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Swallowfield plc
("Swallowfield" or the "Group")
Interim results

Swallowfield plc, a market leader in the development, formulation, and supply of personal care and beauty products, including its own portfolio of brands, announces its interim results for the 28 weeks ended 12 January 2019

Financial highlights

- Group revenue increased by 3.7% to £41.4m. Brands sales grew 1.3% to £12.5m, against a strong comparative H1 FY18. Strong volume recovery from Manufacturing sales with growth of 8.8%.
- Strong margin in Brands has continued despite a challenging external environment.
- Manufacturing margin in H1 has been significantly impacted by the continuing high level of material cost inflation and a weaker product mix. This will be mitigated by secured price increases in H2 (as previously announced) and a more positive product mix.
- Underlying operating profit reduced to £1.6m, with a strong recovery anticipated in H2, driven by the above actions and cost base optimisation in our Manufacturing business.
- Significant reduction in net debt to £6.8m from year end £11.8m due to working capital normalisation.
- Interim dividend increased by 7.5% to 2.15 pence.

£m unless otherwise stated	2019	2018
Reported results ¹		
Revenue	£41.4m	£39.9m
Underlying operating profit ¹	£1.63m	£3.40m
Adjusted basic earnings per share ¹	7.9p	13.7p
Statutory results		
Revenue	£41.4m	£40.0m
Operating profit before exceptional items	£1.43m	£2.99m
Basic earnings per share	3.1p	13.1p
Total dividend per share	2.15p	2.0p
Net debt	£6.8m	£7.0m

¹ Underlying operating profit is calculated before LTIP, amortisation of acquisition related intangibles, exceptional items and net borrowing costs. Adjusted earnings per share is calculated using operating profit before exceptional items and amortisation of acquisition related intangibles.

Operational highlights

- Strong innovation and new product development (NPD) momentum has continued in Brands with new launches and re-stages across 3 'Drive' brands and 3 'Build' brands.
- Focus on international and e-commerce distribution expansion in Brands, supported by further investment in organisational capability.
- Manufacturing delivering significant year on year growth, fuelled by volume performance of new contracts, with further new business in the prestige sector secured for the second half.
- Actions taken to streamline Manufacturing portfolio and optimise cost base, with strategic review to be concluded in H2.

Brendan Hynes, Non-executive Chairman, commented: "This first half year has been impacted by significant material cost inflation, as previously signalled in the Manufacturing segment of our business. Our Brands business continues to perform well against very strong comparatives. Actions have been taken to improve the margin performance of our Manufacturing business in the second half of the year and beyond. Swallowfield therefore remains well positioned to regain its positive growth momentum."

Tim Perman, Chief Executive, commented: "During my first eight months as CEO of Swallowfield plc, my focus has been working towards a consistently profitable Manufacturing business whilst continuing to invest in the development of our Brands business, which has continued to underpin the Group's profit margins. The prevailing market conditions require a clear strategic focus for the Group and with our strategy to accelerate Brands growth and to simplify Manufacturing we are confident in delivering further profitable growth."

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Note: This announcement contains information that was previously inside information for the purposes of Article 7 of regulation 596/2014 (MAR).

Business review

Group revenue growth in the period was 3.7% at £41.4m (2018: £39.9m). This was driven by 8.8% growth in our Manufacturing business and a modest level of growth in our Brands business.

At the start of the period the Group saw strong momentum in Brands with positive Christmas gifting sales. However, the pace of growth across the brand portfolio has since slowed due to lower UK consumer confidence and pressures within the retail environment. This has resulted in softening demand and retailer reductions in category space and promotional activity which has impacted our business. We have made good progress in growing International sales which underpins our belief that there is a significant opportunity for sustained international growth in Brands, a key strategic objective for the Group. Continued focus on supply chain efficiency and an improved sales mix has resulted in a continued strong gross margin, despite retail pressures.

Sales in our Manufacturing business recovered strongly during the period, reflecting robust volume demand from existing and new customers. The Manufacturing business continues to win new volumes and will see a good level of revenues for the balance of the year. The well signalled impact of continuing high input costs and lower margin mix resulted in lower gross margins for the period, particularly when compared to the prior year period which included the remaining contribution from a higher margin contract. As previously indicated, gross margins will significantly improve in H2 due to agreed price increases, and positive mix from new contract wins. In addition, the focus on cost base optimisation which will equate to annualised cost savings of £1.0m, will also contribute to a strong profit recovery in H2.

