ANNUAL REPORT AND ACCOUNTS 2019

GRAFENIA plc

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IN SUMMARY

Grafenia are the people behind the Nettl network of neighbourhood studios, Image Group and the printing.com brand. We licence our brands and systems in the UK and internationally. At our production hubs, we manufacture print, display and signs. We sell those to businesses of all sizes via our brand partner networks and company-owned Nettl stores.

We're rolling up the signs sector, with the aim of creating a national installation network.

CONTINUING OPERATIONS

	Year ended 31 March 2019	*Year ended 31 March 2018*
	£000	*£000*
Subscription and Licence Fees	**1,975**	1,773
Company Studios	**2,629**	1,594
Signs	**4,910**	4,000
Brand Partner Print	**3,577**	3,870
Online and Trade	**2,871**	3,393
Revenue	**15,962**	14,630
Gross Profit	**8,545**	8,337
EBITDA	**(1,112)**	771
Amortisations and Depreciation	**(1,875)**	(1,874)
Operating Loss	**(2,987)**	(1,103)
Net Finance Expense	**(179)**	(137)
Tax Income	**343**	294
Loss for the Year	**(2,823)**	(946)
EPS – Continuing Operations	**(3.79)p**	(2.07)p
Total Dividend per Share	**Nil**	Nil
Investment in property plant and equipment	**£2.47m**	£1.94m
Acquisition of subsidiaries	**£0.27m**	£2.61m
Net debt	**£(3.12)m**	£(3.04)m

Nettl of Edinburgh, our first partner-operated Business Store opened this year.

CHAIRMAN'S STATEMENT

I re-read my past Chairman's statements when preparing this letter. Spoiler alert: a lot of what you will be reading in this year's statement is consistent with what I talked about in the last two years. When we embarked on our journey two years ago to **build, buy and licence Nettl**, we didn't know whether we were on the right path. Of course, certainty is an unrealistic state in any business, but we have gained confidence over the last months and years that we are on the right path.

So how did we do?

Operational Performance
In the recent fiscal year, our turnover increased by **9%** to **£15.96m** *(2018: £14.63m)* and gross profit increased by **2.5%** to **£8.55m** *(2018: £8.34m)*. The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.11m)** *(2018: profit £0.75m)*. Our loss for the year came in at **£2.82m** versus *£0.95m* last year. We finished the year with a cash position of **£1.35m** *(2018: £0.17m)* and net debt (including deferred consideration) of **£3.12m** *(2018: £3.04m)*. We invested **£2.46m** on capex *(2018: £1.09m)* – mainly for our new litho printing press strategy that Peter will discuss later – and capitalised **£0.74m** in R&D *(2018: £0.84m)*.

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. An example of a one-time costs is the improvement program in our finance function. As we have discussed on previous occasions, we decided to improve our financial capabilities to support our strategy. To that end, we have hired new team members and have had to part with others. The entire process was overseen very well by Simon, our Interim FD, and we are now seeing significant progress.
Such restructuring does increase costs in the short-term, but we strongly believe it's a worthwhile investment, given the planning and reporting requirements of our journey.

Connecting our clients together at Nettl of Deansgate Business Social in July 2019.

An example for an 'up-front cost' is our start-up US business. Here, we have invested heavily in legal expenses, travel and salaries for the launch of Nettl of America.

While it is not easy to put a precise number on both examples, it's safe to assume they each cost us substantial amounts in the last fiscal year.

Some firms decide to back-out many costs from their profit and loss statement to arrive at some 'adjusted' figure. I find that a slippery slope, as it opens the door to mark every cost as 'extraordinary' or 'non-recurring'. Such accounting doesn't help with cost discipline internally. Also, communicating what ends up being a 'profit before cost' doesn't help external readers either.

One pragmatic way to measure our progress is to consider our like-for-like (i.e. excluding acquisitions) development of gross profit. In the last fiscal year, that figure declined by 3.2%. This decline has been significantly more severe in the past and we believe we are getting close to the point where declines from litho print are offset by increases in our other product lines. We are determined to grow our gross profit consistently and I encourage you to measure our progress by how we drive gross profits in the future.

