ANDREWS SYKES GROUP PLC

Andrews Sykes Group plc

Interim Financial Statements 2019

SYKES PUMPS
ANDREWS AIR CONDITIONING
ANDREWS HEAT FOR HIRE
ANDREWS DEHUMIDIFICATION
ANDREWS CHILLERS
ANDREWS BOILERS
ANDREWS VENTILATION

Contents

Summary of Results

	6 months ended 30 June 2019 Unaudited £'000	6 months ended 30 June 2018 Unaudited £'000
Revenue from continuing operations	**34,974**	37,815
EBITDA* from continuing operations	**11,435**	12,429
Operating profit	**6,918**	9,280
Profit for the financial period	**5,449**	7,528
Basic earnings per share (pence)	**12.92p**	17.82p
Interim dividends declared per equity share (pence)	**11.90p**	11.90p
Cash and cash equivalents	**23,770**	21,489

* Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non-recurring items.

Chairman's Statement

Overview

The group result for the first half of 2019 was below that of the previous year. The winter period was much milder than 2018, meaning that there was less opportunities for our heating and boiler hire products. The first six months of 2019 were also drier than the previous year and this had an adverse impact on our pump hire business. Overall, the group's revenue for the six months ended 30 June 2019 was £35.0 million, a decrease of £2.8 million when compared with the same period last year. As a consequence the operating profit decreased by £2.4 million from £9.3 million in the first half of 2018 to £6.9 million for the six months ended 30 June 2019.

The group continues to be profitable and cash generative. Cash generated from operations was £7.5 million *(2018: £7.6 million)* after negative working capital movements of £3.9 million *(2018: £4.8 million)*. As a result of adopting the accounting requirements of the new leasing standard, IFRS 16, existing lease commitments at 1 January 2019 of £11.4 million were recognised on the balance sheet. This is the major reason why net funds decreased by £15.0 million from £23.3 million as at 31 December 2018 to £8.3 million as at 30 June 2019. A further £1.1 million of lease obligations were recognised due to new leases being entered into during the period. Other significant cash outflows during the period include paying the 2018 final dividend of £5.0 million, net capital expenditure of £2.4 million and UK and overseas corporation tax payments of £2.5 million.

Management continue to safeguard the operational structure of the business. Cash spent on new plant and equipment, primarily hire fleet assets, amounted to £2.8 million and a further £1.4 million from stock was also added to the hire fleet. We have continued our policy of pursuing organic growth within our market sectors and start up costs of the new businesses discussed in previous Strategic Reports continue to be expensed as incurred. Continuing investment in both our existing core businesses and the ongoing development of new operations and income streams will ensure that we remain in a strong position and will safeguard profitability into the future.

Operations review

The shortfall came from our main hire and sales business segment throughout the UK and Europe. The UK hire business experienced a drop in total revenue of 11.7%. A major part of the shortfall came from fuel sales, which reduced by 40% compared to the previous year.

Our operations across the Benelux region experienced a drop in revenue of 9% and our newer business in France also traded slightly below last year's level. Only Italy and Switzerland, of our European hire businesses, traded ahead of the previous year.

Andrews Air Conditioning and Refrigeration, our UK air conditioning installation business, produced a positive result that was ahead of last year for the first half.

Khansaheb Sykes, our business based in the UAE, had a stronger start to the year following a difficult start to 2018. The operating profit of Khansaheb Sykes has increased from £1.01 million to £1.37 million in the first half of the year.

Profit for the financial period and Earnings per Share

Profit before tax was £6.8 million *(2018: £9.3 million)* mainly due to the above £2.4 million decrease in operating profit.

The total tax charge has decreased by £0.5 million from £1.8 million for the six months ended 30 June 2018 to £1.3 million for the current six month period. The effective tax rate remained unchanged from June 2018 at 19.4% for the six months ended 30 June 2019. This is slightly higher than the standard effective UK corporation tax rate of 19% which is mainly due to non-tax deductible expenses and the effect of a change in the rate of future corporation tax reducing the amount recognised for the deferred tax asset. A reconciliation of the theoretical corporation tax charge based on the accounts profit multiplied by the UK annualised corporation tax rate of 19% and the actual tax charge is given in note 4 of these interim financial statements.

