Grafenia plc

Half Yearly Report

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

Unaudited Interim Results for the period ended 30 September 2015

	Continuing*		**Total -** ***non statutory information***	
Financial Highlights **Continuing activities**	**6 months to 30 Sept. 2015**	6 months to 30 Sept. 2014	**6 months to 30 Sept. 2015**	6 months to 30 Sept. 2014
Turnover	**£5.28m**	£5.47m	**£7.83m**	£8.50m
EBITDA	**£0.68m**	£0.98m	**£0.91m**	£1.22m
Operating (Loss)/Profit	**£(0.10)m**	£0.17m	**£0.08m**	£0.37m
EPS **	**(0.02)p**	0.48p	**(0.02)p**	0.78p
Dividend	**0.25p**	0.50p	**0.25p**	0.50p
Capital Expenditure	**£1.06m**	£0.58m	**£1.08m**	£0.60m
Net Cash	**£0.12m**	£0.92m	**£0.34m**	£1.08m
Net (Debt)/Funds***	**£(0.08)m**	£0.90m	**£0.14m**	£1.06m

*** Continuing activities exclude Grafenia BV which was sold on 6 October 2015**
**** EPS there are no dilutive factors**
***** Net (Debt)/Funds is the net of cash and cash equivalents less other interest bearing loans and borrowings**

- **Marqetspace exceeded £2m annualised monthly run rate target**
- **Additional 10 Nettl neighbourhood web studios opened**
- **New web design SaaS model, Brambl, attracted 70 subscribers**
- **Interim dividend of 0.25p declared**
- **Sale of Grafenia BV post year end for €2.35m**

For further information:

Grafenia plc
Peter Gunning (Acting Chief Executive) 07973 191 632
Les Wheatley (Chairman) 07815 563 139
Alan Roberts (Finance Director) 0161 848 5713
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Richard Lindley / James White 0207 496 3000

Chairman's & Chief Executive's Statement

The Company announced the sale of its Dutch subsidiary, Grafenia BV, on 6 October 2015 for a cash consideration of €2.35m. Although the disposal was completed after the end of the interim period, we are required to present the Financial Highlights above showing continuing operations as if the business had been disposed of at the start of the financial year. Grafenia BV generated a profit after tax of £0.14m in the first half of the year *(2014: £0.14m).*

We have also provided the Financial Highlights of the actual non statutory results achieved for comparison.

Previously Announced Board Changes

Following the disposal of Grafenia BV the scale of the Company's operations materially reduced. Accordingly Tony Rafferty stepped down as Chief Executive and the Board appointed Peter Gunning as acting CEO. The Board also announced the appointment of Conrad Bona as a Non-Executive Director. The Board wishes to thank Tony for his years of unstinting service and drive making the Company what it is today.

Trading Results, Cash and Dividend

Turnover from continuing operations during the six month period was **£5.28m** *(2014: £5.47m),* a decline of 3.6% compared to the corresponding period last year. Non statutory turnover during the six month period was **£7.83m** *(2014: £8.50m)* a decline of 7.9% compared to the corresponding period last year.

EBITDA from continuing operations was **£0.68m** *(2014: £0.98m)* a decline of 30.6% compared to the corresponding period last year. There was an operating loss from continuing operations of **£0.10m** *(2014: operating profit £0.17m).* Non statutory EBITDA was **£0.91m** *(2014: £1.22m),* a decrease of 25.4%. Operating profit decreased to **£0.08m** *(2014: £0.37m)*. Exceptional costs of £0.08m in the period related to reorganisation and closure costs.

At 30 September 2015, the Company had cash of **£0.12m** *(2014: £1.08m)*. Operating activities generated **£0.37m of cash** (2014: £0.74m). A Final Dividend of **£0.47m** was paid in the period *(2014: £0.47m)*. Shortly following the period end we received **£1.72m** from the sale of Grafenia BV.

During the period working capital increased by **£0.43m** *(2014: £0.40m).*

Capital expenditure was **£1.08m** *(2014: £0.60m)* with the total including £0.54m invested in manufacturing equipment to extend our product range and ongoing investment in the our software which underpins our operations and those of our partners.

