Grafenia plc

Final Results

RNS Number : 5635A
Grafenia plc
08 June 2016

Grafenia plc
("Grafenia", "the Group" or "the Company")

Preliminary Results for the period ended 31 March 2016

Financial Highlights	**Continuing Activities***		
	2016	2015	**Change**
Turnover	**£10.77m**	£11.02m	**-2.3%**
EBITDA	**£1.52m**	£2.10m	**-27.6%**
Operating Profit before restructuring costs	**£0.06m**	£0.52m	
(Loss)/Profit before Tax	**£(0.26)m**	£0.53m	
Tax Income	**£0.27m**	£0.07m	
Total Comprehensive income	**£0.06m**	£0.85m	
EPS Continuing Activities **	**0.02p**	1.28p	
Dividend per share	**0.25p**	1.50p	
Capital Expenditure	**£1.82m**	£1.26m	
Net Cash	**£0.69m**	£1.28m	
Net Funds***	**£0.36m**	£1.27m	

***Continuing activities for 2016 and 2015 exclude Grafenia BV which was sold on 6 October 2015 - summary financials are included in note 7 to the accounts**
**** EPS - there are no dilutive factors**
***** Net funds is the net of cash and cash equivalents less other interest bearing loans and borrowings**

Operational highlights

- **Over 60 Nettl Web Studios now open or contracted in the UK & Ireland - doubling the network in the last year**
- **First Nettl master licence launched in New Zealand**
- **Over 10 additional partners under new Printing.com subscription model**
- **MarqetSpace passes £3m annualised monthly run rate**
- **New capital allocation and acquisition strategy**

For further information:

Grafenia plc

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Chairman's Statement

In order to focus on the development of the Group's new and existing channels in the UK and Ireland, our Dutch subsidiary Grafenia BV was sold in October 2015. During the second half of the financial year, the renewed focus of the Group has helped to increase the number of graphic professional partners we have trading relationships with in the UK and Ireland and provided these partners with tools which help them sell more of our product range to their clients. Our aim is to expand the range of products we sell to each customer and, where appropriate, license our intellectual property, systems and brands to help our partners grow their businesses.

Opportunities to license our intellectual property overseas continue to be investigated and we are in discussions with certain parties.

The strengthening of Sterling against the Euro during the financial year made the ongoing supply of print to the Eurozone less rewarding.

Results from continuing operations

Group turnover decreased by 2.30% to £10.77m *(2015: £11.02m)*. EBITDA contracted by 27.6% to £1.52m *(2015: £2.10m)*. Operating profit before restructuring costs decreased to £0.06m *(2015: £0.52m)*. Costs relating to restructuring of £0.31m resulted in an operating loss of £0.25m and a loss before tax of £0.26m *(2015: profit of £0.53m)*.

As in the prior year, the Group gained Research & Development Relief which generated a tax income of £0.27m *(2015: £0.1m)*.

Cash

The Group had a net cash position of £0.69m *(2015: £1.28m)* at the year end, despite capital investment totalling £1.82m *(2015: £1.26m,)* which included £0.37m of assets financed. This principally reflected investment in the Group's SaaS platform and new plant to produce our Ink-on-Fabric range.

People at Grafenia and Board changes

The effort of the workforce is key to our organisation's success and for this, as ever, I am thankful for the dedication and hard work of our Staff across the Group.

Following the disposal of Grafenia BV and the resultant scaling down of the Group's operations, Tony Rafferty chose to step down as Chief Executive and left the Group. The Board wishes to thank Tony for his years of unstinting service and drive developing the Group into a leading print supply provider in the United Kingdom.

Peter Gunning was confirmed as Chief Executive and the Board has been strengthened through the appointment of Conrad Bona, as a Non-executive Director in October 2015, and with the appointment of Jan Mohr, as a Non-executive Director in March 2016.

It is important to note that the Chief Executive's remuneration package has been tightly aligned with creating shareholder value. His bonus is based on incremental growth in the underlying free cash flow of the business over the long-term, therefore he only benefits if there is an increase in shareholder value.

