



INTERIM REPORT
FOR THE 6 MONTHS
ENDED 30 JUNE 2018

the**mission**

WE BELIEVE
IN THE
POWER OF
CONNECTIONS

It runs through
our network of
Agencies

It turns
specialists into
collaborators

It transforms
ideas into action

It brings our
Clients closer to
their audiences

It drives the next
generation of
technology

It inspires our
entrepreneurs to
reach new goals

It sees one
innovation lead
to another



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6 months

26 weeks

182.5 days

4,380 hours



262,800 minutes

GROW & SUCCEED

By delivering outstanding results for our Clients, we are fast becoming the UK's most respected Agency Group.

Covering the UK, Asia and the US, our network offers a wealth of specialisms. Together, we strive to harness new technologies, provide impartial advice, deliver incredible creativity and challenge industry conventions.

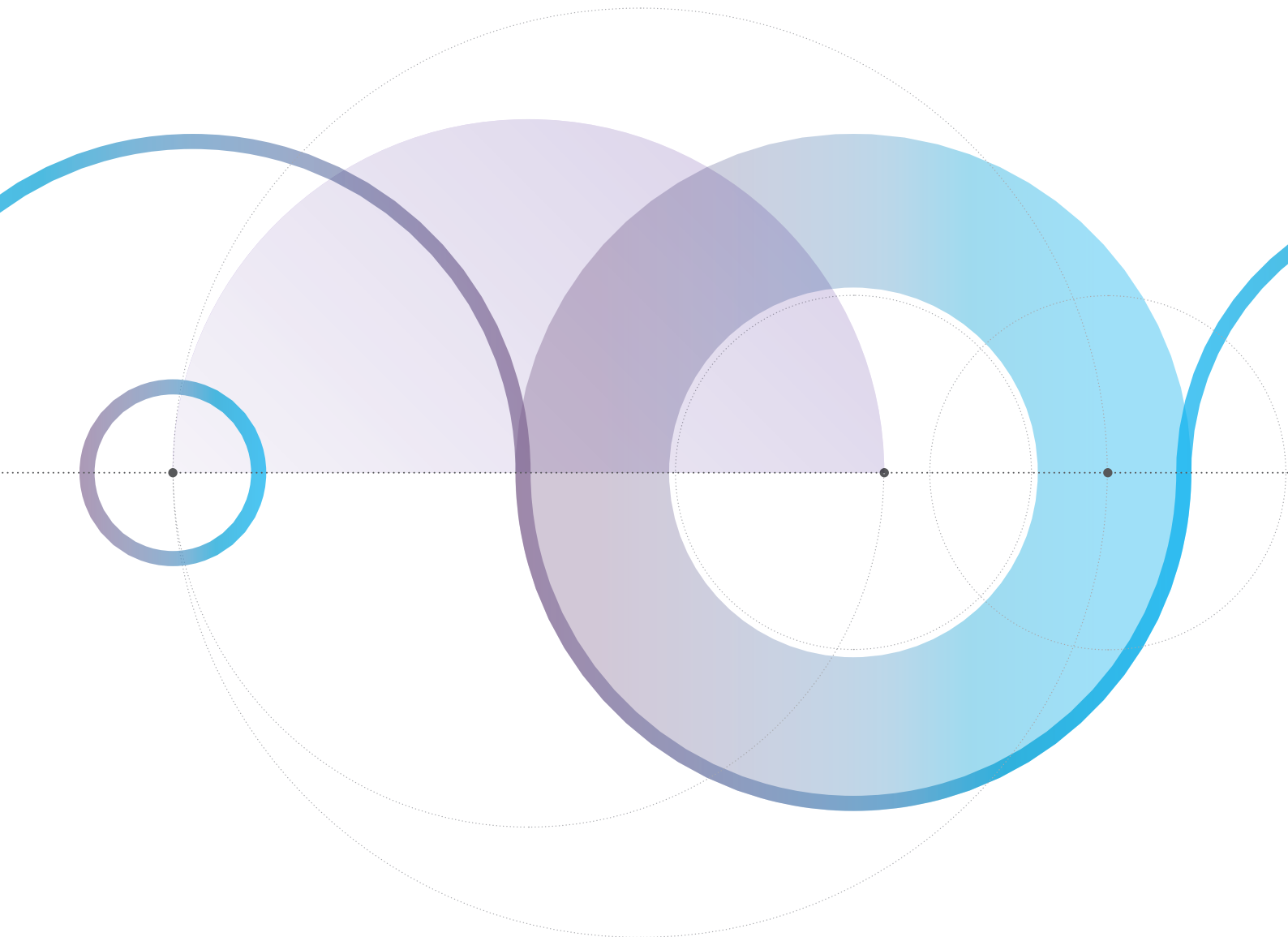
We have also united our 16 Agencies by creating two Business Units. Our Integrated Agencies Unit aims to share best practice and resources across the network, avoiding duplication and maximising expertise. And our Sector Specialist Agencies Unit allows us to offer Clients the benefits of the in-depth sector knowledge and skill that sits across the Group.

Through this new collaborative model, we are utterly dedicated to helping our Clients grow and succeed.

INTERIM RESULTS

Summary

THE MISSION MARKETING GROUP PLC
("TMMG" OR "THE MISSION"),
THE TECHNOLOGY-EMBRACED
MARKETING COMMUNICATIONS AND
ADVERTISING GROUP, SETS OUT ITS
UNAUDITED INTERIM RESULTS FOR
THE SIX MONTHS ENDED 30 JUNE 2018.