People at Grafenia & Priorities in the last year

This past year has been the year of getting processes right. Especially in finance, we increased our capabilities in areas such as reporting speed, debtor collection, planning and expense management. This is the boring part of the business, but it can make a team's life easy when these processes work well. Given that we are looking to grow the Group significantly – in part by acquisitions which always adds complexity – we had to get our finance foundation right before continuing to build. I'd like to express my thanks to all the people at Grafenia who were involved in the continuing improvement of our finance capabilities – your work will pay off!

In past letters, I wrote that there were three areas where my fellow non-executive director Conrad and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions. The first we announced to be well on track last year. I still believe this to be true but encourage feedback from shareholders if they see ways where we can improve our governance. The second aspect, incentives, I'll discuss in the next paragraph, as this is a priority for the on-going fiscal year.

That leaves us with capital allocation – of which we had quite some news in the recent past! During the last 18 months prior to publishing of this report, we raised (or announced to raise) equity capital three times. We announced that we had raised £3.5m at 12p per share in April 2018, £1.1m at 13.5p per share in March 2019 and £4.01m at 14p share in July 2019. Why did we do this and how did we come up with valuation and amounts?

Image Group manufacture and install signage for clients of all shapes and sizes.

The core reason for raising capital has been that we see attractive capital deployment opportunities within our business. Some are truly arising from day-to-day business (including launching Nettl in the US, our new litho printing press remodelling, combining Image Group's production in Trafford Park and the like). Other opportunities arise when we bring in other businesses into the Group; our focus is on complementary sign businesses as Peter will explain later.

For each of these investments we prepare an investment case which sketches out the expected cash-flows under different scenarios. When deciding, we try not to lose ourselves in detail, but rather only pursue investments that are clearly attractive.

We've made great strides over the last year to improve our budgeting and forecasting. In fact, we now have a pretty decent idea of how many sign businesses we can sensibly buy, what steps we need to take in our existing business to improve performance and where that would bring us in terms of revenue and profitability. I'd like to reaffirm our guidance from the July 3rd trading update: our current business should be able to generate 10-15% EBITDA margins in the mid-term and we think we can continue to bring complementary sign businesses into the group at sub-5x EBIT multiples.

With the placing of £4.01m announced in July 2019, we should now have enough funds to add a few more regional sign hubs to our network. Peter will elaborate later on exactly how we plan to do this and why we think it's attractive.

In terms of valuation, we have tried to strike a sensible balance between offering an attractive investment to incoming shareholders, whilst not diluting existing shareholders. In the context of our base case forecast, we derived an implicit valuation of what Grafenia stock is worth if we achieve our plan. That value is significantly above where the stock has been trading and the valuations at which we raised funds seem to strike a balance between current trading and what we think the shares are worth.

I'd like to note that we received a mix of astonishment and confusion when we planned to raise new capital at a price above the prevailing current trading level. Several observers found this to be very 'unusual', as most firms tend to raise new capital at a discount to trading. However, given the magnitude of our equity raises vs the existing share capital, this would have caused tremendous dilution to shareholders who didn't participate in the placings. This is frankly not the way we treat our shareholder partners – many of whom are employees, family of employees or local small investors – as most cannot pro-rata increase their shareholdings.

The entire team would like to thank all shareholders who have participated in our three placing rounds for their support of our funding strategy – even if it's slightly weirder than usual – we feel energised by the trust shareholders put in our work!

We meet Nettl and printing.com partners to share ideas and new developments at regional Pow Wows, like this one in Nettl of Liverpool Waters during January 2019.

Apart from lots of work with numbers, we had some (quite literally) heavy-lifting to do in our business. Very notable was the complete overhaul of our production logic. We replaced three old printing presses with one new press and have been moving the operations of Image Group into our existing hub at Trafford Park. There were potential risks involved in the entire operation and multiple different timelines had to be managed in parallel. The mastermind and terrific manager of our production overhaul is John Prior, Grafenia's Production Director. I'd like to express my thanks to him this year. We put a lot of trust in his managerial skills during the last year and he truly delivered. Thanks again John and team!

Outlook and Current Priorities

Our clear priority for the ongoing fiscal year and beyond is to execute on the strategy that we have previously communicated. Over the past year, a lot of energy has gone into improving internal processes and it's exciting to now focus on getting things done.