Dividend
The Directors are declaring an Interim Dividend of **0.25p** per share *(2014: 0.50p)* to be paid on 11 December 2015 to shareholders on the Register at 20 November 2015. The payment of a smaller dividend acknowledges the reduced size of the Company as a result of recent changes, but reflects the Board's cautious optimism for new initiatives.

Trading Review
Following the disposal of our Dutch business, the Company is now a more focused business. The Board is taking this opportunity to align the metrics we report with our new structure.

Our focus is to increase the number of graphic professional partners we have trading relationships with and to provide support and marketing collateral which helps 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, licence our intellectual property, systems and brands to help our partners grow their businesses.

Sale of Printing
Overall print revenues decreased from £4.83m to **£4.56m.**

Our UK and Irish print partners operating under the printing.com, BrandDemand and Nettl brands generated print revenues of **£2.84m** *(2014: £3.49m).* These sales are combined since Nettl web studios continue to sell the printing.com product range and indeed receive local online orders via the printing.com website.

Sale of print through our 'white label' channels, Marqetspace and W3P, generated print revenues of **£1.44m** *(2014: £0.76m).*

Marqetspace
Marqetspace targets print resellers, such as graphic and web designers and provides access to wholesale pricing of our printing range via a simple online ordering facility (as opposed to our sophisticated W3P platform which helps our partners operate their businesses in exchange for licence fees). The service is open to all trade buyers, without payment of licence fees.

Although resellers buy online at marqetspace.com, a traditional field-based account management team is employed to attract new partners and support existing partners. We believe this results in higher conversion rates and a lower cost of client acquisition than pay-per-click advertising.

Since launch in May 2014, Marqetspace has formed trading relationships with over 1,600 graphic professionals and the Company's intention is to grow our reseller base and expand the range of products which we help them to sell.

In both September and October 2015, Marqetspace revenue comfortably exceeded an annualised monthly run rate (AMRR) of £2m and the Board believes that an AMRR of £3m is achievable by the end of the financial year. The Board reaffirms its target of growing Marqetspace to a £10m per annum channel.

The Board believes that Marqetspace will act as a gateway to our fee-based services and brands. A number of resellers have recently subscribed to Brambl.

Nettl
Nettl is our neighbourhood web studio brand. It was launched in September 2014 in response to the printing.com customer base of SMEs and SOHOs increasingly prioritising their website and digital presence ahead of printing.

Nettl is a bolt-on business model which provides established graphics businesses with marketing collateral, sales tools and methodologies to do more, higher value web projects for their clients. Nettl partners use W3P, our proprietary cloud-based software, to deploy websites, ecommerce web shops and 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.

During the first half we added 10 Nettl studios, taking the total open or operating to 36 *(30 September 2014: 1).* To date, the majority of Nettl studios are converted printing.com partners. However, the Board is confident that we will attract partners from outside of the network in the second half of the year.

Whilst Nettl leads with web design, print is still a material part of the product mix sold to clients, with Nettl partners buying print from us at trade prices. Partners also pay a royalty for web projects they deploy, subject to minimum monthly fees.

BrandDemand is our proprietary web-to-print system for multi-site organisations. It allows clients to edit online templates, efficiently order print and maintain brand integrity. During the interim period, we merged our BrandDemand client service teams with our company-owned Nettl studios.

Brambl

Brambl is a SaaS subscription model providing access to our online website builder, enabling graphic designers to create websites for their clients without learning to code. The websites are assembled using a drag 'n' drop interface and work across mobile, tablet and desktop devices.

During demonstrations of our Nettl systems to potential partners, we found most businesses want to do more website design, but some aren't ready, or able, to make it their main focus. Brambl enables graphic designers and printers to get started with web, in a low-risk, low-cost way.

Brambl partners pay a monthly subscription of £49 and then a fee of £49 to £99 for each website they deploy. Additionally they can purchase hosting, domain names, SSL certificates and stock images from us at wholesale prices.

We launched Brambl on 1st September 2015 and by the end of the interim period we had 43 subscribers, since the close we have added a further 27. Some of these are existing W3P users, however the majority have been introduced via Marqetspace - resellers with whom we previously had only a simple trading relationship.