Highlights

- Good organic growth from the Group's core business
- Some great new business wins in the period
- Recently-acquired krow Communications ("krow") trading well, providing excellent cross-referral opportunities, and nominated for a prestigious IPA Effectiveness Award
- Fuse continuing to make good progress, particularly with the Pathfindr opportunity

Financial

- Revenue up 10% to £37.0m (2017: £33.8m)
- Excluding krow acquisition, revenue up 5%
- Headline operating profit margin increased to 10.1% (2017: 9.1%)
- Headline profit before tax up 23% to £3.5m (2017: £2.9m)
- Excluding krow, headline PBT up 16%
- Headline diluted EPS up 25% to 3.22 pence (2017: 2.58 pence)
- A strong second-half bias again predicted
- Net bank debt leverage remains below x1 even after settling prior and new acquisition obligations

Dividend

- Interim dividend increased by 27% to 0.70p (2017: 0.55p)
- Payable on 30 November 2018 to shareholders on the register at 2 November 2018



Chairman's Statement

CREATING THE AGENCIES OF THE FUTURE. TODAY.

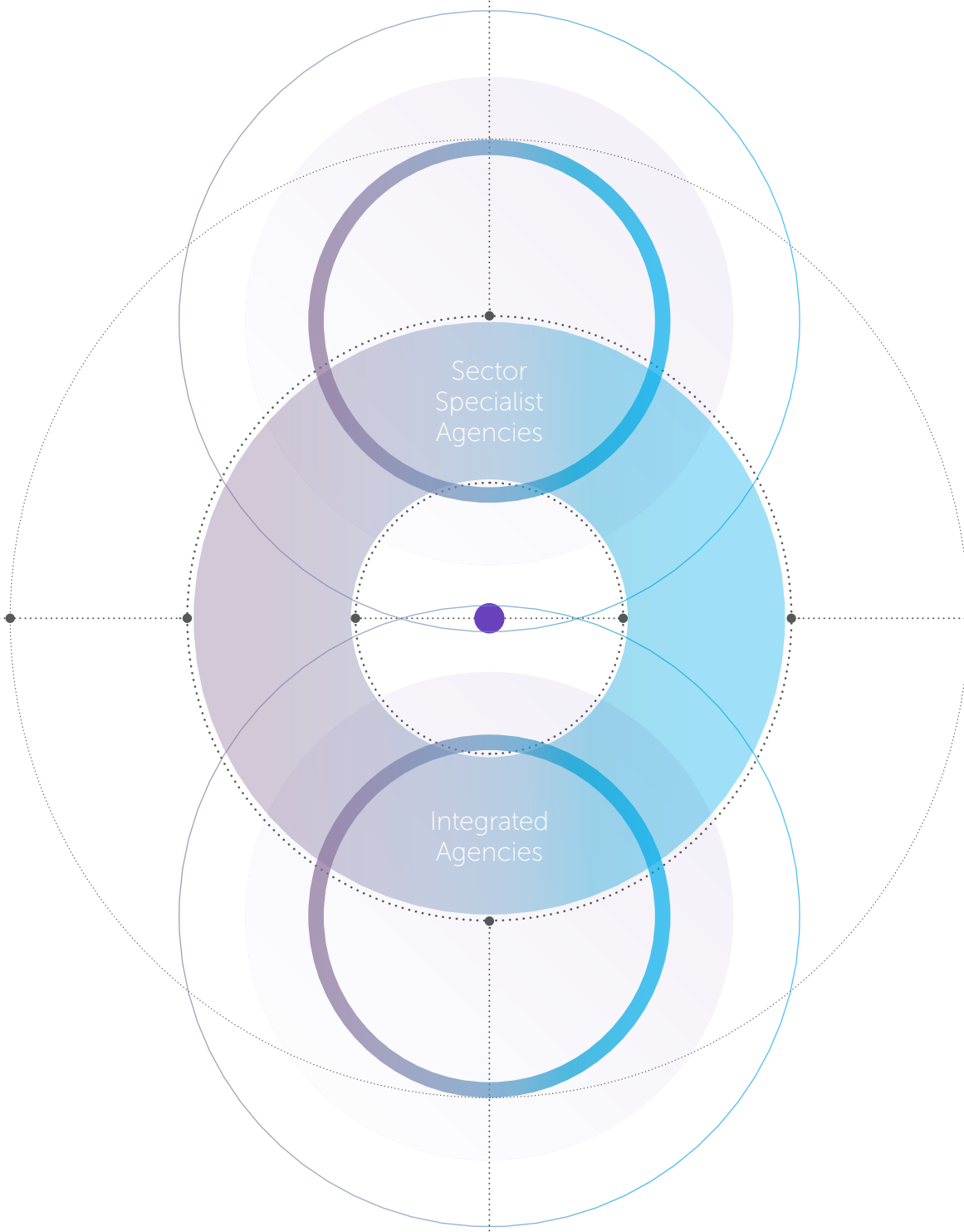
There's been a lot of noise in the press this year about how Marketing Services Agencies need to evolve to support the changing market place and all of it confirms that our innovative, collaborative structure and approach is the way forward. The programmes that we put in place some years ago are ensuring our place at the forefront of our industry.

