expenses		(5.4)	-	(5.4)
Administrative expenses		(7.3)	(1.5)	(8.8)
Other operating expenses		(0.5)	-	(0.5)
<b>Operating profit</b>	4, 5	<b>1.3</b>	<b>3.3</b>	<b>4.6</b>
Financial income	6	-	0.2	0.2
Financial expenses	6	(0.2)	(0.3)	(0.5)
<b>Net financing expense</b>	4, 6	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.3)</b>
<b>Profit before tax</b>	4	<b>1.1</b>	<b>3.2</b>	<b>4.3</b>
Taxation	8	(0.3)	(1.6)	(1.9)
<b>Profit for the period from continuing operations</b>		<b>0.8</b>	<b>1.6</b>	<b>2.4</b>
Loss for the period from discontinued operations	16	-	(0.8)	(0.8)
<b>Profit for the period</b>		<b>0.8</b>	<b>0.8</b>	<b>1.6</b>
<b>Profit per ordinary share</b>				
Basic	9			8.4p
Diluted	9			8.4p
<b>Profit per ordinary share from continuing operations</b>				
Basic	9			12.2p
Diluted	9			12.1p

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
Profit/(loss) for the period	(0.9)	0.9	1.6
<b>Other comprehensive income/(expense)</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gains	17.3	5.8	9.1
Tax on items that will not be reclassified to profit or loss	(6.1)	(2.0)	(3.2)
	<u>11.2</u>	<u>3.8</u>	<u>5.9</u>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Currency translation movements arising on foreign currency net investments	(0.5)	0.2	0.6
Translation reserve recycled on disposal	-	-	(1.1)
Effective portion of changes in fair value of cash flow hedges	(0.5)	0.5	0.4
	<u>(1.0)</u>	<u>0.7</u>	<u>(0.1)</u>
<b>Other comprehensive income for the period</b>	<u>10.2</u>	<u>4.5</u>	<u>5.8</u>
<b>Total comprehensive income for the period</b>	<u>9.3</u>	<u>5.4</u>	<u>7.4</u>
<b>Total comprehensive income/(expense) for the period arises from:</b>			
Continuing operations	9.3	4.8	8.2
Discontinued operations	-	0.6	(0.8)
	<u>9.3</u>	<u>5.4</u>	<u>7.4</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
<b>6 months to 30 June 2018</b>							
Balance at 1 January 2018	5.0	26.0	1.7	3.9	0.2	6.0	42.8
Loss for the period	-	-	-	-	-	(0.9)	(0.9)
Other comprehensive income for the period	-	-	(0.5)	-	(0.5)	11.2	10.2
<b>Total comprehensive income for the period</b>	-	-	(0.5)	-	(0.5)	10.3	9.3
Purchase of own shares	-	-	-	-	-	-	-
<b>Total transactions with owners, recorded directly in equity</b>	-	-	-	-	-	-	-
<b>Balance at 30 June 2018</b>	<b>5.0</b>	<b>26.0</b>	<b>1.2</b>	<b>3.9</b>	<b>(0.3)</b>	<b>16.3</b>	<b>52.1</b>
<b>6 months to 30 June 2017</b>							
Balance at 1 January 2017	5.0	26.0	2.2	3.9	(0.2)	(1.5)	35.4
Profit for the period	-	-	-	-	-	0.9	0.9
Other comprehensive income for the period	-	-	0.2	-	0.5	3.8	4.5
<b>Total comprehensive income for the period</b>	-	-	0.2	-	0.5	4.7	5.4
Purchase of own shares	-	-	-	-	-	(0.1)	(0.1)
<b>Total transactions with owners, recorded directly in equity</b>	-	-	-	-	-	(0.1)	(0.1)
<b>Balance at 30 June 2017</b>	<b>5.0</b>	<b>26.0</b>	<b>2.4</b>	<b>3.9</b>	<b>0.3</b>	<b>3.1</b>	<b>40.7</b>
<b>12 months to 31 December 2017</b>							
Balance at 1 January 2017	5.0	26.0	2.2	3.9	(0.2)	(1.5)	35.4
Profit for the period	-	-	-	-	-	1.6	1.6
Translation reserve recycled on disposal	-	-	(1.1)	-	-	-	(1.1)
Other comprehensive income for the period	-	-	0.6	-	0.4	5.9	6.9
<b>Total comprehensive income/(expense) for the period</b>	-	-	(0.5)	-	0.4	7.5	7.4
<b>Total transactions with owners, recorded directly in equity</b>	-	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>5.0</b>	<b>26.0</b>	<b>1.7</b>	<b>3.9</b>	<b>0.2</b>	<b>6.0</b>	<b>42.8</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2018 £m	30 June 2017* £m	31 Dec 2017* £m
<b>Non-current assets</b>				
Intangible assets		0.9	1.0	0.9
Property, plant and equipment		4.0	3.2	4.0
Investment property		0.8	0.8	0.8
Other receivables		0.8	-	0.8
Employee benefits	7	35.1	11.1	17.6
Deferred tax assets		1.7	5.2	1.7
		<b>43.3</b>	<b>21.3</b>	<b>25.8</b>
<b>Current assets</b>				
Inventories		4.9	2.7	2.4
Trade and other receivables		11.8	14.5	19.9
Contract assets		6.2	-	-
Current tax assets		0.1	0.2	0.1
Cash and cash equivalents		25.8	6.0	30.3
Assets in disposal group held for sale		-	40.1	-
		<b>48.8</b>	<b>63.5</b>	<b>52.7</b>
<b>Current liabilities</b>				
Bank overdraft		-	(0.2)	-
Trade and other payables		(14.2)	(13.5)	(20.9)
Contract liabilities		(5.5)	-	-
Current tax liabilities		(0.6)	-	(0.4)
Provisions		(0.7)	(0.7)	(1.0)
Liabilities in disposal group held for sale		-	(11.8)	-
		<b>(21.0)</b>	<b>(26.2)</b>	<b>(22.3)</b>
<b>Net current assets</b>		<b>27.8</b>	<b>37.3</b>	<b>30.4</b>
<b>Total assets less current liabilities</b>		<b>71.1</b>	<b>58.6</b>	<b>56.2</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings		(0.9)	(6.9)	(0.9)
Employee benefits	7	(5.8)	(6.6)	(6.2)
Deferred tax liabilities		(12.3)	(4.4)	(6.3)
		<b>(19.0)</b>	<b>(17.9)</b>	<b>(13.4)</b>
<b>Net assets</b>	4	<b>52.1</b>	<b>40.7</b>	<b>42.8</b>
<b>Equity</b>				
Issued capital		5.0	5.0	5.0
Share premium		26.0	26.0	26.0
Reserves		4.8	6.6	5.8
Retained earnings		16.3	3.1	6.0
<b>Total equity</b>		<b>52.1</b>	<b>40.7</b>	<b>42.8</b>

\* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	6 months to 30 June 2018 £m	6 months to 30 June 2017* £m	12 months to 31 Dec 2017* £m
<b>Operating activities</b>				
Operating (loss) / profit from continuing operations		(0.7)	-	4.6
Non-underlying items included in operating profit		0.7	0.4	1.5
Amortisation		0.1	0.2	0.3
Depreciation		0.4	0.3	0.6
Loss/(profit) on disposal of property, plant and equipment		-	0.1	(4.8)
Other non-cash items		-	0.1	-
Defined benefit pension payments		(1.0)	(0.9)	(4.9)
Working capital movements:				
- (increase) / decrease in inventories		(0.1)	0.4	0.7
- decrease/(increase) in trade and other receivables		3.3	1.3	(6.4)
- (increase) in contract assets		(2.4)	-	-
- (decrease)/increase in trade and other payables		(1.6)	(6.2)	3.1
- (decrease) in contract liabilities		(1.6)	-	-
- (decrease) in provisions		-	(0.1)	(0.1)
<b>Cash (used)/generated from operations before reorganisation and discontinued operations</b>		<b>(2.9)</b>	<b>(4.4)</b>	<b>(5.4)</b>
Cash generated from discontinued operations	16	-	3.8	4.4
Reorganisation costs paid		(0.7)	(0.5)	(0.8)
<b>Cash flows from operations</b>		<b>(3.6)</b>	<b>(1.1)</b>	<b>(1.8)</b>
Taxation paid		(0.1)	(0.2)	(0.3)
<b>Cash flows from operating activities</b>		<b>(3.7)</b>	<b>(1.3)</b>	<b>(2.1)</b>
<b>Investing activities</b>				
Proceeds from sale of property, plant and equipment		0.1	-	6.8
Acquisition of property, plant and equipment		(0.5)	(0.2)	(1.6)
Capitalised development expenditure		(0.1)	-	(0.1)
Net proceeds on disposal of discontinued operations		-	-	25.9
Net cash flow from discontinued operations		-	(0.2)	(0.3)
<b>Cash flows from investing activities</b>		<b>(0.5)</b>	<b>(0.4)</b>	<b>30.7</b>
<b>Financing activities</b>				
Interest paid		-	(0.1)	(0.2)
Purchase of own shares		-	(0.1)	(0.1)
Net (decrease)/increase against revolving facilities		-	(1.0)	(7.0)
Dividends paid	10	-	-	-
<b>Cash flows from financing activities</b>		<b>-</b>	<b>(1.2)</b>	<b>(7.3)</b>
<b>Net decrease in cash and cash equivalents</b>	11	<b>(4.2)</b>	<b>(2.9)</b>	<b>21.3</b>
Cash and cash equivalents at 1 January		30.3	8.7	8.7
Effect of exchange rate fluctuations on cash held		(0.3)	-	0.3
<b>Cash and cash equivalents at period end</b>		<b>25.8</b>	<b>5.8</b>	<b>30.3</b>

\* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3.

## NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

### 1. General information

The half-year results for the current and comparative period are unaudited but have been reviewed by the auditors, KPMG LLP, and their report is set out after the notes. The comparative information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The Group's statutory accounts have been reported on by the Group'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 auditor drew attention by way of emphasis without qualifying its report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The Group's statutory accounts for the year ended 31 December 2017 are available from the Company's registered office at 13 Westwood Way, Westwood Business Park, Coventry, CV4 8HS or from the Group's website at [www.mpac-group.com](http://www.mpac-group.com).

Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed set of financial statements.

The condensed set of financial statements was approved by the Board of directors on 6 September 2018.

### 2. Basis of preparation

#### (a) Statement of compliance

The condensed set of financial statements for the 6 months ended 30 June 2018 has been prepared in accordance with IAS 34 *Interim financial reporting* as adopted by the EU. It does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2017. This is the first set of the Group's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in note 3.

#### (b) Judgements and estimates

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

In preparing the condensed set of financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were of the same type as those that applied to the financial statements for the year ended 31 December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9 which are described in note 3.

Mpac is subject to a number of risks which could have a serious impact on the performance of the business. The Board regularly considers the principal risks that the Group faces and how to mitigate their potential impact. The key risks to which the business is exposed are set out on pages 22 and 23 of the Group's 2017 Annual Report and Accounts. One of these risks relates to large one-off projects undertaken for its customers each year. During the first half of the year, operational difficulties with two technically challenging contracts, in both the UK and Canada, reduced the OE gross margin from £4.7m (24%) to £4.2m (18%). Implicitly included within these financial results are the managements best estimates of the costs required to complete these contracts. The Group utilises good project management practices, including regular technical and commercial reviews of its major projects to mitigate the risk of these costs being materially misstated.

### 3. Significant accounting policies

Except as described below, the accounting policies, presentation and methods of computation applied by the Group in this condensed set of financial statements are the same as those applied in the Group's latest audited financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* (ref A) and IFRS 9 *Financial Instruments* (ref B) from 1 January 2018. The effect of initially applying these standards is mainly attributed to additional disclosures. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

#### A. IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method. With the effect of initially applying this standard recognised at the date of initial application i.e. 1 January 2018. Accordingly, the information presented for 2017 has not been restated and is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Adjustments were required in relation to:

1. **Contract Asset / Liability:** The difference between the revenue recognised and the contract billings has been reclassified to become a contract asset / liability on the balance sheet whereas previously this was reflected within the 'trade and other receivables' / 'trade and other payables' in the balance sheet. This reflects the change in presentation required under IFRS 15.