I still owe you the "setting incentives" item on Conrad and my score card! It is important to remember, we do have several plans in place already. First and foremost, our SAYE scheme is taken up by 41% of the team. This plan makes shareholders out of employees and is structured in a tax-friendly way. Employees save a portion of their monthly salary which they can convert into shares after three years at a pre-set price. In past rounds, the subscription price was fixed at 7.8p and 11.5p per share. I'm pleased to know that some employee-owners of Grafenia have nice paper increases in their investment so far. Well deserved fruits for hard work indeed.

We have applied a similar logic to structure our new management incentive plan. The idea is to give team members the option to buy shares at the price of the last financing round (i.e. 14p) with their own money. Grafenia will then issue a number of options for each share purchased which will vest after a period of time and upon achieving key parts of the aforementioned business forecast. Indeed, if management meets or exceeds targets, a nice payoff is due. But if targets are missed, their hard-earned own money is at risk (like that of our shareholders). We think this is the way incentives should be structured and have received positive feedback when sounding this among key shareholders. Please review our AGM invitation for specifics of the plan and do get back to me if you have input or questions.

On a final note, I announce the sad news that my predecessor as Chairman, Les Wheatley, has recently passed after a long illness. Les has done great service to Grafenia and chaired the board for many years. Our thoughts are with his family.

I look forward to seeing you at the Annual General Meeting on 25 September 2019 at our Nettl of Birmingham Business Store.

Jan-Hendrik Mohr
Chairman
27 August 2019

We print onto all sorts of material, like this outdoor grade tent fabric.

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT

Dear Shareholders,

Say it, then do it

Writing this annual letter is a natural reflection point on what's gone well and what hasn't quite gone to plan.

We've made substantial progress in a number of important areas. Within our company studios segment this year we've opened new Nettl Business Stores and we've increased sales in our other company-owned stores. Our first Nettl franchisees are operating in the United States and we've grown our Nettl partner network in every country we operate. A modernisation programme is underway at our production hub and we've relocated and further integrated Image Group. We've also made a couple of small acquisitions and have an interesting future pipeline.

However, the print industry is dealing with the perfect storm. Most businesses are facing rising costs, shrinking volumes, falling demand and increased competition. Capacity is coming out from our sector, but not quickly enough. Every day we decrease our reliance on traditional print sales, but we need to move faster.

This year we've continued to execute the plan as we said we would. Along the way, we've made a few big decisions which I'd like to explain in more detail.

But first, it's worth taking a moment to recap on our strategy.

Our upside down room at a recent Expoganza event, for graphic professionals to come and see what we do.

Build, buy, licence

Three words, each as important as the other.

We own five company stores. One is a 'first generation' Nettl web studio in Dublin. We have two second generation Business Stores in Birmingham and in Manchester and two Superstores in Liverpool and Exeter.

Stores sell websites, signage, print and display to local SMEs who need help with creative services. We use our company stores to figure out best practice and to test new things. They are also places we use to train new Nettl partners and team members.

On 2 December 2017 we acquired Nettl of Exeter, one of our top performing partners. Then on 5 July 2018, we acquired AG Signs which was located in an industrial estate in Honiton, near Exeter. In March 2019, we relocated both businesses to open our second Nettl Business Superstore near Exeter city centre. This 7,500sq.ft location was formerly a car dealership. Inside, we have display space, our studio team and three meeting rooms for hire. The sign manufacturing and installation team is based here and we have ample room for vehicle graphic application inside.

We made two further small acquisitions of Nettl partners this year, both of which rolled into our company stores: The client list of H & H Print Services Limited trading as Nettl of Liverpool Limited in Liverpool and Artichoke Design Limited, which was trading as Nettl of The Jewellery Quarter, in Birmingham.

Total sales in our company-owned stores grew **69%** this year to **£2.69m** *(2018: £1.59m)*. Like-for-like sales were up 8% when we exclude acquisitions in the period.

We closed a legacy store in central London after the year end. This store was loss making and, given its small footprint, no longer fitted the profile we look for in establishing Nettl Business Stores. As we've previously said, opening new small stores was unlikely. This former printing.com location has seen its rent nearly double in the last few years. As our lease came up for renewal, we made the difficult decision to terminate and offered the team roles in other locations. It's always regrettable when we have to say goodbye and we thank the team for their efforts.