Overheads increased in line with sales in our Manufacturing business and increased slightly as a percentage of sales in our Brands business as a result of investment in organisational capability. However, it was predominantly the effect of the lower gross margins generated in our Manufacturing business that resulted in the Group making an underlying operating profit of £1.63m, down significantly versus the comparable period (2018: £3.40m). The high margin Brands division continues to represent the majority of operating profit.

The overall effective rate of Group taxation for the period was 19.0% (2018: 19.0%) of pre-tax profits. The current year tax charge reflects standard UK and the Czech Republic rates of taxation.

This resulted in adjusted earnings per share of 7.9p (2018: 13.7p).

Strategic Report

The prevailing market conditions require a clear strategic focus for the Group.

Our strategy is based on five key value drivers:

- Portfolio of international, national and exclusive Brands
- Distribution expansion of Brands business
- Simplified, profitable Manufacturing business
- Category know-how: NPD, technical, formulation & regulatory expertise
- Performance culture: commercial acumen, speed, responsiveness, flexibility.

Our Brands business develops and markets a portfolio of personal care and beauty brands that are distributed across major retailers in the UK and internationally. The strategic priority for Brands is to accelerate sales and profit growth, organically and via earnings accretive acquisitions.

Our Manufacturing business formulates and manufactures personal care and beauty products for a customer base that includes many of the world's leading beauty brands. The strategic priority for Manufacturing is to streamline and simplify the business and actions are already underway in this regard.

The following summarises the progress made in each part of the business in this period.

Brands

- New product development executed at pace
- Positive Christmas gift sales
- 3 'Drive' brands and 3 'Build' brands restaged with new graphics
- Ecommerce development with increased focus on e-tailers
- Positive progress with the development of new international strategy
- Investment in organisational capability to strengthen team

Manufacturing

- 3 significant new contracts fully embedded with increased volumes
- New margin accretive wins in prestige sector
- Price increases secured to mitigate cost price inflation (H2 impact); on track to deliver a more profitable performance from Manufacturing.
- Utilising all 3 European sites to maximise increasing customer demand
- Continuing to focus on R&D and innovation in areas of core capability particularly aerosols and hot pours
- Actions to rationalise certain areas of the cost base taken in the period; strategic work underway with full review of structural footprint nearing completion

Net debt and cash flow

Net debt significantly decreased from a year-end position of £11.8m to £6.8m (2018: £7.0m). The key component to the reduction in debt has been the collection of year end debtors and the partial unwinding of material and component inventory which had strategically been bought ahead to secure supply.

Finance costs of £0.22m (2018: cost £0.18m) comprised interest expense of £0.15m (2018: £0.1m) plus a pension scheme notional finance charge of £0.07m (2018: charge £0.08m). Finance income is the receipt of £0.39m (2018: nil) dividend income from our investment holding in SCCTC.

Capital expenditure was £0.6m, in line with depreciation. We expect capital expenditure to remain ahead of depreciation for the full financial year as we continue

to invest in key strategic development projects and in further line efficiency programs.

Defined benefit pension scheme

The defined benefit pension scheme underwent its last triennial valuation as of 5 April 2017. The deficit on a statutory funding basis was £2.6m and the Group has entered into a deficit recovery plan and schedule of contributions of £0.2m per annum.

For accounting purposes at 12 January 2019, the Group recognised under IAS19 'employee benefits', a deficit of £6.6m (June 2018: £4.5m). The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were slightly higher than they were at 30 June 2018. This has resulted in marginally higher discount rates being adopted for accounting purposes compared to last year, which has been coupled with a small increase in expectations of long term inflation, the combined effect leaving the fair value of the scheme liabilities increased, with a weak investment return performance decreasing the value of the schemes assets. This has translated into an increase in liability under the IAS19 methodology.

Dividends

The Board is pleased to announce that it has approved an interim dividend of 2.15 pence per share (2018: 2.0 pence). This dividend will be paid on 24 May 2019 to shareholders on the register on 3 May 2019.