2. **Work in Progress:** Where parts have been purchased in advance of being utilised on a machine build, these are no longer held as work in progress and become part of the company's inventory until they are used.

There has been no change in the income statement or cash flow as a result of applying IFRS 15. This is due to contract related revenue being recognised over time under IFRS 15 for which Mpac meet the criteria as the asset being produced does not have an alternative use and Mpac has an enforceable right to payment for the performance completed to date.

Following the adoption of IFRS 15 from 1 January 2018 the following expedients have been or will be used:

- The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less;
- The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less;
- The Groups contract with customers are in the main for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

The complete revised accounting policy is as follows:

#### **Revenue**

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

#### **Transaction price**

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract.

### **Revenue and profit recognition**

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over time criteria, as performance does not generally create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on labour costs incurred in the period. Revenue and attributable margin are calculated by reference to reliable estimates of the total labour hours and labour hours to be incurred, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

### **Contract modifications**

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. Prospectively as an additional, separate contract;
2. Prospectively as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

### **Costs to obtain a contract**

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

### **Costs to fulfil a contract**

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

### **Inventories**

Inventories includes raw materials, work-in-progress and finished goods recognised in accordance with IAS 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under IFRS 15. It also includes inventories in relation to parts have not been utilised as part of a contract to date but are expected to be used in this manner in the future. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

### **Contract assets**

The contract assets represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

**Contract liabilities**

The contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

**B. IFRS 9 Financial Instruments**

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. IFRS 9 replaces the classification and measurement models for financial instruments in IAS 39. The Group has assessed its balance sheet assets in accordance with the new classification requirements. There has been no change in the classification and measurement for any of the Group's financial assets or liabilities.

In addition, IFRS 9 introduces an 'expected loss' model for the assessment of impairment of financial assets. The 'incurred loss' model under IAS 39 required the Group to recognise impairment losses when there was objective evidence that an asset was impaired. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. However, as permitted by IFRS 9, the Group applies the 'simplified approach' to trade receivable balances. Due to general quality and short-term nature of the trade receivables, there is no significant impact on introduction of the 'simplified approach'.

The Group applies the hedge accounting requirements under IFRS 9 and its hedging activities are discussed in Note 26 of the 2017 Annual Report and Accounts with movements on hedging reserves disclosed on consolidated statement of changes in equity. The Group's existing hedging arrangements have been assessed as compliant with IFRS 9.

The adoption of IFRS 9 from 1 January 2018 does not have a material impact on the Group's reported results.

#### 4. Operating segments

It is the Group's strategic intention to develop "Service as a business", accordingly segmental reporting reflects the split of sales by both Original Equipment (OE) and Service together with the regional split, Americas, EMEA and Asia. The Group's operating segments reflect the basis of the Group's management and internal reporting structure.

Unallocated costs include distribution and administrative expenditure. Further details in respect of the Group structure and performance of the segments are set out in the Half-year management report.

	6 months to 30 Jun 2018			6 months to 30 Jun 2017			12 months to 31 Dec 2017		
	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m	OE £m	Service £m	Total £m
<b>Revenue</b>									
Americas	9.1	2.4	11.5	10.2	3.2	13.4	16.4	6.8	23.2
EMEA	11.7	2.1	13.8	7.3	2.2	9.5	15.8	4.6	20.4
Asia Pacific	2.4	0.5	2.9	2.0	0.5	2.5	8.2	1.6	9.8
<b>Total</b>	<b>23.2</b>	<b>5.0</b>	<b>28.2</b>	<b>19.5</b>	<b>5.9</b>	<b>25.4</b>	<b>40.4</b>	<b>13.0</b>	<b>53.4</b>
<b>Gross profit</b>	<b>4.2</b>	<b>1.7</b>	<b>5.9</b>	<b>4.7</b>	<b>2.4</b>	<b>7.1</b>	<b>9.2</b>	<b>5.3</b>	<b>14.5</b>
Selling, distribution & administration			(5.9)			(6.7)			(13.2)
<b>Underlying operating profit</b>			<b>0.0</b>			<b>0.4</b>			<b>1.3</b>
Unallocated non-underlying items included in operating (loss)/profit			(0.7)			(0.4)			3.3
<b>Operating (loss)/profit</b>			<b>(0.7)</b>			<b>-</b>			<b>4.6</b>
Net financing expense			0.1			(0.2)			(0.3)
<b>(Loss)/Profit before tax from continuing operations</b>			<b>(0.6)</b>			<b>(0.2)</b>			<b>4.3</b>