Profit after tax was £5.5 million *(2018: £7.5 million)*, a decrease of £2.0 million *(2018: increase of £0.9 million)* compared with the same period last year. The basic earnings per share decreased by 4.90 pence, or 27.50%, from 17.82 pence for the first half of 2018 to 12.92 pence for the period under review reflecting the decrease in profit discussed above.

Impact of the adoption of the new accounting standard on leases

The group has adopted IFRS 16, which establishes principles for the recognition, measurement, presentation and disclosures of leases, with effect from 1 January 2019.

The group has recognised a right-of-use asset and a lease liability of £11.4 million in respect of existing operating leases of properties, plant machinery and equipment as at 1 January 2019. The nature of expenses related to these leases has changed because the group reversed operating lease payments of £1.2 million but recognised a £1.1 million depreciation charge for right-of-use assets and an interest expense of £0.15 million on the lease liabilities. Therefore, EBITDA was improved by £1.2 million and operating profit by £0.1 million. Overall profit before tax was reduced by £0.05 million primarily due to the effect of charging more interest at the beginning of the lease term.

There was also a significant impact on the group's net funds as a result of the adoption of IFRS 16 as at 1 January 2019. Net funds were reduced by £11.4 million as a result of recognising lease obligations that correspond with the capitalised right of use asset as at the date of transition and by a net further £0.1 million as a result of applying IFRS 16 to new leases entered into in the current period. There has been no change to the group's contractual cash flows as a result of this change in accounting policy.

Chairman's Statement continued

Dividends

The final dividend of 11.90 pence per ordinary share for the year ended 31 December 2018 was approved by members at the AGM held on 18 June 2019. Accordingly, on 21 June 2019 the Company made a total dividend payment of £5,019,000 which was paid to shareholders on the register as at 31 May 2019.

The board continues to adopt the policy of returning value to shareholders whenever possible. The group remains profitable, cash generative and financially strong. Accordingly, the board has decided to declare an interim dividend for 2019 of 11.90 pence per share which in total amounts to £5,019,000. This will be paid on 8 November 2019 to shareholders on the register as at 11 October 2019. The shares will go ex-dividend on 10 October 2019.

Outlook

Trading in the third quarter has started slightly more positively. In the UK the Pump hire revenue has shown a steady improvement and air conditioning hire revenue in mainland Europe has been strong. This has been driven by some extreme temperatures across the region, however the UK has not reached the very high levels we saw during the long hot summer of 2018. Once again activity in the Middle East has remained consistent through the summer period.

The board has continued to invest in the business, with new depot openings during the year and further hire fleet investments. This will ensure that the business can optimise any weather driven opportunities whilst at the same time growing the geographic coverage organically.

JG Murray
Chairman

26 September 2019

Consolidated Income Statement
For the six months ended 30 June 2019 (unaudited)

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Continuing operations			
Revenue	**34,974**	37,815	78,563
Cost of sales	**(15,535)**	(16,256)	(31,908)
Gross profit	**19,439**	21,559	46,655
Distribution costs	**(5,762)**	(5,987)	(12,073)
Administrative expenses	**(6,759)**	(6,292)	(13,901)
Operating profit	**6,918**	9,280	20,681
EBITDA*	**11,435**	12,429	26,737
Depreciation and impairment losses	**(3,697)**	(3,399)	(6,666)
Depreciation of right-of-use assets	**(1,098)**	-	-
Profit on the sale of plant and equipment	**278**	250	610
Operating profit	**6,918**	9,280	20,681
Finance income	**61**	60	125
Finance costs	**(46)**	(47)	(97)
Interest charge on right-of-use leases	**(157)**	-	-
Intercompany foreign exchange gains and losses	**(16)**	52	336
Profit before taxation	**6,760**	9,345	21,045
Taxation	**(1,311)**	(1,817)	(3,999)
Profit for the financial period	**5,449**	7,528	17,046

There were no discontinued operations in either of the above periods.