And our results prove it.

Our first half in 2018 has built upon our successful 2017, seeing us increase revenues and profits for the tenth successive period. Our Agencies are either on target or ahead and are demonstrating that **themission's** multi-dimensional service approach is what Clients want - and is what gets them results. Here are just a few of the highlights this year.

- ◉ Our acquisition of the London-based, top twenty Agency krow in April has provided us with a platform from which our Integrated Agencies Business Unit will further develop. The work that they do for Clients such as DFS, Ferrero, Fiat, RNLI and others is testament to their undoubted creative skills as, too, is their remarkable Client retention.
- ◉ Three start-ups that we launched within the last three years have all now moved into profit and our focus on Healthcare since the acquisition of RJW in 2017 is gaining real traction.
- ◉ On the back of a successful expansion of our April Six Technology Agency in Singapore two years ago, we opened in Beijing in May, providing the **mission** now with two footholds in China where we are already active in Shanghai.
- ◉ Splitting our roster of Agencies into two Business Units of SECTOR SPECIALIST AGENCIES and INTEGRATED AGENCIES has created multiple opportunities through cross-referrals and has provided every Agency with the tool box to deliver fully integrated services.
- ◉ Our FUSE technology development unit continues to grow at a pace where one of its products, PATHFINDER (<https://pathfindr.co.uk/>), has secured global business with leading industry corporates and Broadcare, our healthcare tracking SaaS product, gathers market interest.
- ◉ We continue to focus on reducing debt and maximising margin through centralising back office functions.
- ◉ We have renewed our existing banking arrangements through to 2021.
- ◉ Across the Group we have been winning new business, taking on unique assignments and, best of all, securing our future with long-term agreements with our Clients.

Our upward momentum continues as we consistently deliver straightforward solutions in a complex world with a minimum of flosclulation. At the same time our innovation teams and our focus on talent continue to drive a passion to succeed which makes **themission** very special.



Revenue up 10%

Trading results

Turnover ("billings") for the six months ended 30 June 2018 increased by 11% to £79.2m (2017: £71.2m), in part boosted by the sizeable contract with the DIT announced late last year. Billings include pass-through costs (e.g. TV companies' charges for buying air-time) and thus the Board does not consider turnover to be a key performance measure. Instead, the Board views operating income (turnover less third party costs) as a more meaningful measure of Agency activity levels. Operating income ("revenue") increased 10% to £37.0m (2017: £33.8m), of which newly-acquired krow contributed 4% (£1.6m). Headline operating profits increased by 21% to £3.7m (2017: £3.1m), of which krow contributed 5% (£0.2m). The strong growth in underlying profitability reflects our focus on margin improvement, in particular

Profit margin up to 10.1%

our acquisition strategy of targeting high-margin businesses and the implementation of our Shared Services initiative. These, and the additional contribution from start-up businesses previously loss-making, resulted in an increase in headline operating profit margins to 10.1% (2017: 9.1%). Adjustments to headline profits in 2018, at £0.6m, were lower than the prior year (2017: £1.1m) due to that year including exceptional restructuring costs. After these adjustments, reported operating profits were £3.2m (2017: £2.0m). After unchanged financing costs of £0.2m, headline profit before tax increased by 23% to £3.5m (2017: £2.9m); reported profit before tax was £2.9m (2017: £1.8m). The Group estimates an effective tax rate on headline profits before tax of 20% (2017: 22%), resulting in a 26% increase in headline earnings to £2.8m for the six months (2017: £2.2m), and reported profit after tax of £2.3m (2017: £1.3m). Fully diluted

PBT up 23%

headline EPS increased 25% to 3.22 pence (2017: 2.58 pence).

Balance sheet and cash flow

Net cash inflows from operating activities were £3.5m in the six months ended June 2018, somewhat less than the prior year (2017: £5.8m) due to the partial unwinding of particularly favourable working capital inflows toward the end of 2017. After the £1.7m settlement of acquisition obligations from prior years and £2.75m initial acquisition consideration payments, net debt was £0.5m higher than at 31 December 2017, at £7.8m (30 June 2017: £9.2m). Even so, our leverage ratio of net bank debt to headline EBITDA at 30 June 2018 fell further, to x0.7, providing increased headroom against the Board's limit of x2. The Group has no further commitments to settle acquisition liabilities in the remainder of the year but the Group's normal phasing of working



EPS up 25%

capital requirements is expected to result in a modest increase in net debt in the second half. Following the purchase of krow, the Group's acquisition obligations at 30 June 2018 totalled £11.0m (31 December 2017: £7.2m). Despite this increase, the Group's total debt leverage ratio, including both bank debt and deferred contingent acquisition consideration (calculated by reference to the amount of consideration which would be payable if the acquired business were to maintain its current level of profitability), remained unchanged at x1.4, comfortably below the Board's limit of x2.5. Virtually all of the Group's acquisition obligations are dependent on post-acquisition earn-out profits. £2.5m is expected to fall due for payment in cash within 12 months and a further £2.2m in the subsequent 12 months. The Directors believe that the strength of the Group's cash generation can comfortably accommodate these obligations.

Dividend up 27%

Furthermore, to achieve maximum earn-outs, the acquired Agencies would need to perform very strongly, which would generate much of the cash required to meet these obligations.