Board - Strategic Review

The Board has undertaken an extensive business review and has concluded that it will pursue potential acquisition opportunities to enhance shareholder value.

The Board sees substantial potential value creation in combining several undersized, but high-quality businesses, in order to realise economies of scale. The Board is keenly aware of the fact that high-quality businesses are only value-accretive provided they are purchased at sensible prices. Transactions will only be pursued if both the *quality* and the *price* are right.

We are mindful that any fundraising should be structured in a way that best protects the economic interests of all existing shareholders but simultaneously, allows the Company to meet its fundraising objectives. The Board welcomes input from all shareholders on our capital allocation strategy.

Dividend

Given the strategy of pursuing acquisition opportunities, the Board has decided not to release further funds in the form of dividends for the foreseeable future. Therefore, no final dividend will be paid *(2015: 1.00p)*. The total dividend for the year therefore comprises the interim dividend of 0.25p *(2015: 1.50p)*. However, the Directors will continue to assess market conditions and may opportunistically purchase Company shares when the gap between price and value is deemed large enough.

Outlook

Following the disposal of our Dutch business, we have scaled back our cost base to reflect the different shape of our business. The benefit of these cost reductions has begun to be realised in the current financial year.

Last year we launched two new initiatives, Marqetspace and Nettl, both of which were embryonic. This year, both of these channels have been proven and exhibited strong growth.

In Marqetspace, we have a scalable method of attracting new trade buyers, which contribute to our production volume and increase efficiency. We expect Marqetspace sales to continue to grow this year.

With Nettl, we have established the largest retail network of web design studios in the UK and our focus remains on growing the network to over 200 partners. Our first international partner has launched Nettl studios in New Zealand and we continue to pursue other licensing opportunities.

The printing.com model has been updated to be more relevant and we have attracted new partners. We expect to grow the network in the current year.

Les Wheatley
Chairman
8 June 2016

Strategic Report

Chief Executive's Statement

Overview

Grafenia operates a vertically integrated business model. We manufacture printed marketing, stationery and display graphics in our Manchester-based production hub. Each month we make and ship over 12,000 individual orders.

We sell to business clients through a mixture of channels which include; directly owned Nettl web studios, Nettl and printing.com studios operated under license by our partners, white label trade partners, and ecommerce sites such as Marqetspace and Flyerzone.

Orders are placed and managed using W3P, our proprietary cloud-based platform. W3P hosts over 150 public 'w3shops', where end clients (typically SOHOs/SMEs) can place print orders online. These could be 'upload and print' jobs or, where the customer doesn't have a print-ready design, by editing an online template from our extensive library.

Our partners also operate over 500 private web-to-print portals for larger corporate and franchise-based businesses. We call these 'w3client' sites. They make it easy for larger businesses to control their marketing and maintain brand integrity. The client's own users place orders via w3client and our partners either route jobs automatically to our production hub, or produce them using their own equipment.

As well as print, we sell ecommerce and websites to SME clients directly and via our partners. These partners use cross-media components of our W3P platform, as well as marketing collateral and sales tools supplied by us.

A focus on our core competencies

We believe Grafenia has three core competencies: the management of complex logistics required to manufacture thousands of print orders each month; the operation of sophisticated Software-as-a-Service ("SaaS") platforms, and the development of brands.

The markets we operate in have become more competitive and margins on printing continue to erode. To mitigate this erosion, we are pursuing a strategy of licensing our software, systems, IP and brands both domestically and internationally.

Brand Partner channels

Nettl is our network of neighbourhood web studios. Over recent years we have witnessed a change in client behaviour. SME and SOHO clients are increasingly prioritising web, ecommerce and digital ahead of printing. Whilst printing is still a big part of a client's marketing mix, websites are increasingly viewed as essential and provide significant sales opportunities for us, and our partners.

In September 2014, we converted our Company-owned printing.com studios to the Nettl format. Nettl puts web first, replicating what clients are increasingly doing. However, whilst we lead with web to develop client relationships, sales of print and display remain the largest part of a Nettl studio's revenues.

In the first half of the year, we invited printing.com partners to become Nettl partners. These early adopters helped us to refine the systems and processes.