The Directors' intention is to have a progressive dividend policy that aligns future dividend payments to the underlying earnings and cash flow of the business, taking into account the gearing and the operational requirements of the business.

Outlook

There is clearly a considerable level of uncertainty in the current business environment and we expect consumer demand to remain subdued. We are confident that the strategic focus of the Group will enable us to deliver the best outcome for all stakeholders.

We expect the current pace of innovation and new product development to continue in Brands, accompanied by an enhanced focus on distribution in both the UK and internationally, which will help to mitigate the slowdown in retail demand in this business.

In our Manufacturing business, we expect a significant second half recovery given the visibility of the order book and as we benefit from the positive impact of pricing initiatives, product mix and cost base optimisation already implemented. We will also be finalising our strategic work, commenced in the period, to streamline the portfolio of activities in this segment of our business.

We are a market leader in our field with a strong and growing portfolio of owned brands, and whilst we are seeing the impact of the challenges faced in the wider environment, we are confident in a materially improved performance in the second half and believe results will be broadly in line with market expectations for the full year demonstrating profitable growth.

Group Statement of Comprehensive Income

		28 weeks ended 12 Jan 2019 (unaudited) £'000	28 weeks ended 6 Jan 2018 (unaudited) £'000	12 months ended 30 June 2018 (audited) £'000
Continuing operations	Notes			
Revenue	2	41,441	39,962	73,945
Cost of sales		(34,239)	(32,012)	(60,253)
Gross profit		7,202	7,950	13,692
Commercial and administrative costs		(5,773)	(4,953)	(8,716)
Operating profit before exceptional items		1,429	2,997	4,976
Exceptional items	3	(869)	(25)	(279)
Operating profit		560	2,972	4,697
Finance income		386	-	191
Finance costs	4	(218)	(175)	(364)
Profit before taxation		728	2,797	4,524
Taxation		(138)	(532)	(891)
Profit after taxation		590	2,265	3,633
Other comprehensive (loss) / income for the period:				
Re-measurement of defined benefit liability		(1,617)	407	1,403
Items that will be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(50)	54	30
Gain on available for sale financial assets		529	158	156
Other comprehensive (loss) / income for the period		(1,138)	619	1,589

Total comprehensive (loss) / income for the period	(548)	2,884	5,222
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Profit attributable to:			
Equity shareholders	537	2,205	3,542
Non-controlling interests	53	60	91

Total comprehensive (loss) / income attributable to:			
Equity shareholders	(601)	2,824	5,131
Non-controlling interests	53	60	91

Earnings per share				
- basic	5	3.1p	13.1p	20.9p
- diluted	5	3.0p	12.7p	20.3p

Dividend				
Paid in period (£'000)		720	590	933
Paid in period (pence per share)		4.2p	3.5p	5.5p
Proposed (£'000)		368	337	720
Proposed (pence per share)	6	2.15p	2.0p	4.2p

Group Statement of Changes in Equity

Group	Share Capital £'000	Share Premium £'000	Revaluation of investment reserve £'000	Exchange Reserve £'000	Pension re-measurement reserve £'000	Retained Earnings £'000	Non-controlling interest £'000	Total Equity £'000
Balance as at June 2018	857	11,987	1,247	(112)	(2,491)	15,455	79	27,022
Dividends	-	-	-	-	-	(720)	-	(720)
Non-controlling interest	-	-	-	-	-	-	53	53
Share based payments	-	-	-	-	-	143	-	143
Transactions with owners	-	-	-	-	-	(577)	53	(524)
Profit for the period	-	-	-	-	-	537	-	537
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	(1,617)	-	-	(1,617)
Exchange difference on translating foreign operations	-	-	-	(50)	-	-	-	(50)
Gain on available for sale financial assets	-	-	529	-	-	-	-	529
Total comprehensive income for the year	-	-	529	(50)	(1,617)	537	-	(601)
Balance as at 12 January 2019	857	11,987	1,776	(162)	(4,108)	15,415	132	25,897
Balance as at June 2017 as restated	844	11,744	1,091	(142)	(3,894)	12,749	18	22,410
Dividends	-	-	-	-	-	(590)	-	(590)
Non-controlling interest	-	-	-	-	-	-	60	60
Share based payments	-	-	-	-	-	47	-	47
Transactions with owners	-	-	-	-	-	(543)	60	(483)
Profit for the period	-	-	-	-	-	2,205	-	2,205
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	407	-	-	407
Exchange difference on translating foreign operations	-	-	-	54	-	-	-	54
Gain on available for sale financial assets	-	-	158	-	-	-	-	158
Total comprehensive income for the year	-	-	158	54	407	2,205	-	2,824
Balance as at 6 January 2018	844	11,744	1,249	(88)	(3,487)	14,411	78	24,751