At 30 June 2018, the Group's bank facilities had a maturity date of less than 12 months and as a result the full £13.9m of outstanding loans is classified within current liabilities in the Group balance sheet.

On 14 September 2018, the Group agreed a new three year revolving credit facility of £15m, with an option to increase the facility by an additional £5m and an option to extend the term by one year, both subject to bank approval. Additional information is provided in Note 10. This new facility provides the Group with committed but flexible facilities to at least 2021.

The Employee Benefit Trust released shares in order to enable a new institutional investor to join the shareholder register and at 30 June

2018 held 752,367 ordinary shares (31 December 2017: 1,452,367 shares).

Dividend

Reflecting the growth in headline earnings, the Directors have declared an interim dividend of 0.70p, representing a 27% increase over last year, payable on 30 November 2018 to shareholders on the register at 2 November 2018. The ex-dividend date is 1 November 2018.

Current trading and outlook

We expect the pattern of our Clients' spending cycles to result in a similar second-half bias in our financial performance to previous years. We continue to identify opportunities to make efficiency improvements from our Shared Services initiative, we will get a full half's contribution from krow and are confident that not only will we deliver against 2018 forecasts but remain frabjously optimistic about our long-term prospects.

David Morgan, Chairman

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE 6 MONTHS ENDED 30 JUNE 2018

		6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	Note	£'000	£'000	£'000
TURNOVER	2	79,228	71,237	146,912
Cost of sales		(42,183)	(37,440)	(76,872)
OPERATING INCOME	2	37,045	33,797	70,040
Headline operating expenses		(33,307)	(30,710)	(61,822)
HEADLINE OPERATING PROFIT	2	3,738	3,087	8,218
Exceptional items	4	-	(550)	(642)
Acquisition adjustments	5	(508)	(367)	(804)
Start-up costs		(74)	(158)	(443)
OPERATING PROFIT		3,156	2,012	6,329
Share of results of associates and joint ventures		(9)	(10)	(11)
PROFIT BEFORE INTEREST AND TAXATION		3,147	2,002	6,318
Net finance costs	6	(231)	(227)	(473)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,916	1,775	5,845
Taxation	7	(635)	(470)	(1,340)
PROFIT FOR THE PERIOD		2,281	1,305	4,505
Attributable to:				
Equity holders of the parent		2,222	1,286	4,402
Non-controlling interests		59	19	103
		2,281	1,305	4,505
Basic earnings per share (pence)	8	2.68	1.55	5.31
Diluted earnings per share (pence)	8	2.61	1.50	5.15
Headline basic earnings per share (pence)	8	3.30	2.66	7.34
Headline diluted earnings per share (pence)	8	3.22	2.58	7.12

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 JUNE 2018

	6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	£'000	£'000	£'000
PROFIT FOR THE PERIOD	2,281	1,305	4,505
Other comprehensive income – items that may be reclassified separately to profit or loss:			
Exchange differences on translation of foreign operations	7	(49)	(112)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,288	1,256	4,393
Attributable to:			
Equity holders of the parent	2,219	1,242	4,292
Non-controlling interests	69	14	101
	2,288	1,256	4,393

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2018

		As at 30 June 2018 Unaudited	As at 30 June 2017 Unaudited	As at 31 December 2017 Audited
	Note	£'000	£'000	£'000
FIXED ASSETS				
Intangible assets	9	95,681	87,549	87,951
Property, plant and equipment		3,175	3,391	3,489
Investments in associates		306	314	313
Deferred tax assets		44	28	24
		99,206	91,282	91,777
CURRENT ASSETS				
Stock		684	665	668
Trade and other receivables		38,436	36,741	34,829
Cash and short term deposits		6,102	5,092	5,860
		45,222	42,498	41,357
CURRENT LIABILITIES				
Trade and other payables		(17,624)	(16,185)	(17,963)
Accruals		(17,582)	(17,471)	(13,634)
Corporation tax payable		(877)	(648)	(784)
Bank loans	10	(13,852)	(2,500)	(2,500)
Acquisition obligations	11	(3,084)	(1,735)	(1,810)
		(53,019)	(38,539)	(36,691)
NET CURRENT (LIABILITIES) / ASSETS				
		(7,797)	3,959	4,666
TOTAL ASSETS LESS CURRENT LIABILITIES				
		91,409	95,241	96,443
NON CURRENT LIABILITIES				
Bank loans	10	-	(11,803)	(10,579)
Obligations under finance leases		(85)	(173)	(129)
Acquisition obligations	11	(7,889)	(4,690)	(5,433)
Deferred tax liabilities		(538)	(219)	(148)
		(8,512)	(16,885)	(16,289)
NET ASSETS				
		82,897	78,356	80,154
CAPITAL AND RESERVES				
Called up share capital		8,436	8,436	8,436
Share premium account		42,506	42,506	42,506
Own shares		(304)	(590)	(602)
Share option and growth share reserve		465	334	341
Foreign currency translation reserve		82	151	85
Retained earnings		31,134	27,048	28,879
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
		82,319	77,885	79,645
Non controlling interests		578	471	509
TOTAL EQUITY				
		82,897	78,356	80,154

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE 6 MONTHS ENDED 30 JUNE 2018