	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
<b>Disaggregation of revenue – Sales by Market sector</b>			
Pharmaceutical	3.5	3.6	7.4
Healthcare	8.4	6.8	13.0
Food and Beverage	13.5	13.3	28.2
Other	2.8	1.7	4.8
<b>Total</b>	<b>28.2</b>	<b>25.4</b>	<b>53.4</b>
<b>Timing of Revenue recognition</b>			
Products and services transferred at a point in time	6.5	7.2	9.6
Products and services transferred over time	21.7	18.2	43.8
<b>Total</b>	<b>28.2</b>	<b>25.4</b>	<b>53.4</b>

Net financing expense includes dividends paid on preference shares and the net interest receivable in respect of the defined benefit pension scheme. The Company has in issue 900,000 6% fixed cumulative preference shares. The preference dividend is payable on 30 June and 31 December and amounted to £0.1m in the 12 months ended 31 December 2017.



	<b>30 June 2018 £m</b>	30 June 2017 £m	31 Dec 2017 £m
<b>Segment assets</b>			
Americas	<b>13.9</b>	9.3	13.5
EMEA	<b>17.3</b>	16.4	11.1
Asia Pacific	<b>0.6</b>	0.5	0.3
<b>Total segment assets</b>	<b>31.8</b>	26.2	24.9
<b>Segment liabilities</b>			
Americas	<b>(7.5)</b>	(4.9)	(8.6)
EMEA	<b>(9.1)</b>	(12.3)	(10.9)
Asia Pacific	<b>(0.6)</b>	(0.4)	(0.1)
<b>Total segment liabilities</b>	<b>(17.2)</b>	(17.6)	(19.6)
<b>Segment net assets – continuing operations</b>	<b>14.6</b>	8.6	5.3
Net assets – discontinued operations	-	28.3	0.3
Unallocated net assets	<b>37.5</b>	3.8	37.2
<b>Total net assets</b>	<b>52.1</b>	40.7	42.8

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	30 June 2018 £m	1 Jan 2018* £m
Receivables, which are included in ‘Trade and other receivables’	4.4	10.1
Contract assets	6.2	4.2
Contract liabilities	(5.5)	(7.5)
		2018
	Contract Assets	Contract Liabilities
Revenue recognised which is included in the contract liability balance at the beginning of the period	-	7.4
Increases due to cash received, excluding amounts recognised as revenue during the period	-	(5.5)
Transfers from contract assets recognised at the beginning of the period to receivables	(3.4)	-
Increases as a result of changes recognised in the measure of progress	5.5	-

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the Group otherwise would have recognised is one year or less.

The Groups contract with customers are in the main for one year or less, accordingly the Group applies the practical expedient in paragraph 63 of IFRS 15 and does not adjust the promised amount of consideration for the effects of any financing component.

\* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3

## 5. Non-underlying items and alternative performance measures

Non-underlying items merit separate presentation in the consolidated income statement to allow a better understanding of the Group's financial performance, by facilitating comparisons with prior periods and assessments of trends in financial performance. Pension administration costs, restructuring costs, abortive acquisition costs, and profit on disposal of surplus property are considered non-underlying items as they are not representative of the core trading activities of the Group and are not included in the underlying profit before tax measure reviewed by key stakeholders.