In May 2019, also after the year-end, we opened "Nettl of Deansgate", a 7,000sq.ft Business pop-up Store in Manchester city centre. We have an opportunistic short-term lease on a prime retail location, which is earmarked for redevelopment in the not too distant future. Our existing Manchester hub-based Nettl team have relocated to Nettl of Deansgate until the redevelopment begins. As this is a temporary pop-up store, we've made minimal investment in fit-out. Instead we're using the space to present our exhibition range – in fact, it's the only place we have in the UK big enough to display our full range.

We wrap vehicles at our superstore locations, including those used by our acquisition and install teams.

The mix of products we now sell through our Nettl company stores and partner network has continued to evolve. Sales of ink-on-fabric soft signage has kept growing and all our stores have now completed signage projects.

We've learnt from operating these stores ourselves. Our systems were originally designed to deliver print and then web projects, so we've had to extend our proprietary w3p back-office system to handle and invoice sign projects. There's still work needed to enable us to manage all aspects of sign manufacture in our process; from survey, quoting and installation. Some things are made in-store and some things they source centrally. Our central teams work to productise and systemise new products, so that they can be sold and shipped all over the country.

Buy more sign businesses
Despite our increase in size, we believe we are still too small to be a plc as we currently stand. As well as building our company stores organically, we have an acquisition strategy. This is centred around rolling up the signs sector. There are lots of reasons why we think this makes sound industrial logic, and these businesses are a natural extension of our product range. And we sell to the same kind of clients.

So far, we've acquired a couple of smaller sign businesses. With both, we've combined them with a Nettl studio team and relocated them to create new Nettl Business Superstores. That's likely to happen again. Other Nettl partners have expressed an interest in joining Grafenia, as we roll-out future Superstores. Their history and behaviour as licenced partners will be a helpful indicator as to whether they are a suitable match.

However, opening new Nettl Business Superstores is capital intensive. As we are currently loss-making, it would take some time to make a sufficient contribution to profitability, with just the incremental acquisition and conversion of smaller businesses alone.

That's why we're looking at acquisition opportunities in two size brackets. We'll continue to look for suitable Superstore targets – those typically have up to 10 employees and revenues of up to £500k.

We're also looking at a second group of larger businesses. They tend to have up to 100 employees and revenues of £3m to £5m. These would act as regional hubs for our network.

After the year end, we raised **£4.01m** to support our execution of this strategy. We are prioritising acquisitions of businesses in the second group. Once these are in place, we should be able to acquire smaller businesses and convert them to Nettl Business Superstores from cash-flow.

Our "Goliath" giant deckchair has been a popular new product launched for summer 2019.

There are 50 towns and cities we've identified as potential targets for a Nettl Business Store or Superstore and have an abundance of sign businesses for sale. However, we are selective about which businesses to approach. Finding businesses with a cultural fit and a team with the desire to rebrand as a Nettl Business Superstore is our priority.

Signs and display graphics are a logical extension to the range of products both our company-owned and partner-operated stores sell. However, there's often a gap in knowledge and sales competence levels that can lead to a lack of confidence, both of which are an obstacle to sales.

We aim to help clients choose the right product, within their budget and without confusing them with jargon. We've developed marketing tools, like our "Wall of Wonder" and companion buying guide. It helps explain the options, with easy-to-follow price brackets. As we launch new products, it's important we develop design templates, technical documentation and marketing collateral to support them.

In July 2017 we acquired Image Group ("Image"). They had sales of over £5m and at the time, we believed they would act as our national sign hub. Since the acquisition, we've rolled out a range of printed vinyl and rigid substrate products, which we sell through our company stores and licenced Nettl and printing.com partner network. Some items, like our giant deckchair, are hybrid products, with components made by the Image team and finished by our fabric printing team. These have been popular at events and venues who want to create "Instagrammable moments". These 'products' can be shipped by overnight carrier and flow through our supply chain just like flyers and business cards.