	6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	£'000	£'000	£'000
Operating profit	3,156	2,012	6,329
Depreciation and amortisation charges	1,238	1,019	2,220
Movements in the fair value of contingent consideration	(30)	40	99
(Profit) / loss on disposal of fixed assets	(4)	(34)	(52)
Loss on disposal of intangible assets	-	-	1
Non cash charge for share options, growth shares and shares awarded	144	85	92
Increase in receivables	(727)	(3,786)	(1,874)
Increase in stock	(16)	(180)	(183)
Increase in payables	620	7,415	5,343
OPERATING CASH FLOW	4,381	6,571	11,975
Net finance costs	(189)	(201)	(425)
Tax paid	(722)	(523)	(1,299)
Net cash inflow from operating activities	3,470	5,847	10,251
INVESTING ACTIVITIES			
Proceeds on disposal of fixed assets	23	38	88
Purchase of property, plant and equipment	(286)	(461)	(1,268)
Investment in software development	(45)	(131)	(341)
Acquisition of subsidiaries and joint ventures	(2,750)	(1,910)	(1,879)
Payment of obligations relating to acquisitions made in prior periods	(1,749)	(1,653)	(1,652)
Cash acquired with subsidiaries	553	610	610
Net cash outflow from investing activities	(4,254)	(3,507)	(4,442)
FINANCING ACTIVITIES			
Dividends paid	-	-	(1,284)
Dividends paid to non-controlling interests	-	-	(49)
Repayment of finance leases	(42)	(41)	(84)
Increase in bank loans	750	2,000	750
Repayment of other loans	-	(76)	(76)
Disposal / (purchase) of own shares held in EBT	311	(84)	(96)
Net cash inflow / (outflow) from financing activities	1,019	1,799	(839)
Increase in cash/equivalents	235	4,139	4,970
Exchange differences on translation of foreign subsidiaries	7	(49)	(112)
Cash/cash equivalents at beginning of period	5,860	1,002	1,002
Cash and cash equivalents at end of period	6,102	5,092	5,860

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE 2018

	Share capital £'000	Share premium £'000	Own shares £'000	Share option and growth share reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total attributable to equity holders of parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2017	8,412	42,431	(556)	249	195	25,740	76,471	457	76,928
Profit for period	-	-	-	-	-	1,286	1,286	19	1,305
Exchange on translation of foreign operations	-	-	-	-	(44)	-	(44)	(5)	(49)
Total comprehensive income for period	-	-	-	-	(44)	1,286	1,242	14	1,256
New shares issued	24	75	-	-	-	-	99	-	99
Share option charge	-	-	-	63	-	-	63	-	63
Growth share charge	-	-	-	22	-	-	22	-	22
Own shares purchased by EBT	-	-	(84)	-	-	-	(84)	-	(84)
Shares awarded from own shares	-	-	50	-	-	22	72	-	72
At 30 June 2017	8,436	42,506	(590)	334	151	27,048	77,885	471	78,356
Profit for period	-	-	-	-	-	3,116	3,116	84	3,200
Exchange on translation of foreign operations	-	-	-	-	(66)	-	(66)	3	(63)
Total comprehensive income for period	-	-	-	-	(66)	3,116	3,050	87	3,137
Share option credit	-	-	-	(44)	-	-	(44)	-	(44)
Growth share charge	-	-	-	51	-	-	51	-	51
Own shares purchased by EBT	-	-	(12)	-	-	-	(12)	-	(12)
Shares awarded from own shares	-	-	-	-	-	(1)	(1)	-	(1)
Dividend paid	-	-	-	-	-	(1,284)	(1,284)	(49)	(1,333)
At 31 Dec 2017	8,436	42,506	(602)	341	85	28,879	79,645	509	80,154
Profit for period	-	-	-	-	-	2,222	2,222	59	2,281
Exchange on translation of foreign operations	-	-	-	-	(3)	-	(3)	10	7
Total comprehensive income for period	-	-	-	-	(3)	2,222	2,219	69	2,288
Share option charge	-	-	-	80	-	-	80	-	80
Growth share charge	-	-	-	44	-	-	44	-	44
Shares awarded / sold from own shares	-	-	298	-	-	33	331	-	331
At 30 Jun 2018	8,436	42,506	(304)	465	82	31,134	82,319	578	82,897



1. ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with the IAS 34 "Interim Financial Reporting" and the Group's accounting policies.

The Group's accounting policies are in accordance with International Financial Reporting Standards as adopted by the European Union and are set out in the Group's Annual Report and Accounts 2017 on pages 52-54. With the exception of the implementation of IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers, discussed further below, no changes have been made to the Group's accounting policies in the six months ended 30 June 2018. The Group has not early-adopted any Standard, Interpretation or Amendment that has been issued but is not yet effective.

The information relating to the six months ended 30 June 2018 and 30 June 2017 is unaudited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the year ended 31 December 2017 have been extracted from the Group's Annual Report and Accounts 2017, on which the auditors gave an unqualified opinion and did not include a statement under section 498 (2) or (3) of the Companies Act 2006. The Group Annual Report and Accounts for the year ended 31 December 2017 have been filed with the Registrar of Companies.

Going concern

The Directors have considered the financial projections of the Group, including cash flow forecasts, the availability of committed bank facilities and the headroom against covenant tests for the coming 12 months. They are satisfied that the Group has adequate resources for the foreseeable future and that it is appropriate to continue to adopt the going concern basis in preparing these interim financial statements.