The Board believes that Brambl could act as a stepping stone to Nettl, for partners who decide they want to do more web for their clients.

Ink on Fabric

Large format posters and exhibition pop-up stands have consistently been part of the product range we manufacture and sell to our network.

During the interim period, we upgraded our wide format poster printers and invested in new 'ink on fabric' printing technology and associated finishing equipment.

The ink on fabric printing equipment extends our product offering into the growing digital textiles market. Our initial range consists of printed flags, banners and fabric display stands. Each display stand comprises a collapsible aluminium frame, manufactured externally and a graphic fabric 'sock' printed and finished at our Manchester Hub.

We launched the new range at The Print Show, held at the NEC in Birmingham during October. Resellers were invited to sign up for our Lending Scheme, whereby they borrow a display stand to promote the range to their clients. Partners can return the stand if it does not help them to sell, or keep it once they have achieved a certain spend with us. The Board is encouraged by the response to the range and we will be rolling it out to all of our reseller channels in the second half of the year.

Flyerzone

Whilst our Dutch subsidiary (which operates Flyerzone.nl) was sold in October we retained the online print channels Flyerzone.co.uk and Flyerzone.ie. As previously stated, we have decided not to chase volume at the expense of margin and client acquisition costs, accordingly Flyerzone generated lower revenues of **£0.27m** *(2014: £0.33m).*

France

Our operations in France, which include Flyerzone.fr declined to **£0.15m** *(2014: £0.22m)*, partly as a result of Sterling strengthening against the Euro.

Licence Fees

Overall revenue from Licence Fees increased to **£0.72m** *(2014: £0.64m)*. This includes fees our partners pay for using W3P, our systems and brands.

PDC Franchise

Following the disposal of our Dutch subsidiary our focus will return to our home markets. In the short term, we have increased our marketing and operational support to Printing.com franchisees in the UK and Ireland. It is our intention to help them grow their businesses and sell more of our product range.

W3P

All of our reseller channels and international partners use parts of the W3P software platform. Whilst we continue to add partners who pay for W3P as a white label SaaS subscription, our focus will be on attracting new partners who use W3P in conjunction with one of our brands, printing.com, Brambl or Nettl.

International Platforms

We master licence our software platform and brands to partners in five countries. Each partner is different, with some sublicencing our business models and some using our W3P platform under white label agreements to facilitate trading relationships with their own network of resellers.

After the close of the period, our New Zealand partners, Redshift Ltd, entered into an extended Master Licence agreement to launch Nettl and Brambl in New Zealand. Redshift has successfully operated the printing.com brand in New Zealand since 2005. In July 2015, they opened a pilot Nettl web studio in Wellington. We will receive an increased royalty from Redshift based on licence fees and sales of print and websites Redshift makes to its network of resellers, subject to monthly minimums. We believe this is encouraging and we will continue to explore licencing opportunities to exploit the Company's intellectual property in other territories.

Outlook

Since the interim period we have continued to see a decline in sales through our traditional printing.com franchise network. We aim to reverse this trend through recently launched additional marketing and operational support.

Marqetspace continues to show promise and our objective is to grow the number of trading partners we have and assist their entry into the growing digital textiles market, with our new ink on fabric range.

Brambl enables the same graphic professionals to get started with selling websites and our plan is to scale this user base, both through upselling to W3P, Marqetspace and printing.com partners and to graphic professionals new to our network. For those partners who want to put ecommerce and higher value web projects at the heart of their business, we have a clear upgrade path from Brambl to Nettl, our retail neighbourhood web studio format.

It is anticipated that earnings for the current year will be second half weighted, as expected, in line with previous years and in line with management expectations.