Like printing.com, Nettl is a bolt-on formula for established graphics businesses. It's a whole business system, which helps partners do more web using our marketing collateral, sales tools and methodologies. Nettl partners use W3P to deploy websites, ecommerce web shops, complex EPOS integrations and inventory management systems. W3P manages all aspects of the order cycle, from sales pitch and proposal, to project delivery, hosting, domain renewals, billing and subscriptions.

In the second half, we introduced a new Nettl subscription package whereby partners pay an initial license fee in return for classroom training and a marketing starter pack. They then pay a monthly subscription to use W3P, the Nettl brand and for access to marketing collateral. In addition, they pay deployment and ongoing monthly hosting fees for each website launched at wholesale prices.

The majority of Nettl partners promote printing.com's product range and are listed on the printing.com website. Nettl partners pay for print and display at wholesale prices and place their orders through W3P. Since many partners are *both* Nettl and printing.com, for the purposes of reporting we combine the revenues and refer to them as our 'brand partners'.

Today we have over 60 Nettl web studios in the UK and Ireland. Whilst we expect further printing.com partners to convert to Nettl, we anticipate that future Nettl partners will be sourced from our trade partner client base.

During the first half of the year, the printing.com network continued to contract, as partners became white label partners or upgraded to Nettl studios.

In February 2016, we launched a new simpler printing.com subscription model. Over a third of existing partners have now converted to this subscription. Partners remaining on legacy agreements will decide this year whether to switch to a new partner subscription, upgrade to Nettl or become white label and release their territory.

The new printing.com subscription provides partners with local geographic exclusivity over use of the brand, access to our technology and a suite of marketing collateral to help sell more printing and display. Since launch, we have added over 10 new printing.com studios. Like Nettl, new partners pay an initial license fee, a monthly subscription fee and buy print at wholesale prices.

New partners have been a mix of Marqetspace clients, W3P partners and businesses we previously had no relationship with. We anticipate more Marqetspace clients will see value in the new proposition and during this year there will potentially be a net gain of printing.com partners.

Sales of printing via Nettl and printing.com brand partners were £5.18m *(2015: £6.88m).* License fee income from our brand partners was £0.60m *(2015: £0.43m).*

Trade Partner channels

We launched Marqetspace in 2014 as an online trade service for graphic professionals who outsource printing. The channel has continued to grow this year and we have sold print and display products to over 2,000 resellers, printers and designers.

Some trade clients order directly from marqetspace.com (one of our largest w3shop websites). These clients pay no license fees and we establish a simple online trading relationship with them, backed up by our customer support team. Our field-based account managers provide additional support and demonstrate our product range.

Others partners place orders via our W3P platform and use our back-office to manage their business. They typically pay monthly subscription fees to use W3P and transactional fees for jobs they produce themselves.

We call both of these white label 'trade partners', since they use their own business name and their end client is not exposed to any of Grafenia's brands.

Using our 'w3shop' module, trade partners can set up public ecommerce stores instantly merchandised with the entire Marqestpace product range and TemplateCloud's designer template library. They choose their desired retail margin and start selling.

Using our 'w3client' module, trade partners who have key accounts with corporate customers, franchise networks or multi-site enterprises can set up private branded stores. These password controlled websites host the client's branded templates for their marketing collateral and their digital asset store.

Marqetspace is an important part of our sales funnel. Our goal is to attract more clients and to help them to sell more of our print and display products.

Once we have established a trading relationship, our aim is to develop deeper partnerships. This involves converting trade partners into brand partners, licensing our printing.com and Nettl brands and other intellectual property and systems to them. Marqetspace provides us with a pool of talent to begin these conversations.

Sales of printing to trade partners were £3.21m *(2015: £1.88m).* License fee income from white label partners using W3P, w3shop and w3client was £0.40m *(2015: £0.41m).*

Other channels

We license our W3P platform and brands to partners through Master Licenses in other countries.

Each of our Master License partners is different whilst some use our platform on a white label basis to offer systems to their own reseller network, others utilise the printing.com or Nettl brand to attract local partners. However, there are some who simply use our Application Programming Interfaces(APIs)to sell designer templates on their web-to-print websites.