Balance as at June 2017 as restated	844	11,744	1,091	(142)	(3,894)	12,749	18	22,410
Dividends	-	-	-	-	-	(933)	(30)	(963)
Issue of new shares	13	243	-	-	-	-	-	256
Non-controlling interest	-	-	-	-	-	-	91	91
Share based payments	-	-	-	-	-	97	-	97
Transactions with owners	13	243	-	-	-	(863)	61	(519)
Profit for the year	-	-	-	-	-	3,542	-	3,542
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	1,403	-	-	1,403
Exchange difference on translating foreign operations	-	-	-	30	-	-	-	30
Gain on available for sale financial assets	-	-	156	-	-	-	-	156
Total comprehensive income for the year	-	-	156	30	1,403	3,542	-	5,131
Balance as at June 2018	857	11,987	1,247	(112)	(2,491)	15,455	79	27,022

Group Statement of Financial Position

	Notes	As at 12 Jan 2019 (unaudited) £'000	As at 6 Jan 2018 (unaudited) £'000 restated	As at 30 June 2018 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		11,257	11,491	11,438
Intangible assets		12,575	9,387	12,707
Deferred tax assets		1,138	666	803
Investments		1,920	1,442	1,391
Total non-current assets		26,890	22,986	26,339
Current assets				
Inventories		15,150	13,537	13,825
Trade and other receivables		14,792	17,325	19,283
Cash and cash equivalents		1,747	425	934
Current tax receivable		508	70	109
Total current assets		32,197	31,357	34,151
Total assets		59,087	54,343	60,490
LIABILITIES				
Current liabilities				
Trade and other payables		21,409	21,521	23,709
Interest-bearing loans and borrowings		1,140	541	1,127
Current tax payable		994	552	503
Total current liabilities		23,543	22,614	25,339
Non-current liabilities				
Interest-bearing loans and borrowings		2,623	1,242	3,230
Post-retirement benefit obligations	8	6,614	5,665	4,489
Deferred tax liabilities		410	71	410
Total non-current liabilities		9,647	6,978	8,129
Total liabilities		33,190	29,592	33,468
Net assets		25,897	24,751	27,022
EQUITY				
Share capital		857	844	857
Share premium		11,987	11,744	11,987
Revaluation of investment reserve		1,777	1,249	1,247
Exchange reserve		(163)	(88)	(112)
Re-measurement of defined benefit liability		(4,108)	(3,487)	(2,491)
Retained earnings		15,415	14,411	15,455
Total equity		25,765	24,673	26,943
Non-controlling interest		132	78	79
Total equity		25,897	24,751	27,022

Group Cash Flow Statement

	28 weeks ended 12 Jan 2019 (unaudited) £'000	28 weeks ended 6 Jan 2018 (unaudited) £'000	12 months ended 30 June 2018 (audited) £'000
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Cash flow from operating activities			
Profit before taxation	728	2,797	4,524
Depreciation	667	651	1,283
Amortisation	154	122	583
Finance income	(386)	-	(191)
Finance cost	218	175	364
(Increase) in inventories	(1,325)	(2,107)	(2,395)
Decrease / (increase) in trade and other receivables	3,757	(540)	(2,648)
Increase in trade payables	808	211	1,298
Increase / (decrease) in other payables	1,912	(521)	(354)
(Decrease) in share-based payments provision	(158)	(48)	(1,666)
Contributions to defined benefit plan	(175)	(54)	(108)
Cash generated from operations	6,200	686	690
Finance expense paid	(153)	(97)	(209)
Taxation paid	(202)	(321)	(762)
Net cash flow from operating activities	5,845	268	(281)
Cash flow from investing activities			
Dividend income received	386	-	191
Purchase of property, plant and equipment	(639)	(1,067)	(1,631)
Purchase of intangibles	(23)	(18)	(3,850)
Purchase of subsidiary	-	(1,925)	(1,850)
Sale of property, plant and equipment	154	-	-
Net cash flow from investing activities	(122)	(3,010)	(7,140)
Cash flow from financing activities			
(Repayment) / proceeds of invoice discounting facility	(3,596)	10	2,741
Proceeds from new loan	-	-	3,000
Issue of new share capital	-	-	256
Repayment of loans	(594)	(310)	(736)
Dividends paid	(720)	(590)	(963)
Net cash flow from financing activities	(4,910)	(890)	4,298
Net increase / (decrease) in cash and cash equivalents	813	(3,632)	(3,123)
Cash and cash equivalents at beginning of period	934	4,057	4,057
Cash and cash equivalents at end of period	1,747	425	934