Les Wheatley
Chairman

Peter Gunning

9 November 2015

Acting Chief Executive Officer
9 November 2015

Unaudited Interim Results for the period ended 30 September 2015

Consolidated Statement of Comprehensive Income
for the six months ended 30 September 2015

Continuing Operations	*Note*	***Unaudited Period ended 30/09/2015***	*Unaudited Period ended 30/09/2014 (1)*	*Year ended 31 March 2015 (1)*
		£000	*£000*	*£000*
Revenue	*3*	***5,279***	*5,474*	*11,024*
Raw materials and consumables used		***(1,750)***	*(1,566)*	*(3,219)*
Gross profit		***3,529***	*3,908*	*7,805*
Staff costs		***(1,911)***	*(1,937)*	*(3,728)*
Other operating charges		***(941)***	*(995)*	*(1,979)*
Depreciation and amortisation		***(781)***	*(807)*	*(1,576)*
Operating (loss)/profit		***(104)***	*169*	*522*
Exceptional costs		***(78)***	*-*	*-*
Financial income		***1***	*5*	*9*
Financial expenses		***(13)***	*(1)*	*-*
Net financing (expense)/income		***(12)***	*4*	*9*
(Loss)/Profit before tax		***(194)***	*173*	*531*
Taxation	*4*	***41***	*52*	*71*
(Loss)/ Profit for the period		***(153)***	*225*	*602*
Profit from discontinued operations after tax	*6*	***142***	*144*	*245*
Total comprehensive (expense)/income for the period		***(11)***	*369*	*847*
EPS - Continuing Operations	*5*	***(0.32)p***	*0.48p*	*1.80p*
EPS - Discontinued Operations	*5*	***0.30p***	*0.30p*	*1.80p*
EPS - Total (2)	*5*	***(0.02)p***	*0.78p*	*1.80p*

(1) **Restated to reflect the disposal of Grafenia BV which is now included above as discontinued operations.**

(2) **Earnings per share suffers no dilution**

Consolidated Statement of Financial Position
at 30 September 2015

	Unaudited 30 September 2015	*Unaudited 30 September 2014*	*31 March 2015*
	£000	*£000*	*£000*
Non-current assets			
Property, plant and equipment	**1,386**	*1,272*	*1,114*
Intangible assets	**2,981**	*4,371*	*4,372*
Other receivables	**13**	*40*	*26*
Total non-current assets	**4,380**	*5,683*	*5,512*
Current assets			
Inventories	**233**	*172*	*202*
Trade and other receivables	**2,419**	*2,215*	*2,287*
Cash and cash equivalents	**121**	*1,077*	*1,277*
Assets held for sale (Note 6)	**1,671**	*-*	*-*
Total current assets	**4,444**	*3,464*	*3,766*
Total assets	**8,824**	*9,147*	*9,278*
Current liabilities			
Other interest-bearing loans and borrowings	**(46)**	*(20)*	*-*
Trade and other payables	**(1,534)**	*(1,507)*	*(1,701)*
Current tax payable	**(150)**	*(211)*	*(121)*
Accruals and deferred income	**(448)**	*(1,112)*	*(813)*
Other liabilities	**(116)**	*(225)*	*(288)*
Liabilities held for sale (Note 6)	**(493)**	*-*	*-*
Total current liabilities	**(2,787)**	*(3,075)*	*(2,923)*
Non-current liabilities			
Other interest-bearing loans and borrowings	**(203)**	*-*	*-*
Deferred tax liabilities	**(364)**	*(363)*	*(403)*
Total non-current liabilities	**(567)**	*(363)*	*(403)*
Total liabilities	**(3,354)**	*(3,438)*	*(3,326)*
Net assets	**5,470**	*5,709*	*5,952*
Equity			
Share capital	**475**	*475*	*475*
Merger reserve	**838**	*838*	*838*
Retained earnings	**4,157**	*4,396*	*4,639*
Total equity	**5,470**	*5,709*	*5,952*

Consolidated Statement of Changes in Shareholders Equity
for the six months ended 30 September 2015 (unaudited)

	Share Capital	**Share Premium**	**Merger Reserve**	**Retained earnings**	**Total**

	£000	£000	£000	£000	£000
Opening shareholders' funds at 1 April 2014	475	-	838	4,498	5,811
Profit for the period	-	-	-	369	369
Dividends paid	-	-	-	(471)	(471)
Closing shareholders' funds at 30 September 2014	**475**	**-**	**838**	**4,396**	**5,709**
Opening shareholders' funds at 1 October 2014	475	-	838	4,396	5,709
Profit for the period	-	-	-	478	478
Dividends paid	-	-	-	(235)	(235)
Closing shareholders' funds at 31 March 2015	**475**	**-**	**838**	**4,639**	**5,952**
Opening shareholders' funds at 1 April 2015	475	-	838	4,639	5,952
(Loss)/Profit for the period	-	-	-	(153)	(153)
Profit from discontinued activity after tax (Note 6)				142	142
Dividends paid	-	-	-	(471)	(471)
Closing shareholders' funds at 30 September 2015	**475**	**-**	**838**	**4,157**	**5,470**