Each Master License partner pays us license fees, typically linked to the scale and success of their local operation. Income from Master Licenses and APIs was £0.61m (*2015: £0.71m*). The previous year benefited from setup fees from two new partners.

During the second half of the year, our existing printing.com Master Licensee in New Zealand acquired the Nettl Master License. They have since opened three Nettl web studios and have begun marketing Nettl to their network. Grafenia receives a royalty based on local license fees and print revenues.

We are actively seeking partners in other countries to exploit the Nettl formula.

Print sales via Flyerzone in the UK and Ireland were £0.49m *(2015: £0.66m)*. Print sales in France via Flyerzone and printing.com were £0.34m (*2015: £0.41m*). All these channels make a contribution to our print volumes.

New product development

In the second half of the year we installed direct-to-fabric printing machinery and finishing equipment to widen the gamut of product we sell through our network.

This enabled us to enter the fast growing digital textiles market. Our range includes flags, expo displays, tension graphic systems, soft signage and fabric furniture.

Displays are typically composed of two parts - an aluminum frame, which clips together to form the skeleton, and a fabric display graphic. To achieve economies of scale we buy frames in bulk and currently have to prepay. This is represented by a decrease in cash and increase in our stock position from previous years.

We held three 'Expoganza' gallery events in February 2016 to launch the fabric range. Around 500 partners and trade clients attended in Manchester, London and Bristol. For many of our partners, this was the first time they had seen displays of this type.

We believe it's important for end clients to see fabric displays in person and have invested in getting them into as many locations as possible. Over 250 partners have demo stands on their premises.

Ink on fabric is sold across all our channels and is included within the figures for sales of printing. We anticipate growth in the current year.

Brambl is our SaaS web design application for graphic designers. Brambl was created as part of our Nettl initiative and is being used by over 200 partners in the UK and internationally to easily build websites for their clients. Whilst revenues are modest, so are ongoing development costs and Brambl is a feeder stream for future Nettl partners.

Current Trading

Trading conditions remain challenging. Since the start of this year, sales across all channels have been softer than budgeted, albeit ahead of the same period last year. Our markets are intensely competitive and it is unlikely that margins on the sale of traditional printing will improve in the near future.

As well as attracting more trade partners, we remain focused on mitigating margin pressure by expanding our array of value-added products and services, which help our partners succeed. We will continue to seek to license our systems and brands in the UK and overseas.

We note recent surveys, including those by the CBI and BPIF, on the uncertainty surrounding Brexit with challenges in retail sales and the print industry. Our customers are principally small businesses and their confidence may be impacted by the outcome of the referendum. However, the trade print market is expected to grow as more printers choose to outsource their production and we anticipate growth, despite these potential headwinds.

Peter Gunning
Chief Executive
8 June 2016

Strategic Report - Financial Review

The commentary below is in relation to continuing operations of the Group.

Revenue

Group revenues from continuing operations decreased by 2.30% to £10.77m *(2015: £11.02m).* Revenues from the Eurozone were 5.02% of the total *(2015: 5.35%)*, as disclosed in the Segmental Analysis note.

Gross Profit

The Group's definition of Gross Profit is revenue less direct materials (including the cost of distribution when made direct to customers). Gross Profit decreased as a percentage from 70.8% to 66.3%, reducing in monetary terms to £7.13m *(2015: £7.81m)* as margins on the sale of printing were eroded.

EBITDA / Operating Profit

The year showed a decrease in EBITDA, which is operating profit before interest, tax, depreciation and amortisation, to £1.52m representing a margin of 14.1% *(2015: £2.10m, 19.1%)* of turnover.

The Operating Profit for the year before restructuring costs decreased to £0.06m *(2015: £0.52m).*

Restructuring costs

Costs of £0.31m *(2015: nil)* were incurred primarily being severance payments to employees leaving the business. This resulted in an operating loss of £0.25m and a loss before tax of £0.26m *(2015: profit of £0.53m)*.

Pre-Tax Loss

The Group recorded a pre-tax loss of £0.26m *(2015: £0.53m),* being 0.5% *(2015: 4.8%)* of Group revenue.