Accounting estimates and judgements

The Group makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the actual results. The Directors considered the critical accounting estimates and judgements used in the financial statements and concluded that the main areas of judgement are:

- Potential impairment of goodwill;
- Contingent deferred payments in respect of acquisitions;
- Revenue recognition policies in respect of contracts which straddle the period end; and
- Valuation of intangible assets on acquisitions.

These estimates are based on historical experience and various other assumptions that management and the Board of Directors believe are reasonable under the circumstances.

Impact of the adoption of IFRS 9: Financial Instruments

The Group's adoption of IFRS 9 with effect from 1 January 2018 has not had a material impact on the financial statements of the Group. The short term nature of the Group's trade receivables and the credit ratings of the Group's customers are such that no material change to the bad debt provision has been required.

Impact of the adoption of IFRS 15: Revenue from Contracts with Customers

The Group adopted IFRS 15 with effect from 1 January 2018. The new standard establishes a five step model where consideration received or expected to be received is recognised as revenue when contractual performance obligations are satisfied by transferring control of the relevant goods or services to the customer. Adopting IFRS 15 has not had a material impact on the amounts or timing of the Group's revenue recognition. However, for a small proportion of media buying-related income, the Group is viewed as an agent, because the Group does not have control of the relevant services before they are transferred to the Client. Third party costs are deducted from turnover when the Group acts as agent. As a result, turnover decreases by the amount of these third party costs and there is a corresponding decrease in costs. The operating profit remains unchanged. In 2017 these third party costs amounted to £256,000 and a similar level is expected in 2018.

1. ACCOUNTING POLICIES (Cont.)

IFRS 15 Turnover and revenue recognition policy

The Group's operating subsidiaries carry out a range of different activities. The following policies apply consistently across subsidiaries and business segments.

Revenue is recognised when a performance obligation is satisfied, in accordance with the terms of the contractual arrangement. Where there are contracts with a variety of performance obligations that are distinct, an element of the transaction price is allocated to each performance obligation and recognised as revenue as and when that performance obligation is satisfied. Revenue is allocated to each of the performance obligations based on relative standalone selling prices. Typically, performance obligations are satisfied over time as services are rendered.

The amount of revenue recognised depends on whether the Group acts as principal or agent. Third party costs are included in revenue when the Group acts as principal with respect to the goods or services provided to the Client and are excluded when the Group acts as agent, by reference to whether or not the Group controls the relevant good or service before it is transferred to the Client.

Turnover represents fees, commissions, rechargeable expenses and sales of materials performed subject to specific contracts.

- Retainer fees are apportioned over the time period to which they relate
- Project income is recognised as performance obligations are satisfied over time by apportioning the fees billed or billable to the time period for which those fees were earned in relation to the percentage of completeness of the project to which they relate, normally by reference to timesheets
- Media commission is recognised when the advertising has been satisfactorily aired or placed
- Unbilled costs relating to contracts for services are included at rechargeable value in accrued income

Where performance obligations have been satisfied and the recorded turnover exceeds amounts invoiced to Clients, the excess is classified as accrued income (within Trade and other receivables). Where amounts invoiced to Clients exceed recorded turnover, because performance obligations have not yet been satisfied, the excess is classified as deferred income (within Accruals).

2. SEGMENTAL INFORMATION

IFRS 15: Revenue from Contracts with Customers requires the disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Board has considered how the Group's revenue might be disaggregated in order to meet the requirements of IFRS 15 and has concluded that the business and geographical segmentation disclosures set out below represent the most appropriate categories of disaggregation. The Board considers that neither differences between types of customers, sales channels and markets nor differences between contract duration and the timing of transfer of goods or services are sufficiently significant to require further disaggregation.

Business segmentation

The Group increased to fifteen operating units during the period, each of which carries out a range of activities. The performance of these businesses is managed as a whole by the Board but, since different activities have different profit margin characteristics, the Group's trading has been reported below under four business and operating segments to provide additional benefit to readers of this report.

	6 months to 30 June 2018 Unaudited £'000	6 months to 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
	Turnover		
Business segment			
Advertising & Digital	44,332	39,972	81,599
Media Buying	20,953	22,375	45,260
Public Relations	4,694	4,190	7,999
Exhibitions & Learning	9,249	4,700	12,054
	79,228	71,237	146,912
	Operating income		
Business segment			
Advertising & Digital	29,159	27,339	56,059
Media Buying	1,932	1,964	3,720
Public Relations	2,528	3,452	6,661
Exhibitions & Learning	3,426	1,042	3,600
	37,045	33,797	70,040
	Headline Operating Profit		
Business segment			
Advertising & Digital	3,644	3,069	7,846
Media Buying	380	446	888
Public Relations	479	544	949
Exhibitions & Learning	275	26	284
	4,778	4,085	9,967
Central costs	(1,040)	(998)	(1,749)
	3,738	3,087	8,218

2. SEGMENTAL INFORMATION (Cont.)

Geographical segmentation

The following table provides an analysis of the Group's operating income by region of activity:

	6 months to 30 June 2018 Unaudited £'000	6 months to 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
UK	33,123	30,243	62,198
Asia	1,948	1,983	4,481
USA	1,974	1,571	3,361
	37,045	33,797	70,040

