INTERIM REPORT
AND ACCOUNTS

2014–
2015

GRAFENIA® plc

Online Channels
Order online, pay online.

Revenue Generated:
- Print Revenue

flyerzone.co.uk
flyerzone.ie
flyerzone.nl
flyerzone.fr

drukland.nl
drukland.be

Franchise Partners
Web and design studios featuring the selling face to face and offering print management online.

Revenue Generated:
- Licence Fees
- Print Revenue
- Master Franchise Revenue

Franchises
nettl.com/uk

Franchises
printing.com/uk
printing.com/fr
printing.com/ie
Master Licenses
us.printing.com
nz.printing.com

branddemand.com
Available in UK
The Netherlands
New Zealand
Ireland
The United States

w3p Partners
Saas cloud based software for designers and printers offering web-2-print and other online tools.

Revenue Generated:
- Subscription Fees
- Print Revenue

w3p.com

w3shop.com

Software Solutions
A SaaS offering crowdsourced templated graphic design to other online printers via an application programming interface (API).

Revenue Generated:
- Subscription Fees
- Template Fees

templatecloud.com

Grafenia's revenue streams

GRAFENIA plc

CHAIRMAN'S & CHIEF EXECUTIVE'S STATEMENT

Trading Results, Cash and Dividend

Group turnover during the six month period was **£8.50m** *(2013: £10.08m)* a decline of **15.7%** compared to the corresponding period last year. EBITDA was **£1.22m** *(2013: £1.29m)*, a decrease of **5.4%**. However, pre tax profit increased by **19.4%** to **£0.37m** *(2013: £0.31m)*.

At 30 September 2014, the Company had an improved net cash position of **£1.06m** *(2013: £0.48m)*. This reflected cash generated by operating activities increasing to **£0.74m** *(2013: £0.39m)*. A Final Dividend of **£0.47m** was paid in the period *(2013: £0.71m)*. During the period working capital increased by **£0.40m** *(2013: £0.85m)* and capital expenditure was **£0.60m** *(2013: £0.60m)*, the total reflecting the ongoing investment in the Company's software that underpins the new developments.

Dividend

The Directors are declaring an Interim Dividend of **0.50p** per share *(2013: 0.33p)* to be paid on 5 December 2014 to shareholders on the register at 14 November 2014.

Trading Review

Sale of Printing

Print revenues contracted from £9.51m to **£7.86m**. Printing.com's UK and Irish Franchise network generated print revenues of **£3.26m** *(2013: £4.39m)*. This decline was mitigated in part by the growth in revenues to **£0.51m** *(2013: £0.23m)* from legacy Printing.com franchisees who converted to the W3P format.

Whilst the Printing.com franchise remains an important and cherished formula, we are very mindful that the retail print market is changing, hence the reason we have developed the Nettl formula to potentially supersede the Group's retail offering.

W3P was launched as a white label alternative to the Printing.com franchise but has progressed to be a stand-alone web-2-print SaaS formula for printers, print brokers and the like. W3P has gained traction in terms of the number of users but print volume via the W3P channel has been lower than envisaged. Accordingly, and to drive print volumes via graphic professionals, we launched Marqetspace during the period. Print revenue from W3P users (excluding legacy franchises) and Marqetspace together increased to **£0.29m** *(2013: £0.13m)*.

Whilst Marqetspace orders are transacted on-line, the service is promoted to graphic professionals via traditional mechanisms. Since its inception in June 2014, over 400 graphic professionals have utilised this service and we anticipate this figure continuing to grow month on month.

The Group's Dutch and Belgian channels (Flyerzone and Drukland) generated **£3.04m** of revenues *(2013: £3.65m)*. The Dutch market in particular has become increasingly competitive during the period, resulting in lower volumes, with a strengthening of sterling versus the euro impacting further.

Revenue from BrandDemand held steady at **£0.33m** *(2013: £0.31m)*. Flyerzone.co.uk and Flyerzone.ie, the online only formulas, generated lower revenues of **£0.33m** *(2013: £0.57m)*. In the case of Flyerzone we have made the decision not to chase volume unduly at the expense of operating margin. Revenue from the Group's operations in France contracted slightly to **£0.22m** *(2013: £0.26m)*.

License Fees
Overall revenue from License Fees increased to **£0.64m** *(2013: £0.57m)*.

At the close of the period the number of subscribing W3P users had increased to 94 with 24 franchise partners also utilising the W3Shop component.

During the period an additional two international master licences were granted. The master licence partners in question (along with the similar agreement granted prior to the start of the interim period) all operate significant and sophisticated print businesses in their respective countries. We believe their decision to license the W3P platform reflects the pertinence of the product in the international marketplace.

Revenue from TemplateCloud increased marginally to **£0.09m** *(2013: £0.08m)*.

Nettl

In June 2014 we reported the development of the Nettl franchise format. Nettl provides websites, web shops and online 'apps' in addition to the Printing.com type solutions. Nettl has been developed because we believe that for many SME type clients online promotion is an area of increasing marketing spend whereas print is an area of decreasing marketing spend.