Staff costs increased in the year to £3.78m *(2015: £3.73m),* and rose as a percentage of revenue to 35.1% from 33.85%. The increase in staff costs as a percentage of revenue reflected the investment in the establishment and development of the new sales channels. The depreciation and amortisation charge from continuing operations for the year was £1.46m *(2015: £1.58m*). The most significant element remains the charge for the amortisation of software development.

Interest Received and Charged

Interest received and charged in the period were negligible.

Taxation
As in the prior year the Group gained Research & Development Relief which generated a tax income of £0.27m *(2015: £0.1m)*. With the Group's track record of receiving R&D Tax Relief the policy has changed to one of accruing for the current year claim.

Earnings Per Share (EPS)

EPS in 2016 were 0.14p *(2015: 1.80p)*, based on a weighted average number of shares in issue of 46,639,156 *(2015: 47,071,835)*. There is no dilution of continuing EPS in either year.

Cash Flow

At the year end the Group had cash balances of £0.69m *(2015: £1.28m).* Net funds were £0.36m *(2015: £1.27m)*. Operational cash outflow was £0.1m *(2015 inflow: £1.94m)*. The working capital movement included a reduction in Trade Creditors of £0.63m and reflects the change in supply from third parties following the disposal of Grafenia BV. Other significant cash outflows included dividends paid of £0.59m *(2015: £0.76m)*.

Capital Expenditure

The total capital expenditure for the year was £1.82m *(2015: £1.26m),* which included £0.37m of assets financed. with the major item being software development for Nettl and the Group's SaaS platforms, totalling £1.01m *(2015: £1.07m).*

Manufacturing capacity at the Manchester Hub provides scope for growth. However, expenditure will continue to be incurred on software development and enhancement to support our Partners and business streams.

Share Capital and Share Options

As the 2004 Employee Share Option Scheme has lapsed no employee options were exercised or granted during the year.

During the year the Company purchased 1,424,000 of its own shares at an average price of 11.78p *(2015: nil)*.

Principal Risks and Uncertainties

The following are some of the principal risks relating to the Group's operations:

- uncertainty in the general economic environment may impact upon revenues and profitability;
- markets operated in are extremely competitive posing a threat to profitability;

- technological advances in manufacturing and or software may impact on operational effectiveness and earnings potential;
- a major catastrophe could impact the UK Production Hub. A disaster plan exists and losses are insured against but there could be a significant impact in the short and medium term;
    - the Group and its Clients depend on the W3P SaaS platform and all reasonable operational contingency is embedded for resilience in the event of a catastrophe;
- the ability to retain and recruit key people, across a multitude of disciplines, is essential in maintaining and growing the business;
- Group SaaS platforms are developed in-house but use third party components, for which the necessary rights exist but there is no certainty that these rights will be retained indefinitely.

Treasury Policies

Surplus funds are intended to support the Group's short term working capital requirements. These funds are invested through the use of short term deposits and the policy is to maximise returns as well as provide the flexibility required to fund on-going operations. The Board anticipate cash balances to rise moving forward particularly given the change in dividend policy.

The Board's option to purchase Company shares will only be exercised when the price is markedly below value, any such buyback will enhance earnings per share and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

Alan Q. Roberts
Finance Director
8 June 2016

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2016

	Note	**2016**	2015
Continuing Operations		**£000**	£000
Revenue	*3*	**10,766**	11,024
Raw materials and consumables used		**(3,631)**	(3,219)
Gross profit		**7,135**	7,805
Staff costs		**(3,776)**	(3,728)
Other operating charges		**(1,838)**	(1,979)
Depreciation and amortisation		**(1,462)**	(1,576)
Restructuring costs		**(308)**	-
Total expenses		**(7,384)**	(7,283
Operating (loss)/profit		**(249)**	523
Operating (loss)/profit analysed as:			
Operating profit before restructuring costs		**59**	523
Restructuring costs		**(308)**	-
Operating (loss)/profit		**(249)**	523
Financial income		**5**	9
Financial expenses		**(16)**	-
Net financing expense		**(11)**	9