Consolidated Statement of Cash Flows
for the six months ended 30 September 2015

	Unaudited Six months to 30 September 2015 £000	Unaudited Six months to 30 September 2014 £000	Year ended 31 March 2015 £000
Cash flows from operating activities			
(Loss)/Profit for the period	**(11)**	369	847
Adjustments for:			
Depreciation, amortisation and impairment	**814**	847	1,655
Net finance expense/(income)	**4**	5	9
Exchange (loss)/gain	**0**	(7)	(14)
Taxation	**6**	2	9
Operating cash flow before changes in working capital and provisions	**813**	1,216	2,506
Change in trade and other receivables	**(159)**	42	(16)
Change in inventories	**(31)**	(4)	(34)
Change in trade and other payables	**(240)**	(439)	(513)
Cash generated from the operations	**383**	815	1,943
Interest paid	**(6)**	-	-
Tax paid	**(9)**	(73)	(130)
Net cash inflow from operating activities	**368**	742	1,813

Cash flows from investing activities			
Interest received	**2**	2	5
Proceeds from sale of plant and equipment	**1**	5	5
Acquisition of plant and equipment	**(538)**	(83)	(172)
Capitalised development expenditure	**(287)**	(231)	(518)
Acquisition of other intangible assets	**(264)**	(287)	(571)
Net cash used in investing activities	**(1,086)**	(594)	(1,251)
Cash flows from financing activities			
Proceeds from supplier finance	**266**	-	-
Payment of supplier finance	**(17)**	(12)	-
Payment of equity dividend	**(471)**	(471)	(706)
Net cash outflow from financing activities	**(222)**	(483)	(706
Net decrease in cash and cash equivalents	**(940)**	(335)	(144)
Exchange diff on cash and cash equivalents	**-**	11	20
Cash and cash equivalents at start of period	**1,277**	1,401	1,401
Cash and cash equivalents at end of period	**337**	1,077	1,277
The split of cash between continuing operations and assets held for sale is as follows:-			
Attributable to continuing operations	**121**	1,077	1,277
Classified as held for sale	**216**	-	-

Included in the above are cashflows from discontinued operations. An analysis of these can be found in note 6.

Notes

(forming part of the interim financial statements)

1 Basis of preparation

Grafenia plc (the "Company") 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 Company as at and for the year ended 31 March 2015.

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.

The Directors review a two year forecast when approving the interim financial statements to ensure that adequate cash resources are in operational existence to support trading for the foreseeable future.

These condensed consolidated interim financial statements were approved by the Board of Directors on 9 November 2015.

2 Significant accounting policies

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

The Company has applied IFRS 5 to the disposal of Grafenia BV, with the disposal completing on 6 October it has been classified as an asset held for sale and treated as a discontinued operation.

3 Segmental information

The Company's primary operating segments are geographic being UK & Ireland, Europe and others. The secondary segmental analysis is by nature of service.

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 Company'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.

Analysis by location of sales

Period ended 30 September 2015	**UK & Ireland**	**Europe**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
Segment revenues	**4,908**	**193**	**178**	**5,279**
Operating Expenses				**(5,383)**
Results from operating activities				**(104)**
Exceptional costs				**(78)**
Net finance expense				**(12)**
(Loss)/Profit before tax				**(194)**
Tax				**41**
Profit from discontinued activity				**142**
(Loss)/Profit for the period				**(11)**
Assets				
Unallocated net assets				**5,470**

Analysis by location of sales

Period ended 30 September 2014	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000

Segment revenues	5,001	245	228	5,474
Operating Expenses				(5,305)
Results from operating activities				169
Net finance income				4
Profit before tax				173
Tax				52
Profit from discontinued activity				144
Profit for the period				369
Assets				
Unallocated net assets				5,709