	<b>6 months to 30 June 2018 £m</b>	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
Defined benefit pension scheme administration costs (note 7)	(0.5)	(0.4)	(0.8)
Reorganisation costs	(0.1)	-	(0.7)
Abortive acquisition costs	(0.1)	-	-
Profit on sale of surplus property	-	-	4.8
Net financing income/(expense) on pension scheme balances	0.1	(0.1)	(0.1)
<b>Total non-underlying (expenditure)/income before tax</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>3.2</b>

The group uses alternative performance measures (APM's), in addition to those reported under IFRS, as management believe these measures enable the users of financial statement to assess the underlying trading performance of the business. The APM's used include underlying operating profit, underlying profit before tax and underlying earnings per share. These measures are calculated using the relevant IFRS measure as adjusted for non-underlying income/(expenditure) listed above.

## 6. Net financing expense

	<b>6 months to 30 June 2018 £m</b>	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
<b>Financial income</b>			
Defined benefit pension scheme finance income	0.1	-	0.2
	<b>0.1</b>	<b>-</b>	<b>0.2</b>
<b>Financial expenses</b>			
Defined benefit pension scheme finance expense	-	(0.1)	(0.3)
Amounts payable on bank loans and overdrafts	-	(0.1)	(0.1)
Preference dividends paid	-	-	(0.1)
	<b>-</b>	<b>(0.2)</b>	<b>(0.5)</b>
<b>Net financing expense</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(0.3)</b>

## 7. Employee benefits

The Group accounts for pensions under IAS 19 *Employee benefits*. A formal valuation of the UK defined benefit pension scheme (Fund) was carried out as at 30 June 2015. The principal terms of the deficit funding agreement between the Company and the Fund's Trustees, which is effective until 31 August 2029, but, is subject to reassessment every 3 years are as follows:

- the Company will continue to pay a sum of £1.9m per annum to the Fund (increasing at 2.1% per annum) in deficit recovery payments;
- if underlying operating profit (operating profit before non-underlying items) in any year is in excess of £5.5m, the Company will pay to the Fund an amount of 33% of the difference between the annual underlying operating profit and £5.5m, subject to a cap on underlying operating profit of £10.0m for the purpose of calculating this payment; this part of the agreement will fall away in 2021 if the funding deficit is above certain levels; and
- payments of dividends by Mpac Group plc will not exceed the value of payments being made to the Fund in any one year.

Formal valuations of the USA defined benefit schemes were carried out as at 1 January 2017, and their assumptions, updated to reflect actual experience and conditions at 31 December 2017 and modified as appropriate for the purposes of IAS 19, have been applied in the condensed set of financial statements.

Profit before tax includes charges in respect of the defined benefit pension schemes' administration costs of £0.5m (2017: £0.4m) and a net financing income on pension scheme balances of £0.1m (2017: £0.1m financing expense). Payments to the Group's UK defined benefit pension scheme in the period included £0.9m (2017: £0.9m) in respect of the agreed deficit recovery plan.

Employee benefits include the net pension asset of the UK defined benefit pension scheme of £35.1m (2017: £17.6m) and the net pension liability of the USA defined benefit pension schemes of £5.8m (2017: £6.2m), all figures before tax.

Employee benefits as shown in the condensed consolidated statement of financial position were:

	<b>30 June 2018 £m</b>	30 June 2017 £m	31 Dec 2017 £m
<b>UK scheme</b>			
Fair value of assets	<b>410.4</b>	403.8	414.6
Present value of defined benefit obligations	<b>(375.3)</b>	(392.7)	(397.0)
Defined benefit asset	<b>35.1</b>	11.1	17.6
<b>USA schemes</b>			
Fair value of assets	<b>16.0</b>	16.7	16.7
Present value of defined benefit obligations	<b>(21.8)</b>	(23.3)	(22.9)
Defined benefit liability	<b>(5.8)</b>	(6.6)	(6.2)
<b>Total net defined benefit asset</b>	<b>29.3</b>	4.5	11.4

## 8. Taxation

The tax charge on continuing activities for the 6 months to 30 June 2018 amounted to £0.3m (6 months to 30 June 2017: £0.5m credit; 12 months to 31 December 2017: £1.9m charge) and is calculated as follows:

	<b>6 months to 30 June 2018 £m</b>	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
Tax (charge) / credit on underlying profit	<b>(0.3)</b>	0.4	(0.3)
Tax (charge) / credit on non-underlying items	-	0.1	(1.6)
<b>Total tax credit</b>	<b>(0.3)</b>	0.5	(1.9)

The main rate of UK corporation tax is 19% effective from 1 April 2017 and will be reduced to 17% from 1 April 2020, as enacted in the Finance Act 2015. The rate of deferred tax liability arising from the surplus in respect of the UK defined benefit pension scheme is 35%.

## 9. Earnings per share

Basic earnings per ordinary share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period excluding shares held by the employee trust in respect of the Company's long-term incentive arrangements. For diluted earnings per ordinary share, the weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

	<b>6 months to 30 June 2018<sup>1</sup></b>	6 months to 30 June 2017	12 months to 31 Dec 2017
<b>Basic – weighted average number of ordinary shares</b>	<b>19,918,951</b>	19,812,704	19,828,601
Diluting effect of shares held by the employee trust	-	167,566	78,390
<b>Diluted – weighted average number of ordinary shares <sup>1</sup></b>	<b>19,918,951</b>	19,980,270	19,906,991

<sup>1</sup> In the 6 months to 30 June 2018 the effect of dilution would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation.

Underlying loss per share, which is calculated on the loss before non-underlying items, for the 6 months to 30 June 2018 amounted to 1.6p (6 months to 30 June 2017: earnings per share 3.1p; 12 months to 31 December 2017: earnings per share 4.2p). In the 6 months to 30 June 2018 the effect of dilution would be to decrease the underlying loss per ordinary share and is therefore excluded from the dilution calculation.

## 10. Dividends

Having considered the trading results to 30 June 2018, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay an interim dividend. No dividends were paid in 2017. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2018 trading performance and when the Board believes it is prudent to do so.

## 11. Reconciliation of net cash flow to movement in net funds / (debt)

	6 months to 30 June 2018 £m	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
<b>Net decrease in cash and cash equivalents</b>	<b>(4.2)</b>	(2.9)	21.3
Cash inflow from movement in borrowings	-	1.0	7.0
<b>Change in net funds/(debt) resulting from cash flows</b>	<b>(4.2)</b>	(1.9)	28.3
Translation movements	<b>(0.3)</b>	-	0.3
<b>Movement in net (debt)/funds in the period</b>	<b>(4.5)</b>	(1.9)	28.6
Opening net funds/(debt)	<b>29.4</b>	0.8	0.8
<b>Closing net funds/(debt)</b>	<b>24.9</b>	(1.1)	29.4
<b>Analysis of net funds/(debt)</b>			
Cash and cash equivalents – current assets	<b>25.8</b>	6.0	30.3
Bank overdrafts	-	(0.2)	-
Interest-bearing loans and borrowings – non-current liabilities	<b>(0.9)</b>	(6.9)	(0.9)
<b>Closing net funds/(debt)</b>	<b>24.9</b>	(1.1)	29.4

## 12. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements for the year ended 31 December 2017.

At 1 January 2018 and 30 June 2018 the Group held all financial instruments at Level 2 (as defined in IFRS 7 *Financial instruments: disclosures*) and there have been no transfers of assets or liabilities between levels of the fair value hierarchy.

Categories of financial instruments	30 June 2018 £m	30 June 2017 £m	31 Dec 2017 £m
<b>Financial assets</b>			
Derivative instruments in designated hedge accounting relationship	<b>0.0</b>	0.5	0.5
Loans and receivables (including cash and cash equivalents)	<b>33.3</b>	8.8	43.5
	<b>33.3</b>	9.3	44.0
<b>Financial liabilities</b>			
Derivative instruments in designated hedge accounting relationship	<b>0.3</b>	0.2	-
Amortised cost	<b>15.0</b>	20.3	21.8
	<b>15.3</b>	20.5	21.8

Amortised cost comprises interest-bearing loans and borrowings and trade and other payables, excluding foreign currency derivatives.