(Loss)/profit before tax		**(260)**	532
Tax income	*4*	**270**	71
Profit from continuing operations after tax		**10**	603
Profit from discontinued operations after tax	*7*	**54**	245
Profit for the year		**64**	848
Total comprehensive income for the year		**64**	848
EPS - Continuing Operations	*5*	**0.02p**	1.28p
EPS - Discontinued Operations	*5*	**0.12p**	0.52p
EPS - Total(2)	*5*	**0.14p**	1.80p

(1) Restated to reflect the disposal of Grafenia BV
(2) Earnings per share suffers no dilution

Consolidated Statement of Changes in Equity

Year ended 31 March 2015	**Share Capital £000**	**Share premium £000**	**Merger reserve £000**	**Treasury Shares £000**	**Retained Earnings £0000**	**Total £000**
Balance at 31 March 2014	475	-	838	(69)	4,567	5,811
Profit and total comprehensive income for the year	-	-	-	-	847	847
Dividends paid	-	-	-	-	(706)	(706)
Total movement in equity	-	-	-	-	141	141
Balance at 31 March 2015	475	-	838	(69)	4708	5,952
Year ended 31 March 2016						
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**64**	**64**
Own shares acquired	**-**	**-**	**-**	**(168)**	**-**	**(168)**
Dividends paid	**-**	**-**	**-**	**-**	**(586)**	**(586)**
Total movement in equity	**-**	**-**	**-**	**(168)**	**(522)**	**(690)**
Balance at 31 March 2016	**475**	**-**	**838**	**(237)**	**4,186**	**5,262**

Consolidated Statement of Financial Position

At 31 March 2016

	2016 £000	2015 £000
Non-current assets		
Property, plant and equipment	**1,513**	1,114

Investments in subsidiaries	**-**	-
Intangible assets	**2,893**	4,372
Other receivables	**27**	26
Total non-current assets	**4,433**	5,512
Current assets		
Inventories	**316**	202
Trade and other receivables	**2,608**	2,287
Current tax repayable	**231**	-
Cash and cash equivalents	**686**	1,277
Total current assets	**3,841**	3,766
Total assets	**8,274**	9,278
Current liabilities		
Other borrowings	**(66)**	-
Trade and other payables	**(1,363)**	(1,701)
Current tax payable	**-**	(121)
Accruals and deferred income	**(699)**	(813)
Other liabilities	**(108)**	(288)
Total current liabilities	**(2,236)**	(2,923)
Non-current liabilities		
Other borrowings	**(264)**	-
Deferred tax liabilities	**(512)**	(403)
Total non-current liabilities	**(776)**	(403)
Total liabilities	**(3,012)**	(3,326)
Net assets	**5,262**	5,952
Equity attributable to equity holders of the parent		
Share capital	**475**	475
Share premium	**-**	-
Merger reserve	**838**	838
Treasury shares	**(237)**	(69)
Retained earnings	**4,186**	4,708
Total equity	**5,262**	5,952

Consolidated Statement of Cash Flows

for year ended 31 March 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Profit for the year	**64**	847
Adjustments for:		
Depreciation, amortisation and impairment (continuing operations)	**1,462**	1,655
(Surplus) on sale of subsidiary	**(279)**	-
Net finance expense / (income)	**11**	9
Foreign exchange (loss)/gains	**-**	(14)
Tax (income)/ expense	**(223)**	9
Operating cash flow before changes in working capital and provisions	**1,035**	2,506
Change in trade and other receivables	**(322)**	(16)

Change in inventories	**(114)**	(34)
Change in trade and other payables	**(632)**	(513)
Cash (used) / generated from operations	**(33)**	1,943
Interest paid	**(16)**	-
Income tax received /(paid)	**(20)**	(130)
Net cash (outflow)/inflow from operating activities	**(69)**	1,813
Cash flows from investing activities		
Proceeds from sale of subsidiary	**1,728**	-
Proceeds from sale of plant and equipment	**-**	5
Interest received	**5**	5
Acquisition of plant and equipment	**(438)**	(172)
Capitalised development expenditure	**(513)**	(518)
Acquisition of other intangible assets	**(500)**	(571)
Dividends received	**-**	-
Net cash generated by/(used in) investing activities	**282**	(1,251)
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	-
Purchase of own shares	**(168)**	-
Payment of finance leases	**(40)**	-
Dividends paid	**(586)**	(706)
Net cash used in financing activities	**(794)**	(706)
Net decrease in cash and cash equivalents	**(581)**	(144)
Exchange (loss)/gain on cash and cash equivalents	**(10)**	20
Cash and cash equivalents at start of year	**1,277**	1,401
Cash and cash equivalents at 31 March	**686**	1,277