Notes to the Accounts

Note 1 Basis of preparation

The Group has prepared its interim results for the 28-week period ended 12 January 2019 in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union and also in accordance with the recognition and measurement principles of IFRS issued by the International Accounting Standards Board.

The Directors have considered trading and cash flow forecasts prepared for the Group, and based on these, and the confirmed banking facilities, are satisfied that the Group will continue to be able to meet its liabilities as they fall due for at least one year from the date of approval of the Interim Report. On this basis, they consider it appropriate to adopt the going concern basis in the preparation of these accounts.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim Financial Reporting'.

These interim financial statements do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 27 February 2019.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain non-current assets. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's Annual Report and Financial Statements for the year ended June 2019.

The statutory accounts for the year ended June 2018, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors Report and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Note 2 Segmental analysis

The Group is a market leader in the development, formulation, and supply of personal care and beauty products.

The reportable segments of the Group are aggregated as follows:

- Brands - we leverage our skilled resources to develop and market a growing portfolio of Swallowfield owned and managed brands. These include organically developed Bagsy, MR. and Tru, plus the acquisitions of The Real Shaving Company (in 2015), the portfolio of brands included in The Brand Architekt's acquisition (in 2016) and the latest acquisition 'Fish'.
- Manufacturing - the development, formulation and production of quality products for many of the world's leading personal care and beauty

brands.

- Eliminations and Central Costs - other Group-wide activities and expenses, including defined benefit pension costs (closed defined benefit scheme), LTIP expenses, amortisation of acquisition-related intangibles, interest, taxation and eliminations of intersegment items, are presented within 'Eliminations and central costs'.

This is the basis on which the Group presents its operating results to the Board of Directors, which is considered to be the CODM for the purposes of IFRS 8.

a) Principal measures of profit and loss - Income Statement segmental information:

	28 weeks ended 12 January 2019				28 weeks ended 6 January 2018			
	Brands	Manufacturing	Eliminations and Central Costs	Total	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK revenue	10,055	19,915	-	29,970	10,111	17,734	-	27,845
International revenue	2,360	9,111	-	11,471	2,186	9,931	-	12,117
Revenue - External	12,415	29,026	-	41,441	12,297	27,665	-	39,962
Revenue - Internal	36	2,214	(2,250)	-	-	1,037	(1,037)	-
Total revenue	12,451	31,240	(2,250)	41,441	12,297	28,702	(1,037)	39,962
Underlying operating profit/(loss)	2,580	230	(1,180)	1,630	2,575	1,918	(1,089)	3,404
Charge for share based payments	-	-	(67)	(67)	-	-	(307)	(307)
Amortisation of acquisition-related intangibles	-	-	(133)	(133)	-	-	(100)	(100)
Exceptional costs	-	-	(869)	(869)	-	-	(25)	(25)
Net borrowing income / (costs)	-	-	168	168	-	-	(175)	(175)
Profit/(loss) before taxation	2,580	230	(2,082)	728	2,575	1,918	(1,696)	2,797
Tax charge	-	-	(138)	(138)	-	-	(532)	(532)
Profit/(loss) for the period	2,580	230	(2,220)	590	2,575	1,918	(2,228)	2,265

The segmental Income Statement disclosures are measured in accordance with the Group's accounting policies as set out in note 1.