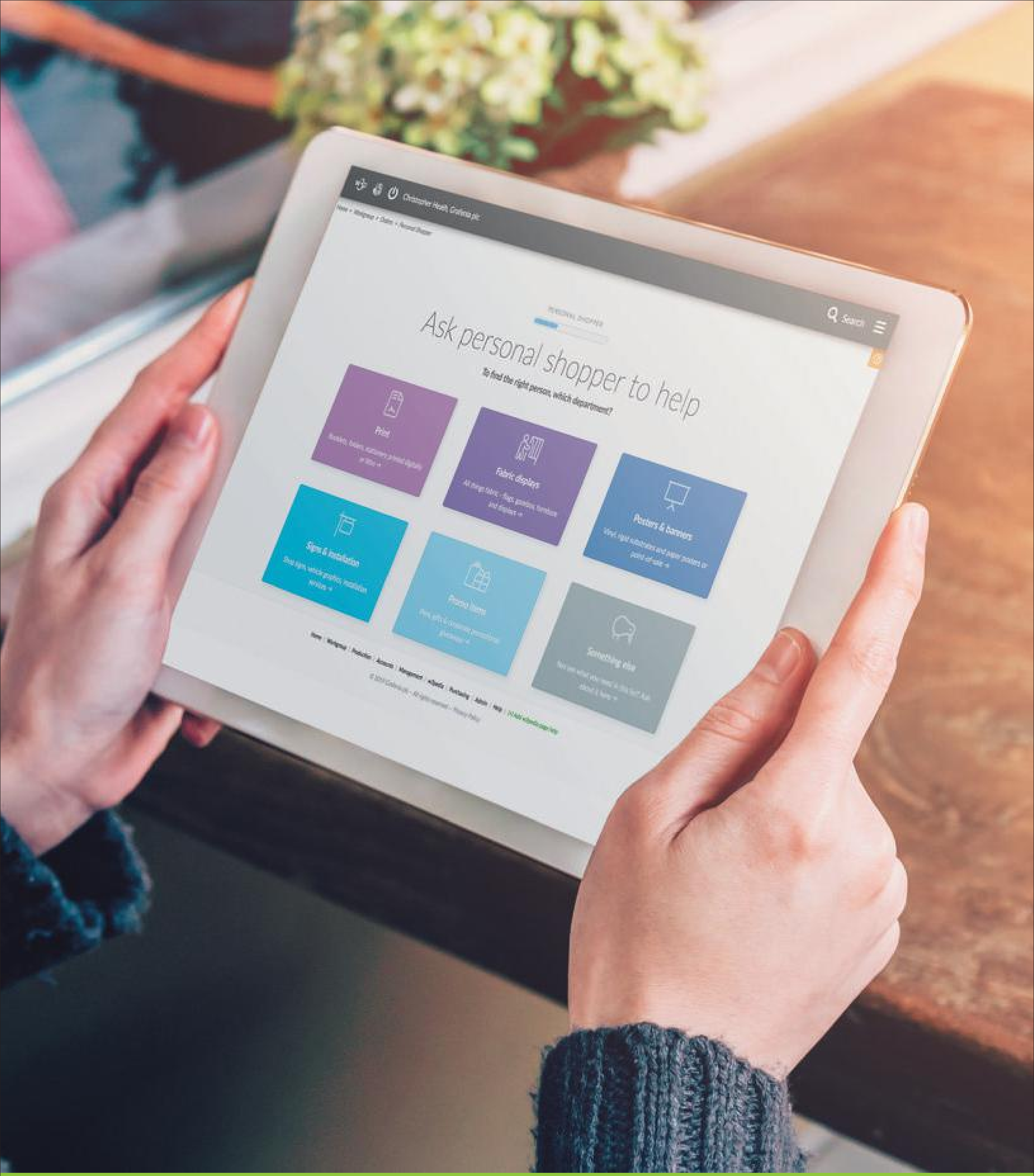
However, we've still yet to crack the conundrum of national manufacture and installation. Whilst we've won some national project work, we've found that the distance from manufacture to installation directly affects competitiveness and/or profitability.

We believe that regional hubs are part of the answer. We call them 'Nettl Works'.

When the first Nettl Business Superstore opened in Liverpool, we just relocated all the manufacturing equipment ADD Signs, which we purchased in 2018, was using. In Exeter, AG Signs, acquired this year, was subcontracting more manufacturing and so our Superstore has less equipment. Instead there's more meeting and display space.

We believe we need five Nettl Works in the UK to get sufficient geographic coverage. These hubs will manufacture sign projects, leaving Superstores to focus on sales, design and installation and printing of fast turnaround graphics.

Unlike a Superstore, these hubs will retain their existing identity and continue to service their client base. We plan to implement our supply chain software and co-brand them as 'Nettl Works'. Image will be the first Nettl Works.



Nettl and printing.com partners can ask Personal Shopper
for assistance with complex or large projects.