Printing.com Birmingham converted to Nettl in September 2014. Sales of websites and web shops during the first two months of operation are encouraging and orders put in hand have augmented underlying sales by some 30%. The Group's Printing.com stores in London, Dublin and Manchester have now converted to Nettl and have commenced selling online solutions to their clients.

Nettl is being offered to franchisees. In comparison to Printing.com Nettl charges significantly higher fees that reflect the sophistication of the Nettl systems and the greater scope for value adding by the franchisee. We are encouraged by the initial presentations of the Nettl franchise and anticipate that the first contracts will be signed over the coming weeks. By the close of the 4th quarter of the current year we believe that a network of 25+ Nettls will have evolved.

nettl®

Outlook

Post the interim period trading has continued in a similar manner. We are mindful that the traditional retail print market is in demise and cautious in that our on-line channels operate in competitive markets that are fickle with little brand loyalty.

However, in the UK the Marqetspace formula has shown encouraging promise. This reflects the number of new clients being gained on a daily basis, the yield per client and the cost of client acquisition which encourages us to believe that Marqetspace is scalable. To this end we believe it is realistic that on an 'annualised monthly' run rate Marqetspace will exceed £1m by March 2015.

The foundation of Grafenia plc was the Printing.com franchise format. In Nettl we believe we have a formula that by the close of the current financial year will have gained significant traction.

The increase in the interim dividend reflects our cautious optimism about the prospects of Grafenia moving forward.

Les Wheatley
Chairman
10 November 2014

TonyRafferty
Chief Executive
10 November 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Note	**Unaudited Six months to 30 September 2014 £000**	Unaudited Six months to 30 September 2013 £000	Year ended 31 March 2014 £000
Revenue	3	**8,502**	10,078	19,443
Raw materials and consumables used		**(3,498)**	(4,431)	(8,539)
Gross profit		**5,004**	5,647	10,904
Staff costs		**(2,351)**	(2,634)	(4,803)
Other operating charges		**(1,430)**	(1,722)	(3,451)
Depreciation and amortisation		**(847)**	(986)	(1,839)
Operating profit		**376**	305	811
Financial income		**2**	3	3
Financial expenses		**(7)**	(3)	(59)
Net financing(expense)/income		**(5)**	-	(56)
Profit before tax		**371**	305	755
Taxation	4	**(2)**	(37)	108
Profit for the period		**369**	268	863
Other comprehensive income for the period		**-**	-	-
Total comprehensive income for the period		**369**	268	863
Basic earnings per share	5	**0.78p**	0.56p	1.82p
Diluted earnings per share	5	**0.78p**	0.56p	1.82p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2014

	Unaudited 30 September 2014 £000	Unaudited 30 September 2013 £000	31 March 2014 £000
Non-current assets			
Property, plant and equipment	**1,272**	1,785	1,499
Intangible assets	**4,371**	4,464	4,406
Deferred tax assets	**-**	2	-
Other receivables	**40**	67	53
Total non-current assets	**5,683**	6,318	5,958
Current assets			
Inventories	**172**	160	168
Trade and other receivables	**2,215**	2,537	2,244
Cash and cash equivalents	**1,077**	529	1,401
Total current assets	**3,464**	3,226	3,813
Total assets	**9,147**	9,544	9,771
Current liabilities			
Other interest-bearing loans and borrowings	**(20)**	(25)	-
Trade and other payables	**(1,507)**	(2,101)	(1,793)
Current tax payable	**(211)**	(151)	(282)
Accruals and deferred income	**(1,112)**	(1,137)	(1,147)
Other liabilities	**(225)**	(213)	(375)
Total current liabilities	**(3,075)**	(3,627)	(3,597)
Non-current liabilities			
Other interest-bearing loans and borrowings	**-**	(22)	-
Deferred tax liabilities	**(363)**	(453)	(363)
Total non-current liabilities	**(363)**	(475)	(363)
Total liabilities	**(3,438)**	(4,102)	(3,960)
Net assets	**5,709**	5,442	5,811
Equity			
Share capital	**475**	475	475
Merger reserve	**838**	838	838
Retained earnings	**4,396**	4,129	4,498
Total equity	**5,709**	5,442	5,811

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014 (UNAUDITED)