Earnings per share from continuing operations			
Basic and diluted (pence)	**12.92p**	17.82p	40.39p
Dividends paid during the period per equity share (pence)	**11.90p**	11.90p	23.80p
Proposed dividend per equity share (pence)	**11.90p**	11.90p	11.90p

* Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non-recurring items.

Consolidated Balance Sheet
As at 30 June 2019 (unaudited)

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Non-current assets			
Property, plant and equipment	**24,046**	23,186	23,651
Right-of-use assets	**11,387**	-	-
Lease prepayments	**44**	46	45
Deferred tax asset	**435**	176	677
Retirement benefit pension surplus	**1,286**	3,354	1,356
	37,198	26,762	25,729
Current assets			
Stocks	**5,969**	5,807	5,083
Trade and other receivables	**20,115**	20,100	19,994
Overseas tax (denominated in Euros)	**278**	47	-
Cash and cash equivalents	**23,770**	21,489	27,862
	50,132	47,443	52,939
Current liabilities			
Trade and other payables	**(11,444)**	(12,598)	(12,889)
Current tax liabilities	**(1,104)**	(1,624)	(1,858)
Overseas tax (denominated in euros)	**-**	-	(436)
Bank loans	**(493)**	(493)	(493)
Obligations under right-of-use leases	**(2,141)**	-	-
Obligations under finance leases	**-**	(26)	(5)
	(15,182)	(14,741)	(15,681)
Net current assets	**34,950**	32,702	37,258
Total assets less current liabilities	**72,148**	59,464	62,987
Non-current liabilities			
Bank loans	**(3,487)**	(3,979)	(3,983)
Obligations under right-of-use leases	**(9,320)**	-	-
	(12,807)	(3,979)	(3,983)
Net assets	**59,341**	55,485	59,004
Equity			
Called-up share capital	**422**	422	422
Share premium	**13**	13	13
Retained earnings	**54,363**	50,789	54,013
Translation reserve	**4,297**	4,005	4,300
Other reserves	**246**	246	246
Surplus attributable to equity holders of the parent	**59,341**	55,475	58,994
Non-controlling interest	**-**	10	10
Total equity	**59,341**	55,485	59,004

Consolidated Cash Flow Statement
For the six months ended 30 June 2019 (unaudited)

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Cash flows from operating activities			
Cash generated from operations	**7,530**	7,600	22,888
Interest paid	**(201)**	(42)	(88)
Net UK corporation tax paid	**(1,300)**	(946)	(2,236)
Overseas tax paid	**(1,233)**	(1,052)	(1,454)
Net cash inflow from operating activities	**4,796**	5,560	19,110
Investing activities			
Sale of property, plant and equipment	**382**	472	944
Purchase of property, plant and equipment	**(2,812)**	(4,031)	(7,142)
Interest received	**43**	16	41
Net cash outflow from investing activities	**(2,387)**	(3,543)	(6,157)
Financing activities			
Loan repayments	**(500)**	(500)	(500)
Capital repayments for right-of-use lease obligations	**(1,025)**	-	-
Finance lease capital repayments	**(5)**	(24)	(45)
Equity dividends paid	**(5,019)**	(5,029)	(10,048)
Purchase of own shares	**-**	(438)	(438)
Net cash outflow from financing activities	**(6,549)**	(5,991)	(11,031)
Net (decrease)/increase in cash and cash equivalents	**(4,140)**	(3,974)	1,922
Cash and cash equivalents at the beginning of the period	**27,862**	25,311	25,311
Effect of foreign exchange rate changes	**48**	152	629
Cash and cash equivalents at end of the period	**23,770**	21,489	27,862
Reconciliation of net cash flow to movement in net funds in the period			
Net (decrease)/increase in cash and cash equivalents	**(4,140)**	(3,974)	1,922
Net cash outflow from the decrease in debt	**1,530**	524	545
Non-cash movements re new right-of-use assets	**(1,134)**	-	-
Non-cash movements re costs of raising loan finance	**(4)**	(4)	(8)
(Decrease)/increase in net funds during the period	**(3,748)**	(3,454)	2,459
Opening net funds at the beginning of period	**23,381**	20,293	20,293
Transitional adjustment for right-of-use assets at start of period	**(11,363)**	-	-
Effect of foreign exchange rate changes on right-of-use leases	**11**	-	-
Effect of foreign exchange rate changes	**48**	152	629
Closing net funds at the end of period	**8,329**	16,991	23,381