Analysis by type

Period ended 30 September 2015	**Print Online**	**Printing**	**Licence**	**Total**
	£000	**£000**	**£000**	**£000**
Segment revenues	**569**	**3,992**	**718**	**5,279**
Operating Expenses				**(5,383)**
Results from operating activities				**(104)**
Exceptional costs				**(78)**
Net finance expense				**(12)**
(Loss)/Profit before tax				**(194)**
Tax				**41**
Profit from discontinued activity				**142**
(Loss)/Profit for the period				**(11)**
Assets				
Unallocated net assets				**5,470**

Period ended 30 September 2014	Print Online	Printing	Licence	Total
	£000	£000	£000	£000
Segment revenues	1,062	3,772	640	5,474

Operating Expenses	(5,305)
Results from operating activities	169
Net finance expense	4
Profit before tax	173
Tax	52
Profit from discontinued activity	144
Profit for the period	369
Assets	
Unallocated net assets	5,709

The comparator segment revenue categories have been restated to the format of the current year presentation.

4 Taxation

The tax charge is based on the base tax rate of 20% (six month period ended 30 September 2014: 21%, year to 31 March 2015 21%) adjusted for UK R&D Tax claims for the 2015 year and Tax paid in other countries.

5 Earnings per share

The calculation of the basic earnings per share is based on the profit after taxation divided by the weighted average number of shares in issue, being 47,071,835 *(period ended 30 September 2014 47,071,835; year ended 31 March 2015: 47,071,835).*

Share options had no dilutive effect on the weighted average number of shares and therefore no diluted earnings per share have been stated.

	6 months to 30 September 2015	**EPS**	6 months to 30 September 2014	EPS
Continuing operations net (Loss)/Profit	**£(0.15)m**	**(0.32)p**	£0.23m	0.48p
Discontinued operations net Profit	**£0.14m**	**0.30p**	£0.14m	0.30p
Total net (Loss)/Profit	**£(0.11)m**	**(0.02)p**	£0.37m	0.78p

6 Discontinued operations

The disposal of Grafenia BV was a post balance sheet subsequent event and the Company has applied IFRS 5. The disposal completed on 6 October it has been classified as an asset held for sale and treated as a discontinued operation.

The results for Grafenia BV for the period, prior period and previous year were as follows:

	Six months to 30 September 2015 £000	Six months to 30 September 2014 £000	Year ended 31 March 2015 £000
Revenue	**2,297**	3,028	5,980

Expenses	**(2,116)**	(2,821)	(5,636)
Operating Profit	**181**	207	344
Finance revenue	**8**	3	5
Finance expense	**-**	(12)	(23)
Profit before tax from discontinued operations	**189**	198	326
Taxation	**(47)**	(54)	(80)
Profit for the period from discontinued operations	**142**	144	246

The major classes of assets and liabilities of Grafenia BV at the period end and previous year end were as follows:

	30 September 2015 £000	31 March 2015 £000
Assets		
Goodwill	**1,280**	1,280
Intangible Assets	**80**	90
Tangible Assets	**33**	39
Current Tax Asset	**22**	22
Trade and other receivables	**40**	48
Profit before tax from discontinued operations	**216**	289
Assets classified as held for sale	**1,671**	1,768
Liabilities		
Total Trade and other payables	**493**	550
Liabilities classified as held for sale	**493**	**550**
Total Net Assets held for sale	**1,178**	**1,218**

The net cash flows attributable to Grafenia BV for the period, prior period and previous year were as follows:

	Six months to 30 September 2015 £000	Six months to 30 September 2014 £000	Year ended 31 March 2015 £000
Operating cash flows	**329**	(207)	75
Investing cash flows	**(15)**	(12)	(25)
Financing cash flows	**(386)**	-	(146)
Net cash outflow	**(72)**	(219)	(96)
Exchange (loss)/gain on cash and cash equivalents	**(1)**	10	18

The Company's half yearly report will shortly be sent to shareholders and will be available on the Company's website www.grafenia.com.

Independent Review Report to Grafenia plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2015 which comprises the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Shareholders' equity, the Consolidated Statement of

Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

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

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2015 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU and the AIM Rules.

Mick Davies
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peters' Square
Manchester, M2 3AE

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