Notes

(forming part of the preliminary financial statements)

1 Basis of preparation

Grafenia is a company incorporated and domiciled in the UK.

These Financial Statements do not include all information required for full annual financial statements, and should be read in conjunction with the Financial Statements of the Group as at and for the year ended 31 March 2016.

The comparative figures for the year ended 31 March 2015 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

These condensed consolidated preliminary financial statements were approved by the Board of Directors on 8 June 2016.

Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 March 2015.

3 Segmental information

As in the prior year the Group's primary operating segments are geographic being the UK & Ireland, Europe and others. The segmental analysis by nature of service is also consistent with the prior year being conventional printing services, online printing services and license income.

This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Of the Group revenue from continuing operations of £10,766,000, £9,551,000 was generated in the UK *(2015: £9,762,000).* Revenue generated outside the UK is primarily attributable to France £427,000 *(2015: £456,000)* and Republic of Ireland £306,000 *(2015: £295,000).* No single customer provided the Group with over 10% of its revenue.

Of the Group's non-current assets (excluding deferred tax) of £4,433,000, £4,394,000 are located in the UK. Non-current assets located outside the UK are in France £12,000, (*2015: 13,000*) and the Republic of Ireland £27,000, (*2015: £28,000*).

Analysis by location of sales

	UK & Ireland	Europe	Other	Total
	£000	**£000**	**£000**	**£000**
Period ended 31 March 2016				
Segment revenues	**9,857**	**540**	**369**	**10,766**
Operating Expenses				**(10,707)**
Results from operating activities				**59**
Exceptional restructuring costs				**(308)**
Net finance expense				**(11)**
Loss before tax				**(260)**
Tax Income				**270**
Profit from discontinued operations after tax				**54**
Profit for the period				**64**
Assets - Unallocated net assets				**5,262**

	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Period ended 31 March 2015				
Segment revenues	10,058	590	376	11,024
Operating Expenses				(10,501)
Results from operating activities				523
Net finance income				9
Profit before tax				532
Tax Income				71
Profit from continuing operations after tax				603
Profit from discontinued operations after tax				245
Profit for the period				848
Assets - Unallocated net assets				5,535

Analysis by type

	Printing services - online sales £000	**Printing services £000**	**Licence Income £000**	**Total £000**
Period ended 31 March 2016				
Segment revenues	**635**	**8,589**	**1,541**	**10,766**
Operating Expenses				**(10,707)**
Results from operating activities				**59**
Exceptional restructuring costs				**(308)**
Net finance expense				**(11)**
Loss before tax				**(260)**
Tax Income				**270**
Profit from continuing operations				**10**
Profit from discontinued operations after tax				**54**
Profit for the period				**64**
Unallocated net assets				**5,262**

Analysis by type

	Printing services - online sales £000	Printing services £000	Licence Income £000	Total £000
Period ended 31 March 2015				
Segment revenues	801	8,771	1,452	11,024
Operating Expenses				(10,501)
Results from operating activities				523
Net finance income				9
Profit before tax				532
Tax Income				71
Profit for the period for continuing operations				603
Profit from discontinued operations				245
Profit for the period				848
Unallocated net assets				5,535

4 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The adjustment in the tax expense for prior years is primarily due to R&D tax reclaims. These amounts are recognised by the Group when the claims have been drafted. The amounts reclaimed differ from the development costs capitalised under IAS and therefore the difference is not recognised as part of the tax base of these assets.