Consolidated Statement of Comprehensive Total Income (CSOCTI)

For the six months ended 30 June 2019 (unaudited)

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Profit for the financial period	**5,449**	7,528	17,046
Other comprehensive income:			
Items that may be reclassified to profit and loss:			
Currency translation differences on foreign currency net investments	**(2)**	110	405
Items that will never be reclassified to profit and loss:			
Remeasurement of defined benefit liabilities and assets	**(96)**	(75)	(1,649)
Related deferred tax	**16**	14	313
Other comprehensive income for the period net of tax	**(82)**	49	(931)
Total comprehensive income for the period	**5,367**	7,577	16,115

Notes to the Consolidated Interim Financial Statements

For the six months ended 30 June 2019 (unaudited)

1 General information

Basis of preparation

These interim financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the European Union and with the Companies Act 2006.

The information for the 12 months ended 31 December 2018 does not constitute the group's statutory accounts for 2018 as defined in Section 434 of the Companies Act 2006. Statutory accounts for 2018 have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. These interim financial statements, which were approved by the Board of Directors on 26 September 2019, have not been audited or reviewed by the auditors.

The interim financial statement has been prepared using the historical cost basis of accounting except for:

(i) Properties held at the date of transition to IFRS which are stated at deemed cost;

(ii) Assets held for sale which are stated at the lower of (i) fair value less anticipated disposal costs and (ii) carrying value;

(iii) Derivative financial instruments (including embedded derivatives) which are valued at fair value; and

(iv) Pension scheme assets and liabilities calculated at fair value in accordance with IAS 19.

Functional and presentational currency

The financial statements are presented in pounds Sterling because that is the functional currency of the primary economic environment in which the group operates.

2 Accounting policies

With the exception of the adoption of IFRS 16 on 1 January 2019, these interim financial statements have been prepared on a consistent basis and in accordance with the accounting policies set out in the group's Annual Report and Financial Statements 2018.

IFRS 16 introduced a single, on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The group adopted IFRS 16 on 1 January 2019 and applied the Standard's modified retrospective approach. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to assets and liabilities at the date of initial application. Comparative information is not restated. Management has decided to make use of the practical expedient not to perform a full review of existing leases, bringing onto the balance sheet the net present value of the remaining outstanding lease obligations as at the date of transition as both an asset and liability, and has also applied IFRS 16 to new or modified contracts. There are recognition exemptions for short-term leases and leases of low-value items and the group has decided to make use of the short-term leases exemptions.

Notes to the Consolidated Interim Financial Statements continued

For the six months ended 30 June 2019 (unaudited)

2 Accounting policies (continued)

The group has recognised a right-of-use asset and a lease liability for its operating leases of properties, plant machinery and equipment, other than those that fall within the above recognition exemption. The nature of expenses related to these leases has changed because the group has recognised a depreciation charge for right-of-use assets and an interest expense, charged within finance costs, on the lease liabilities. The assets are depreciated on a straight-line basis over the remaining life of the lease and the interest expense is calculated in order to give a constant rate of return on the outstanding capital liability. Previously, the group recognised operating lease expenses on a straight-line basis over the term of the lease as a reduction in operating profit, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 1 January 2019, the date of transition to IFRS 16, the group recognised additional right-of-use assets and liabilities of £11.4 million. An additional £1.1 million of new leases were capitalised and a depreciation expense of £1.1 million was recognised in the period. EBITDA was improved by approximately £1.2 million due to the removal of operating lease payments of this amount that would have been charged in accordance with the previous standards, and operating profit for the current period was improved by approximately £0.1 million. Overall profit before tax was reduced by approximately £0.05 million primarily due to the effect of charging more interest at the beginning of the lease term.