3. RECONCILIATION OF REPORTED PROFIT TO HEADLINE PROFIT

	6 months to 30 June 2018 Unaudited		6 months to 30 June 2017 Unaudited		Year ended 31 December 2017 Audited	
	PBT £'000	PAT £'000	PBT £'000	PAT £'000	PBT £'000	PAT £'000
Headline profit	3,498	2,798	2,850	2,224	7,734	6,185
Exceptional items (Note 4)	-	-	(550)	(429)	(642)	(523)
Acquisition-related items (Note 5)	(508)	(457)	(367)	(366)	(804)	(802)
Start-up costs	(74)	(60)	(158)	(124)	(443)	(355)
Reported profit	2,916	2,281	1,775	1,305	5,845	4,505

In order to provide a clearer understanding of underlying profitability, headline profits exclude exceptional items, acquisition-related costs and adjustments, and start-up costs. Start-up costs derive from organically started businesses and comprise the trading losses of such entities until the earlier of two years from commencement or when they show evidence of becoming sustainably profitable.

Start-up costs in 2018 relate to Mongoose Promotions and April Six's new business in China. Start-up costs in 2017 related to Mongoose Sports & Entertainment, Mongoose Promotions and April Six's new PR business in the USA.

4. EXCEPTIONAL ITEMS

	6 months to 30 June 2018 Unaudited £'000	6 months to 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Restructuring costs	-	(550)	(642)

Exceptional items consist of revenue or costs that, either by their size or nature, require separate disclosure in order to give a fuller understanding of the Group's financial performance.

Exceptional costs in 2017 comprised settlement costs to a former Director Chris Goodwin and also amounts payable for loss of office and other costs incurred relating to the restructuring of certain operations in order to streamline activities and underpin the Board's growth expectations.

5. ACQUISITION ADJUSTMENTS

	6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	£'000	£'000	£'000
Movement in fair value of contingent consideration	30	(40)	(99)
Amortisation of other intangible assets recognised on acquisitions	(401)	(259)	(580)
Acquisition transaction costs expensed	(137)	(68)	(125)
	(508)	(367)	(804)

The movement in fair value of contingent consideration relates to a net downward / (upward) revision in the estimate payable to vendors of businesses acquired in prior years. Acquisition transaction costs relate to professional fees associated with the acquisitions.

6. NET FINANCE COSTS

	6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	£'000	£'000	£'000
Net interest on bank loans, overdrafts and deposits	(198)	(192)	(402)
Amortisation of bank debt arrangement fees	(29)	(29)	(59)
Interest on finance leases	(4)	(6)	(12)
Net finance costs	(231)	(227)	(473)

7. TAXATION

The taxation charge for the period ended 30 June 2018 has been based on an estimated effective tax rate on headline profit on ordinary activities of 20% (30 June 2017: 22%).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data, determined in accordance with the provisions of IAS 33: "Earnings per Share".

	6 months to 30 June 2018 Unaudited £'000	6 months to 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Earnings			
Reported profit for the period	2,281	1,305	4,505
Attributable to:			
Equity holders of the parent	2,222	1,286	4,402
Non-controlling interests	59	19	103
	2,281	1,305	4,505
Headline earnings (Note 3)	2,798	2,224	6,185
Attributable to:			
Equity holders of the parent	2,739	2,205	6,082
Non-controlling interests	59	19	103
	2,798	2,224	6,185
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	83,057,746	82,843,306	82,874,398
Dilutive effect of securities**:			
Employee share options	2,135,028	2,622,493	2,565,943
Weighted average number of ordinary shares for the purpose of diluted earnings per share	85,192,774	85,465,799	85,440,341
Reported basis:			
Basic earnings per share (pence)	2.68	1.55	5.31
Diluted earnings per share (pence)	2.61	1.50	5.15
Headline basis:			
Basic earnings per share (pence)	3.30	2.66	7.34
Diluted earnings per share (pence)	3.22	2.58	7.12

Basic earnings per share includes shares to be issued subject only to time as if they had been issued at the beginning of the period.

A reconciliation of the profit after tax on a reported basis and the headline basis is given in Note 3.

** On 22nd February 2017, the Company announced details of a new Growth Share Scheme. If all the shares in the Scheme vest they will be exchanged into 5.7m Ordinary Shares, which will result in dilution. However, since the performance criterion is that the Company's share price must equal or exceed 75p for at least 15 days and this condition had not been satisfied at 30 June 2018, the Growth Shares are not included in the calculation of diluted earnings per share.

9. INTANGIBLE ASSETS

	30 June 2018 Unaudited	30 June 2017 Unaudited	31 December 2017 Audited
	£'000	£'000	£'000
Goodwill	90,450	84,074	84,791
Other intangible assets	5,231	3,475	3,160
	95,681	87,549	87,951

Goodwill	6 months to 30 June 2018 Unaudited	6 months to 30 June 2017 Unaudited	Year ended 31 December 2017 Audited
	£'000	£'000	£'000
Cost			
At 1 January	89,064	84,052	84,052
Recognised on acquisition of subsidiaries	5,659	4,295	5,012
At 30 June / 31 December	94,723	88,347	89,064
Impairment adjustment			
At beginning and end of period	4,273	4,273	4,273
Net book value	90,450	84,074	84,791

In accordance with the Group's accounting policies, an annual impairment test is applied to the carrying value of goodwill, unless there is an indication that one of the cash generating units has become impaired during the year, in which case an impairment test is applied to the relevant asset. The next impairment test will be undertaken at 31 December 2018.