Inter segment revenue earned by Manufacturing from sales to Brands is determined on normal commercial trading terms as if Brands were any other third party customer.

All defined benefit pension costs and LTIP expenses are recognised for internal reporting to the CODM as part of Group-wide activities and are included within 'Eliminations and central costs' above. Other costs, such as Group insurance and auditors' remuneration which are incurred on a Group-wide basis are recharged by the head office to segments on a reasonable and consistent basis for all periods presented and are included within segment results above.

b) Other Income Statement segmental information

The following additional items are included in the measures of profit and loss reported to the CODM and are included within (a) above:

28 weeks ended 12 January 2019	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000

Depreciation	6	661	-	667
Amortisation	-	21	133	154

c) Principal measures of assets and liabilities

The Groups assets and liabilities are managed centrally by the CODM and consequently there is no reconciliation between the Group's assets per the statement of financial position and the segment assets.

d) Additional entity-wide disclosures

The distribution of the Group's external revenue by destination is shown below:

Geographical segments	28 weeks ended 12 Jan 2019 (unaudited) £'000	28 weeks ended 6 Jan 2018 (unaudited) £'000	12 months ended 30 June 2018 (audited) £'000
UK	29,970	27,845	51,284
Other European Union countries	7,956	9,156	16,891
Rest of the World	3,515	2,961	5,770
	41,441	39,962	73,945

In the 28 weeks ended 12 January 2019, the Group had two customers that exceeded 10% of total revenues, being 13.3% and 10.3% respectively. In the 28 weeks ended 6 January 2018, the Group had two customers that exceeded 10% of total revenues, being 12.7% and 10.4% respectively.

Note 3 Exceptional items

There was an exceptional items charge for the period ended 12 January 2019 of £0.9m. A structured redundancy program was executed during the first half of the financial year in our manufacturing business with related costs of £0.6m. A provision of £0.3m has been made in respect to the GMP equalisation on the Group's DB Pension scheme.

The prior year exceptional items charge represents the applicable proportion of the consolidated loss for the Sterling Shave Club Ltd. This investment was written off in the full year to 30 June 2018.

Note 4 Finance costs	28 weeks ended 12 Jan 2019 (unaudited) £'000	28 weeks ended 6 Jan 2018 (unaudited) £'000	12 months ended 30 June 2018 (audited) £'000
Finance costs			
Bank loans and overdrafts	153	97	212
Notional pension scheme costs	65	78	152
	218	175	364

Note 5 Earnings per share	28 weeks ended 12 Jan 2019 (unaudited)	28 weeks ended 6 Jan 2018 (unaudited)	12 months ended 30 June 2018 (audited)
Basic and diluted			
Profit for the period (£'000)	537	2,205	3,542
Basic weighted average number of ordinary shares in issue during the period	17,135,542	16,865,401	16,934,762
Diluted number of shares	17,659,183	17,413,330	17,454,505
Basic earnings per share	3.1p	13.1p	20.9p
Diluted earnings per share	3.0p	12.7p	20.3p

Basic earnings per share has been calculated by dividing the profit for each financial period by the weighted average number of ordinary shares in issue in the period. There is a difference at 6 January 2018 between the basic net earnings per share and the diluted net earnings per share due to the LTIP share options awarded to June 2017, to give a total of 547,929 share options. The difference at 12 January 2019 includes the net LTIP share options awarded to June 2018, to give a total of 523,641 share options that could be issued.

Adjusted earnings per share

Profit for the period (£'000)	537	2,205	3,542
Add back: Exceptional items	869	25	279
Add back: Amortisation of Acquisition Related Intangibles	133	100	197
Notional tax charge on above items	(190)	(24)	(90)
Adjusted profit before exceptional items	1,349	2,306	3,928
Basic weighted average number of ordinary shares in issue during the period	17,135,542	16,865,401	16,934,762
Diluted number of shares	17,659,183	17,413,330	17,454,505

Adjusted basic earnings per share	7.9p	13.7p	23.2p
Adjusted diluted earnings per share	7.6p	13.2p	22.2p

Adjusted earnings per share has been calculated by dividing the adjusted profit (after allowing for the notional tax charge on exceptional items) by the weighted average number of shares in issue in the period. There is a difference at 6 January 2018 between the basic net earnings per share and the diluted net earnings per share due to the LTIP share options awarded to June 2017, to give a total of 547,929 share options. The difference at 12 January 2019 includes the net LTIP share options awarded to June 2018, to give a total of 523,641 share options that could be issued.