There was a significant impact on the group's net funds as a result of the adoption of IFRS 16 as at 1 January 2019. Net funds were reduced by £11.4 million as a result of capitalising existing lease obligations as at the date of transition and by a further £0.1 million as a result of applying IFRS 16 to new leases entered into in the current period. There has been no change to the group's repayment obligations or commitments as a result of this change in accounting policy.

There was no impact for the group's finance leases. IFRS 16 did not make any significant changes to the accounting for lessors, and therefore there were no changes for leases where the group acts as a lessor.

3 Revenue

An analysis of the group's revenue is as follows:

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Continuing operations			
Hire	**30,042**	32,847	67,813
Sales	**2,863**	3,152	6,817
Maintenance	**957**	936	1,791
Installations	**1,112**	880	2,142
Group consolidated revenue from the sale of goods and provision of services	**34,974**	37,815	78,563

The geographical analysis of the group's revenue by origination is:

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
United Kingdom	**20,886**	23,993	49,092
Rest of Europe	**8,147**	8,664	18,202
Middle East and Africa	**5,941**	5,158	11,269
	34,974	37,815	78,563

The geographical analysis of the group's revenue by destination is not materially different to that by origination.

4 Taxation

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Current tax			
UK corporation tax at 19% *(30 June 2018 and 31 December 2018: 19%)*	**731**	1,252	2,807
Adjustments in respect of prior periods	**(185)**	-	(32)
	546	1,252	2,775
Overseas tax	**508**	618	1,444
Adjustments to overseas tax in respect of prior periods	**(1)**	7	42
Total current tax charge	**1,053**	1,877	4,261
Deferred tax			
Deferred tax on the origination and reversal of temporary differences	**73**	(60)	(260)
Adjustments in respect of prior periods	**185**	-	(2)
Total deferred tax charge /(credit)	**258**	(60)	(262)
Total tax charge for the financial period attributable to continuing operations	**1,311**	1,817	3,999

4 Taxation (continued)

The tax charge for the financial period can be reconciled to the profit before tax per the income statement multiplied by the effective standard annualised corporation tax rate in the UK of 19% *(30 June 2018 and 31 December 2018: 19%)* as follows:

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Profit before taxation from continuing and total operations	**6,760**	9,345	21,045
Tax at the UK effective annualised corporation tax rate of 19% *(30 June 2018 and 31 December 2018: 19%)*	**1,284**	1,776	3,999
Effects of:			
Expenses not deductible for tax purposes	**72**	50	114
Utilisation of overseas trading losses	**(12)**	(24)	(44)
Effects of different tax rates of subsidiaries operating abroad	**(110)**	(22)	(78)
Overseas tax losses not recognised	**29**	30	-
Effect of change in rate of corporation tax	**49**	-	-
Adjustments to tax charge in respect of previous periods	**(1)**	7	8
Total tax charge for the financial period	**1,311**	1,817	3,999

The total effective tax charge for the financial period represents the best estimate of the weighted average annual effective tax rate expected for the full financial year applying tax rates that have been substantively enacted by the balance sheet date. Accordingly UK corporation tax has been provided at 19%; the rate of 19% for the tax year ending 31 March 2020 having been substantially enacted in October 2015. UK deferred tax has been provided at 17% *(30 June 2018 and 31 December 2018: 19%)* being the rate substantially enacted at the balance sheet date at which the timing differences are expected to substantially reverse.

Notes to the Consolidated Interim Financial Statements continued

For the six months ended 30 June 2019 (unaudited)

5 Earnings per share

Basic earnings per share

The basic figures have been calculated by reference to the weighted average number of ordinary shares in issue and the earnings as set out below. There are no discontinued operations in any period.