9. INTANGIBLE ASSETS (Cont.)

Other Intangible Assets	6 months to 30 June 2018 Unaudited £'000	6 months to 30 June 2017 Unaudited £'000	Year ended 31 December 2017 Audited £'000
Cost			
At 1 January	7,210	6,611	6,611
Additions	2,689	599	809
Disposals	-	-	(210)
At 30 June / 31 December	9,899	7,210	7,210
Amortisation and impairment			
At 1 January	4,050	3,315	3,315
Amortisation charge for the period	618	420	944
Disposals	-	-	(209)
At 30 June / 31 December	4,668	3,735	4,050
Net book value	5,231	3,475	3,160

Other intangible assets consist of intellectual property rights, Client relationships and trade names.



10. BANK LOANS AND NET DEBT

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Bank loan outstanding	13,875	14,375	13,125
Adjustment to amortised cost	(23)	(72)	(46)
Carrying value of loan outstanding	13,852	14,303	13,079
Less: Cash and short term deposits	(6,102)	(5,092)	(5,860)
Net bank debt	7,750	9,211	7,219
The borrowings are repayable as follows:			
Less than one year	13,875	2,500	2,500
In one to two years	-	11,875	10,625
	13,875	14,375	13,125
Adjustment to amortised cost	(23)	(72)	(46)
	13,852	14,303	13,079
Less: Amount due for settlement within 12 months (shown under current liabilities)	(13,852)	(2,500)	(2,500)
Amount due for settlement after 12 months	-	11,803	10,579

At 30 June 2018, the Group had a term loan facility of £1.9m due for repayment by February 2019 on a quarterly basis, and a revolving credit facility of up to £12.0m (fully drawn), expiring on 30 April 2019. As a result, the full £13.9m of outstanding loans at 30 June 2018 is classified within current liabilities in the Group balance sheet. On 14 September 2018, the Group signed new bank facilities replacing those in place at 30 June 2018. The new facilities are a 3 year revolving credit facility of £15.0m, with an option to extend the facility by a further £5.0m and an option to extend by 1 year. Had these new facilities been in place at 30 June 2018, the full £13.9m outstanding loans would have been classified within non current liabilities.

Interest on the old term loan and revolving credit facilities was based on 3 month LIBOR plus a margin of between 1.75% and 2.75% depending on the Group's debt leverage ratio, payable in cash on loan rollover dates. Interest rate margins on the new facilities are again based on the Group's debt leverage ratio and range from 1.25% to 2.25%.

11. ACQUISITIONS

11.1 Acquisition Obligations

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash or shares or other securities at a future date, depends on uncertain future events such as the future performance of the acquired company. The Directors estimate that the liability for payments that may be due is as follows:

	Cash £'000	Shares £'000	Total £'000
30 June 2018			
Less than one year	2,479	605	3,084
Between one and two years	2,168	75	2,243
In more than two but less than three years	5,351	295	5,646
	9,998	975	10,973

A reconciliation of acquisition obligations during the period is as follows:

	Cash £'000	Shares £'000	Total £'000
At 31 December 2017	7,014	229	7,243
New obligations created in the period	4,763	746	5,509
Obligations settled in the period	(1,749)	-	(1,749)
Adjustments to estimates of obligations	(30)	-	(30)
At 30 June 2018	9,998	975	10,973

11.2 Acquisition of Krow Communications Ltd

On 10 April 2018, the Group acquired the entire issued share capital of krow Communications Ltd ("krow"), an award-winning creative agency based in London. The fair value of the consideration given for the acquisition was £8,259,000, comprising initial cash consideration and deferred contingent cash and share consideration. Costs relating to the acquisition amounted to £141,000 and were expensed.

Maximum contingent consideration of £11,750,000 is dependent on krow achieving a profit target over the period 1 January 2018 to 31 December 2020. The Group has provided for contingent consideration of £5,509,000 to date.

The fair value of the net identifiable assets acquired was £414,000 resulting in goodwill and other intangible assets of £7,845,000. Goodwill arises on consolidation and is not tax-deductible. Management carried out a review to assess whether any other intangible assets were acquired as part of the transaction. Management concluded that both a brand name and customer relationships were acquired and attributed a value to each of these by applying commonly accepted valuation methodologies. The goodwill arising on the acquisition is attributable to the anticipated profitability of the Company.

11. ACQUISITIONS (Cont.)

	Book value	Fair value adjustments	Fair value
	£'000	£'000	£'000
Net assets acquired:			
Fixed assets	49	-	49
Trade and other receivables	2,880	-	2,880
Cash and cash equivalents	553	-	553
Trade and other payables	(3,068)	-	(3,068)
	414	-	414
Other intangibles recognised at acquisition	-	2,634	2,634
Deferred tax liability adjustment	-	(448)	(448)
	414	2,186	2,600
Goodwill			5,659
Total consideration			8,259
Satisfied by:			
Cash			2,750
Deferred contingent consideration			5,509
			8,259

Krow Communications Ltd contributed turnover of £2,314,000, operating income of £1,609,000 and headline operating profit of £190,000 to the results of the Group for the six month period ended 30 June 2018.

12. POST BALANCE SHEET EVENTS

On 14 September, the Directors agreed new bank facilities. Further details of these facilities are set out in the Chairman's Statement and Note 10.

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