Note 6 Dividends

The Directors have declared an interim dividend payment of 2.15p per share (2018: Interim: 2.0p; Final: 4.2p).

Note 7 Reconciliation of cash and cash equivalents to movement in net debt

	28 weeks ended 12 Jan 2019 (unaudited) £000's	28 weeks ended 6 Jan 2018 (unaudited) £000's	12 months ended 30 June 2018 (audited) £000's
Increase / (decrease) in cash and cash equivalents in the period	813	(3,632)	(3,123)
Net cash outflow / (inflow) from decrease / (increase) in borrowings	4,190	300	(5,005)
Change in net debt resulting from cash flows	5,003	(3,332)	(8,128)
Net debt at the beginning of the period	(11,769)	(3,641)	(3,641)
Net debt at the end of the period	(6,766)	(6,973)	(11,769)

Note 8 IAS 19 'Employee Benefits'

Expected future cash flows to and from the Scheme:

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was as at 5 April 2017 and revealed a funding deficit of £2.6m. The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 60 to 80 years. The average duration of the liabilities is approximately 20 years.

In accordance with the schedule of contributions dated 4 September 2018, the Company is expected to pay contributions to the Scheme to make good any shortfalls in funding and has agreed to pay £0.2m per annum. Contributions will subsequently increase from FY24 to a sufficient level to eliminate the deficit over the established 10 year recovery period. The magnitude of such payments will be reviewed following the next scheme funding valuation as at April 2020.

In addition, the Company has agreed to meet the cost of administrative expenses and Pension Protection Fund insurance premiums for the Scheme.

Payments made by the Company to the Scheme and in respect of Scheme liabilities were:

	28 weeks ended 12 January 2019 £000's	28 weeks ended 6 January 2018 £000's	12 months ended 30 June 2018 £000's
Company pension contributions	-	-	-
Deficit recovery payments	175	54	108
Scheme administrative expenses	92	51	171
Pension Protection Fund premium	108	222	222
Total	375	327	501

The amounts expended in the Group Statement of Comprehensive Income were:

	28 weeks ended 12 January 2019 £000's	28 weeks ended 6 January 2018 £000's	12 months ended 30 June 2018 £000's
In Operating profit:			
Company pension contributions	-	-	-
Scheme administrative expenses	96	88	171
Pension Protection Fund premium	58	119	222
GMP Equalisation	288	-	-
	442	207	393
In Finance costs:			
Unwinding of notional discount factor	65	78	155
Total	507	285	548

IAS 19 requires a separate valuation of the Scheme on a different basis to the funding valuation referred to above.

The effects of the application of IAS19 on the statement of financial position at 12 January 2019 are:

	12 January 2019 £000's
Increase in net pension and other benefit obligations	(2,125)
Reduction in deferred tax	361
Reduction in equity	1,764

The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are often used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were higher than they were at June 2018. This has resulted in marginally higher discount rates being adopted for accounting purposes compared to last year, which has been coupled with a small increase in expectations of long term inflation, the combined effect leaving the fair value of the scheme liabilities increased, with a weak investment return performance decreasing the value of the schemes assets. This has translated into an increase in liability under the IAS19 methodology.

The key assumptions used were:

	As at 12 January 2019	As at 6 January 2018	As at 30 June 2018
Discount Rate	3.05%	2.60%	2.80%
Rate of inflation (RPI)	3.20%	3.10%	3.00%
Rate of inflation (CPI)	2.10%	2.10%	2.00%

The amounts recognised in the Group statement of financial position were:

	As at 12 January 2019 £000's	As at 6 January 2018 £000's	As at 30 June 2018 £000's
Present value of funded obligations	(29,065)	(29,471)	(27,502)
Fair value of scheme assets	22,451	23,806	23,013
(Deficit)	(6,614)	(5,665)	(4,489)

Note 9 Announcement of results

The Interim Report will be sent to shareholders and is available to members of the public at the Company's Registered Office at Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL and on the Company's website.

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