	6 months ended 30 June 2019	
	Continuing earnings £'000	**Number of Shares**
Basic earnings/weighted average number of shares	**5,449**	**42,174,359**
Basic earnings per ordinary share (pence)	**12.92p**	

	6 months ended 30 June 2018	
	Continuing earnings £'000	Number of Shares
Basic earnings/weighted average number of shares	7,528	42,251,117
Basic earnings per ordinary share (pence)	17.82p	

	12 months ended 31 December 2018	
	Continuing earnings £'000	Number of Shares
Basic earnings/weighted average number of shares	17,046	42,207,255
Basic earnings per ordinary share (pence)	40.39p	

Diluted earnings per share

There were no dilutive instruments outstanding at 30 June 2019 or either of the comparative periods and therefore there is no difference in the basic and diluted earnings per share for any of these periods. There were no discontinued operations in any period.

6 Dividend payments

Dividends declared and paid on ordinary one pence shares during the 6 months ended 30 June 2019 were as follows:

		Paid during the 6 months ended 30 June 2019
	Pence per share	**Total dividend paid £'000**
Final dividend for the year ended 31 December 2018 paid to members on the register as at 31 May 2019 on 21 June 2019	**11.90p**	**5,019**

The above dividend was charged against reserves during the 6 months ended 30 June 2019.

On 26 September 2019 the directors declared an interim dividend of 11.90 pence per ordinary share which in total amounts to £5,019,000. This will be paid on 8 November 2019 to shareholders on the register as at 11 October 2019 and will be charged against reserves in the second half of 2019.

Dividends declared and paid on ordinary one pence shares during the 6 months ended 30 June 2018 were as follows:

		Paid during the 6 months ended 30 June 2018
	Pence per share	Total dividend paid £'000
Final dividend for the year ended 31 December 2017 paid to members on the register as at 1 June 2018 on 25 June 2018.	11.90p	5,029

The above dividend was charged against reserves during the 6 months ended 30 June 2018.

6 Dividend payments (continued)

Dividends declared and paid on ordinary one pence shares during the 6 months ended 31 December 2018 were as follows:

		Paid during the 12 months ended 31 December 2018
	Pence per share	Total dividend paid £'000
Final dividend for the year ended 31 December 2017 paid to members on the register as at 1 June 2018 on 25 June 2018	11.90p	5,029
Interim dividend declared on 27 September 2018 and paid to shareholders on the register as at 12 October 2018 on 9 November 2018	11.90p	5019
	23.80p	10,048

The above dividends were charged against reserves during the 12 months ended 31 December 2018.

7 Retirement benefit obligations – Defined benefit pension scheme

The group closed the UK Group defined benefit pension scheme to future accrual as at 29 December 2002. The assets of the defined benefit pension scheme continue to be held in a separate trustee administered fund.

As at 30 June 2019 the group had a net defined benefit pension scheme surplus, calculated in accordance with IAS 19 (revised) using the assumptions as set out below, of £1,286,000 *(30 June 2018: £3,354,000; 31 December 2018: £1,356,000)*. The asset has been recognised in the financial statements as the directors are satisfied that it is recoverable in accordance with IFRIC 14.

Following the triennial recalculation of the funding deficit as at 31 December 2016, a revised schedule of contributions and recovery plan was agreed with the pension scheme trustees in October 2017. In accordance with this schedule of contributions, which was backdated to be effective from 1 January 2017, the group made additional contributions during 2017 to remove the funding deficit in the group scheme calculated as at 31 December 2016 of £710,000 and this was eliminated by 31 December 2017.

7 Retirement benefit obligations – Defined benefit pension scheme (continued)

The next formal triennial funding valuation is due as at 31 December 2019. The group currently expects to make pension contributions of £120,000 during 2019 in accordance with the current schedule of contributions of which £60,000 was paid in the first half year.