Capital	Share Capital £000	Share Premium £000	Merger Reserve £000	Retained earnings £000	Total £000
Opening shareholders' funds at 1 April 2013	475	-	838	4,590	5,903
Profit for the period	-	-	-	268	268
Dividends paid	-	-	-	(713)	(713)
Total recognised income and (expense)	-	-	-	(445)	(445)
Capital Restructuring	-	-	-	(16)	(16)
Total movement in equity	-	-	-	(461)	(461)
Closing shareholders' funds at 30 September 2013	**475**	**-**	**838**	**4,129**	**5,442**
Opening shareholders' funds at 1 October 2013	475	-	838	4,129	5,442
Profit for the period	-	-	-	595	595
Dividends paid	-	-	-	(157)	(157)
Total recognised income and (expense)	-	-	-	438	438
Own shares acquired	-	-	-	(69)	(69)
Total movement in equity	-	-	-	369	369
Closing shareholders' funds at 31 March 2014	**475**	**-**	**838**	**4,498**	**5,811**
Opening shareholders' funds at 1 April 2014	475	-	838	4,498	5,811
Profit for the period	-	-	-	369	369
Dividends paid	-	-	-	(471)	(471)
Total recognised income and (expense)	-	-	-	(102)	(102)
Total movement in equity	-	-	-	(102)	(102)
Closing shareholders' funds at 30 September 2014	**475**	**-**	**838**	**4,396**	**5,709**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014	Unaudited Six months to 30 Sept 2014 £000	Unaudited Six months to 30 Sept 2013 £000	Year ended 31 march 2014 £000
Cash flows from operating activities			
Profit for the period	**369**	268	863
Adjustments for:			
Depreciation, amortisation and impairment	**847**	986	1,839
(Profit) on sales of equipment	**-**	-	(7)
Net finance expense/(income)	**5**	-	56
Exchange (loss)/gain	**(7)**	-	(59)
Taxation	**2**	37	(108)
Operating cash flow before changes in working capital and provisions	**1,216**	1,291	2,584
Change in trade and other receivables	**42**	(61)	246
Change in inventories	**(4)**	23	15
Change in trade and other payables	**(439)**	(815)	(983)
Cash generated from the operations	**815**	438	1,862
Interest paid	**-**	(3)	(8)
Tax (paid)/received	**(73)**	(43)	145
Net cash inflow from operating activities	**742**	392	1,999
Cash flows from investing activities			
Interest received	**2**	3	11
Proceeds from sale of plant and equipment	**5**	21	76
Acquisition of plant and equipment	**(83)**	(143)	(214)
Capitalised development expenditure	**(231)**	(194)	(440)
Acquisition of other intangible assets	**(287)**	(261)	(506)
Net cash used in investing activities	**(594)**	(574)	(1,073)
Cash flows from financing activities			
Purchase of own shares	**-**	-	(69)
Proceeds from supplier finance	**-**	52	52
Payment of supplier finance	**(12)**	(5)	(20)
Repayment of Loan notes	**-**	(16)	(16)
Repayment of Bank Loans	**-**	(23)	(23)
Payment of equity dividend	**(471)**	(713)	(870)
Net cash outflow from financing activities	**(483)**	(705)	(946)
Net decrease in cash and cash equivalents	**(335)**	(887)	(20)
Exchange differences on cash and cash equivalents	**11**	(1)	4
Cash and cash equivalents at start of period	**1,401**	1,417	1,417
Cash and cash equivalents at end of period	**1,077**	529	1,401

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 Group as at and for the year ended 31 March 2014.

The comparative figures for the year ended 31 March 2014 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 interim financial statements were approved by the Board of Directors on 10 November 2014.

2. 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 2014.

3. Segmental information

The Group'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 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.

NOTES (forming part of the interim financial statements – continued)

Analysis by location of sales

Period ended 30 September 2014	**UK & Ireland £000**	**Europe £000**	**Other £000**	**Total £000**
Segment revenues	**5,002**	**3,272**	**228**	**8,502**
Operating Expenses				**(8,126)**
Results from operating activities				**376**
Net finance expense				**(5)**
Profit before tax				**371**
Tax				**(2)**
Profit for the period				**369**
Assets				
Unallocated net assets				**5,709**

Analysis by location of sales

Period ended 30 September 2013	£000	£000	£000	£000
Segment revenues	6,008	3,920	150	10,078
Operating Expenses				(9,773)
Results from operating activities				305
Net finance income				-
Profit before tax				305
Tax				(37)
Profit for the period				268
Assets				
Unallocated net assets				5,442

Analysis by type	**Print sales**	**SaaS & Fees**	**Template Cloud**	**Total**
Period ended 30 September 2014	**£000**	**£000**	**£000**	**£000**
Segment revenues	**4,090**	**3,772**	**640**	**8,502**
Operating Expenses				**(8,126)**
Results from operating activities				**376**
Net finance expense				**(5)**
Profit before tax				**371**
Tax				**(2)**
Profit for the period				**369**
Assets				
Unallocated net assets				**5,709**
Period ended 30 September 2013	£000	£000	£000	£000
Segment revenues	4,793	4,718	567	10,078
Operating Expenses				(9,773)
Results from operating activities				305
Net finance expense				-
Profit before tax				305
Tax				(37)
Profit for the period				268
Assets				
Unallocated net assets				5,442

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 21% *(six month period ended 30 September 2013: 23%, year to 31 March 2014 23%)* adjusted for UK R&D Tax claims for the 2014 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 2013 47,557,835; year ended 31 March 2014: 47,479,060).*

The diluted earnings per share takes the weighted average number of ordinary shares in issue during the period and adjusts this for dilutive impact of share options existing at the period end. The diluted weighted average number of shares in the period ended 30 September 2014 was 47,071,835 *(period ended 30 September 2013: 47,607,835; year ended 31 March 2014 47,479,060).* The profit used in the diluted earnings per share is based on profit after taxation.

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 2014 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 2014 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, St James' Square, Manchester, M2 6DS




Nettl – our new franchise format

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