The Group enters into forward foreign exchange contracts solely for the purpose of minimising currency exposures on sale and purchase transactions. The Group classified its forward foreign exchange contracts used for hedging as cash flow hedges and states them at fair value.

The fair value is the gain/loss on all open forward foreign exchange contracts at the period end. These amounts are based on the market values of equivalent instruments at the period end date and all relate to those forward foreign exchange contracts that have been designated as effective cash flow hedges under IAS 39 *Financial instruments – recognition and measurement*.

### 13. Related parties

The Group has related party relationships with its directors and with the UK and USA defined benefit pension schemes. There has been no material change in the nature of the related party transactions described in note 31 of the 2017 Annual Report and Accounts.

### 14. Principal risks and uncertainties

Mpac is subject to a number of risks which could have a serious impact on the performance of the business. The Board regularly considers the principal risks that the Group faces and how to mitigate their potential impact. The key risks to which the business is exposed are set out on pages 22 and 23 of the Group's 2017 Annual Report and Accounts.

### 15. Half-year report

A copy of this announcement will be made available to shareholders from 6 September 2018 on the Group's website at [www.mpac-group.com](http://www.mpac-group.com). This announcement will not be available in printed form.

### 16. Discontinued operations

#### Disposal of Instrumentation & Tobacco Machinery (I&TM) division

On 1 August 2017 the Group sold its I&TM business. The table below shows the results of the discontinued operations included in the Consolidated income statement and Consolidated statement of cash flow.

	<b>6 months to 30 June 2018 £m</b>	6 months to 30 June 2017 £m	12 months to 31 Dec 2017 £m
Revenue from trading activities	-	18.9	21.1
Costs from trading activities	-	(17.1)	(20.2)
<b>Operating profit from trading activities</b>	-	1.8	0.9
Finance income from trading activities	-	0.1	0.1
<b>Profit before tax from trading activities</b>	-	1.9	1.0
<b>Income tax expense</b>	-	-	(0.2)
<b>Profit after tax from trading activities</b>	-	1.9	0.8
Loss on disposal net of costs incurred on disposal	-	(1.3)	(0.8)
Tax on disposal of net assets	-	-	(1.9)
Foreign exchange gains recycled through income statement	-	-	1.1
<b>Profit/(loss) after tax</b>	-	0.6	(0.8)

<b>Cash flow</b>	<b>6 months to 30 June 2018 £m</b>	<b>6 months to 30 June 2017 £m</b>	<b>12 months to 31 Dec 2017 £m</b>
<b>Operating activities</b>			
Operating profit	-	1.8	0.9
Non-underlying items included in operating profit	-	-	-
Amortisation	-	0.5	0.6
Depreciation	-	0.3	0.4
Net movements in working capital	-	1.2	2.5
<b>Cash generated in operations before reorganisation</b>	-	3.8	4.4
Reorganisation costs paid	-	-	-
<b>Cash flows from operating activities</b>	-	3.8	4.4
<b>Investing activities</b>			
<b>Cash flows from investing activities</b>	-	(0.2)	(0.3)
<b>Net increase in cash and cash equivalents</b>	-	3.6	4.1

## 17. Future accounting policies

The Group will adopt IFRS 16, which is effective for the accounting period beginning on 1 January 2019 and replaces IAS 17 “Leases and related interpretations”. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on the future economic conditions, including the Group’s borrowing rate at 1 January 2019 and the composition of the Group’s lease portfolio at that date. Thus far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of properties.

In addition, the nature of expenses related to those leases will now change because IFRS 16 replaced the straight-line operating lease expense with a depreciation charge for right-to-use assets and interest expense on lease liabilities.

## **INDEPENDENT REVIEW REPORT TO Mpac Group plc**

### **Conclusion**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 June 2018 which comprises the Condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of financial position, condensed consolidated statement of cash flows 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 report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the AIM Rules.

### **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 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.

### **Directors' responsibilities**

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

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 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. 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.

**Charlotte Anderson**  
**for and on behalf of KPMG LLP**

*Chartered Accountants*  
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6 September 2018