Assumptions used to calculate the scheme surplus

A qualified independent actuary has updated the results of the December 2016 *(30 June 2018 and 31 December 2018: December 2016)* full actuarial valuation to calculate the surplus as disclosed below:

The major assumptions used to determine the present value of the scheme's defined benefit obligation were:

	30 June 2019 %	30 June 2018 %	31 December 2018 %
Rate of increase in pensionable salaries	**N/A**	N/A	N/A
Rate of increase in pensions in payment	**3.20**	3.10	3.20
Discount rate applied to scheme liabilities	**2.20**	2.60	2.80
Inflation assumption – RPI	**3.20**	3.10	3.20
Inflation assumption – CPI	**2.20**	2.10	2.20
Percentage of members taking maximum tax free lump sum on retirement	**75**	75	75

From 1 January 2011, the government amended the basis for statutory increases to deferred pensions and pensions in payment. Such increases are now based on inflation measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Having reviewed the scheme rules and considered the impact of the change on this pension scheme, the directors consider that future increases to (i) all deferred pensions and (ii) Guaranteed Minimum Pensions accrued between 6 April 1988 and 5 April 1997 and currently in payment will be based on CPI rather than RPI. Accordingly, this assumption was adopted as at 31 December 2010 and subsequently.

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics. The mortality table used at 30 June 2019 is 110% S2NA CMI2017 *(30 June 2018: 110% S2NA CMI2016; 31 December 2018: 110% S2NA CMI2017)* with a 1.25% per annum long term improvement for both males and females *(30 June 2018 and 31 December 2018: 1.25% males and females).*

7 Retirement benefit obligations – Defined benefit pension scheme (continued)

The assumed average life expectancy in years of a pensioner retiring at the age of 65 given by the above tables is as follows:

	30 June 2019	30 June 2018	31 December 2018
Male, current age 45	**22.8 years**	22.9 years	22.8 years
Female, current age 45	**24.9 years**	25.0 years	24.9 years
Male, current age 65	**21.4 years**	21.5 years	21.4 years
Female, current age 65	**23.4 years**	23.5 years	23.4 years

Valuations

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are inherently uncertain, were as follows:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Total fair value of plan assets	**44,060**	43,968	41,036
Present value of defined benefit funded obligation calculated in accordance with stated assumptions	**(42,774)**	(40,614)	(39,680)
Surplus in the scheme calculated in accordance with stated assumptions recognised in the balance sheet	**1,286**	3,354	1,356

7 Retirement benefit obligations – Defined benefit pension scheme (continued)

The movement in the fair value of the scheme's assets during the period was as follows:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Fair value of plan assets at the start of the period	**41,036**	45,657	45,657
Interest income on pension scheme assets	**562**	551	1,103
Actual return less interest income on pension scheme assets	**3,343**	(671)	(2,645)
Employer contributions	**60**	60	120
Benefits paid	**(888)**	(1,592)	(3,068)
Administration expenses charged in the income statement	**(53)**	(37)	(131)
Fair value of plan assets at the end of the period	**44,060**	43,968	41,036

The movement in the present value of the defined benefit obligation during the period was as follows:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Present value of defined benefit funded at the beginning of the period	**(39,680)**	(42,293)	(42,293)
Interest on defined benefit obligation	**(543)**	(509)	(1,019)
Actuarial (loss) / gain recognised in the CSOCTI calculated in accordance with stated assumptions	**(3,439)**	596	996
Benefits paid	**888**	1,592	3,068
Past service cost – GMP equalisation	**-**	-	(432)
Closing present value of defined benefit funded obligation calculated in accordance with stated assumptions	**(42,774)**	(40,614)	(39,680)

7 Retirement benefit obligations – Defined benefit pension scheme (continued)

Amounts recognised in the income statement

The amounts (charged)/credited in the income statement were:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Interest income on pension scheme assets	**562**	551	1,103
Interest expense on pension scheme liabilities	**(543)**	(509)	(1,019)
Net pension interest credit included within finance income	**19**	42	84
Scheme administration expenses and GMP equalisation	**(53)**	(37)	(563)
Net pension (charge)/credit in the income statement	**(34)**	5	(479)

Actuarial gains and losses recognised in the consolidated statement of comprehensive total income (CSOCTI)