Recognised in the income statement

	2016	2015

	£000	£000
Current tax expense		
Current year	**(219)**	167
Foreign tax	**54**	92
Adjustments for prior years	**(167)**	(290)
	(332)	(31)
Deferred tax expense		
Origination and reversal of temporary differences (see note 6)	**52**	(149)
Movement due to change in rate of tax	**(56)**	-
Adjustment in respect of prior year	**113**	189
Net tax	**(223)**	9
The tax (credit)/expense in the income statement is disclosed as follows:		
Total tax in income statement on continuing operations	**(270)**	(71)
Total tax in income statement on discontinued operations	**47**	80
Total tax in income statement	**(223)**	9

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax credit for the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 21%*)*. The differences are explained below:

	2016 **£000**	2015 £000
(Loss)/Profit on continuing operations	**(260)**	532
Profit on discontinued operations	**101**	325
(Loss)/Profit for the period	**(159)**	857
Tax using the UK corporation tax rate of 20% (*2015:21%*)	**(32)**	180
Effects of:		
Permanent differences	**(87)**	14
Overseas tax losses not recognised	**-**	1
Difference in overseas tax rate	**10**	4
Losses carried forward	**-**	(97)
Adjustments in respect of prior periods - current tax	**(167)**	(290)
Adjustments in respect of prior periods - deferred tax	**113**	189
Unrelieved losses carried into following year	**75**	8
Withholding tax	**10**	-
R&D losses surrendered	**83**	-
R&D super deduction	**(171)**	-
Movement due to the change in the tax rate	**(57)**	-
Total tax (repayment)/expense	**(223)**	9

The Group tax debtor amounts to £231,000 *(2015 creditor: £121,000)*. The deferred tax liabilities as at 31 March 2016 have been calculated using the tax rate of 18% which was substantively enacted at the balance sheet date.

The UK corporation tax rate has been progressively reduced over the last 4 years. The October 2015 statement announced that the rate will further reduce to 19% from 1 April 2017 and 18% from 1 April 2020.

5 Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	2016 **£000**	2015 £000
Profit after taxation for the financial year from continuing operations	**10**	603
Profit after taxation on discontinued operations	**54**	245

Weighted average number of shares

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**46,639,156**	47,071,835
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**46,639,156**	47,071,835

Share options in issue at year end all had exercise prices higher than the average market price of ordinary shares during the period, therefore they are not treated as dilutive for the purposes of the earnings per share calculation.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

6 Dividends

	2016 **£000**	2015 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**471**	471
Interim dividends paid in respect of the current year	**115**	235
Total dividend paid in the year	**586**	706

After the balance sheet date the Board proposed no final dividend would be made (*2015: £471,000/1.00p per qualifying ordinary share)*.

7 Discontinued operations and restructuring costs

The disposal of Grafenia BV was completed on 6 October 2015 and was treated as a post balance sheet subsequent event when the Company issued its Interim Report and it applied IFRS 5 at that time.

The results for discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Revenue	**2,551**	5,980
Expenses	**(2,729)**	(5,636)
Operating (Loss)/Profit	**(178)**	344
Finance revenue	**-**	5
Finance expense	**-**	(24)
Surplus on disposal of discontinued operations	**279**	-

Profit before tax	**101**	325
Taxation	**(47)**	(80)
Profit for the period from discontinued operations	**54**	245

The above profit on disposal of business of £0.34m is calculated as proceeds of £1.73m less costs of disposal of £0.07m less net assets disposed of £1.38m. In addition to the disposal of Grafenia BV, other discontinued operations include the wind up of PDC SA and Grafenia France SA being reorganised into Grafenia France sarl, which have been included in the expenses of discontinued operations.

The net cash flows attributable to discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2016	Year ended 31 March 2015
	£000	£000
Operating cash flows	**329**	75
Investing cash flows	**(15)**	(25)
Financing cash flows	**(386)**	(146)
Net cash outflow	**(72)**	(96)
Exchange (loss)/gain on cash and cash equivalents	**(1)**	18

8 Annual Report

The Annual Report will be sent to shareholders on or around 28 June 2016 and will be available on the Company's website www.grafenia.com from that date.

Copies of this announcement are available on the Company's website www.grafenia.com.