The amounts (charged)/credited in the CSOCTI were:

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Actual return less interest income on pension scheme assets	**3,343**	(671)	(2,645)
Experience gains and losses arising on plan obligation	**-**	-	(412)
Changes in demographic and financial assumptions underlying the present value of plan obligations	**(3,439)**	596	1,408
Actuarial (loss) calculated in accordance with stated assumptions recognised in the CSOCTI	**(96)**	(75)	(1,649)

8 Called up share capital

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Issued and fully paid:			
42,174,359 ordinary shares of one pence each *(30 June 2018 and 31 December 2018: 42,174,359 ordinary shares of one pence each)*	**422**	422	422

During the period the Company did not buy back any shares for cancellation *(30 June 2018 and 31 December 2018: 87,723 shares bought back for a total consideration of £437,689)*.

The Company did not issue any shares in the period or either of the comparative periods. No share options were granted, forfeited or expired during the periods and there were no share options outstanding at any period end.

The Company has one class of ordinary shares which carry no right to fixed income.

Notes to the Consolidated Interim Financial Statements continued

For the six months ended 30 June 2019 (unaudited)

9 Cash generated from operations

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
Profit for the period attributable to equity shareholders	**5,449**	7,528	17,046
Adjustments for:			
Taxation charge	**1,311**	1,817	3,999
Finance costs	**46**	47	97
Finance income	**(61)**	(60)	(125)
Interest charge on right-of-use leases	**157**	-	-
Inter-company foreign exchange gains and losses	**16**	(52)	(336)
Profit on the sale of property, plant and equipment	**(278)**	(250)	(610)
Depreciation	**3,697**	3,399	6,666
Depreciation of right-of-use assets	**1,098**	-	-
EBITDA*	**11,435**	12,429	26,737
Excess of pension contributions compared with service and administration expenses including GMP equalisation	**(7)**	(23)	443
Workings capital movements:			
Stocks	**(2,324)**	(2,799)	(2,682)
Trade and other receivables	**(120)**	(2,245)	(2,139)
Trade and other payables	**(1,454)**	238	529
Cash generated from operations	**7,530**	7,600	22,888

* Earnings Before Interest, Taxation, Depreciation, profit on the sale of property, plant and equipment, Amortisation and non-recurring items.

10 Analysis of net funds and movement in financing liabilities

	30 June 2019 £'000	30 June 2018 £'000	31 December 2018 £'000
Cash and cash equivalents per consolidated cash flow statement	**23,770**	21,489	27,862
Bank loans:			
At the beginning of the period	**(4,476)**	(4,968)	(4,968)
Loans repaid	**500**	500	500
Other non-cash changes	**(4)**	(4)	(8)
At the of the period	**(3,980)**	(4,472)	(4,476)
Finance lease liabilities:			
At the beginning of the period	**(5)**	(50)	(50)
Leases repaid	**5**	24	45
At the end of the period	**-**	(26)	(5)
Right-of-use lease obligations:			
At the beginning of the period	**-**	-	-
Transitional adjustment for obligations at start of period	**(11,363)**	-	-
Leases repaid	**1,025**	-	-
Leases drawn down	**(1,134)**	-	-
Foreign exchange	**11**	-	-
At the of the period	**(11,461)**	-	-
Gross debt	**(15,441)**	(4,498)	(4,481)
Net funds	**8,329**	16,991	23,381

Notes to the Consolidated Interim Financial Statements continued

For the six months ended 30 June 2019 (unaudited)

11 Distribution of interim financial statements

Following a change in regulations in 2008, the Company is no longer required to circulate this half year report to shareholders. This enables us to reduce costs associated with printing and mailing and to minimise the impact of these activities on the environment. A copy of the interim financial statements is available on the Company's website, www.andrews-sykes.com.

ANDREWS SYKES
GROUP PLC

St David's Court, Union Street
Wolverhampton, WV1 3JE
Tel: 01902 328700
E-mail: info@andrews-sykes.com
andrews-sykes.com