A licence to Nettl

The Nettl business model is licenced to third parties. Designers, printers and sign businesses can access our training, systems and marketing to sell websites, printing and displays to their own clients. We grant them an exclusive territory, in exchange for a licence fee of up to £2,999. We call them "Brand Partners" and they pay a monthly subscription of typically £399. They contract for a minimum of three to five years.

Partners also have access to our supply chain and can buy print and display at wholesale prices. They use w3p, our proprietary platform to manage client relationships, print orders and web projects. This year we've overhauled big parts of the interface, to simplify common tasks. We developed a Kanban card-based, drag 'n' drop dashboard to re-imagine how partners juggle lots of jobs in their studios. We also rolled out a new visual production workflow, optimised for touch interface on tablets, to help manage their in-house production

Our Nettl partner network has grown to **228** locations around the world *(2018: 192)*. At the date of our last trading update, we had 173 active Nettl partners in the UK and Ireland, 27 in Benelux, 13 in France, eight in the USA, four in New Zealand and three in Australia. During the year, we also added 44 new printing.com partners and currently have **85** printing.com locations *(2018: 108)*. Our total subscription and licence fee income grew to approximately **£1.98m** for the year ended 31 March 2019 *(2018: £1.77m)*.

Sales of print and products to Brand Partners was **£3.58m** *(2018: £3.87m)*. There's a couple of points to note here. Firstly, the product mix has changed. We sold more ink on fabric, displays and signs than last year, but less litho print.

To address this, we've introduced Personal Shopper. Whilst the vast majority of orders are placed by our partners without speaking to a human, they often need help with more complex projects. Our product range has grown and with it, a corresponding increase in product knowledge is required. Personal Shopper routes queries to appropriate specialists, who can assist with product selection or setting up projects correctly. As a result, we're winning higher value orders which, previously, partners might have lacked confidence to sell.

We launched Nettl of America this year at an intimate event for graphic professionals, in Orlando Florida.

Despite rising input costs, wholesale prices have continued to fall. There's always someone willing to fill some spare capacity at a discount. As we publish transparent pricing, competitors might try to tempt people to stray with a few pounds knocked off. Personal Shopper will price match genuine competitor quotes on a like-for-like service. While we will never be a price leader, we will match aggressive discounting, providing there is gross margin available. So far, we've matched hundreds of quotes and have found this particularly successful with multi-part orders, purchased as a group.

Last year we introduced a new Search Engine Optimisation ("SEO") service for clients. Designing and launching a website is one thing. Getting it found on Google is quite another. SEO is a process which helps to improve a website's ranking. The higher up the results list, the more likely someone is to click. As you can imagine, there's a lot of competition to be on the first page. Getting there requires skill, technical knowledge and ongoing commitment and investment.

Our programme trains our studio teams and Nettl partners how to sell SEO, and then manage client relationships. Partners use our system to set objectives. Clients subscribe for a minimum of six months and packages range from £100 per month to £1,000+. Then our central "SEO Geeks", do the technical work. So far, we've trained over 100 people how to sell SEO and certified over 50 partners. We think revenue from SEO subscriptions will grow next year as we continue to train more of our Nettl partners.

We expect to add more Nettl partners this year and anticipate more printing.com locations will upgrade to Nettl, like many did in the current year.

The home of the brave

We launched Nettl of America on 7 March 2019. To comply with federal and state laws, we positioned Nettl as a co-brand franchise model. The compliance and registration process is now complete and we are able to grant franchises in 37 of the 50 US states. We anticipated there would be a longer gestation period to acquire franchise partners, partly down to local laws requiring cooling off periods and the disclosure processes. This has turned out to be the case. However, we are delighted to have granted nine franchises so far, in the states of Florida, Ohio and Georgia. We expect to grant more in the coming months.

Clearly, the United States is a major market. When we research launching Nettl into a new country, we estimate the number of potential locations, relative to the density of the SME population. Using that rule of thumb, we believe the US could support between 1,500 and 2,000 Nettl locations. When we launch, much of the cost is front-loaded. Although we evaluate the project as if it were an investment, we expense the costs as we incur them. This adversely affects our earnings and inflates our short-term overheads, but we are confident the future upside is worth the management time, opportunity cost and effort.

Marqetspace, our trade channel was the first online printer in the world to offer Klarna Bank's buy now pay later service.

Sunsetting of white label platforms

As part of our licencing income strategy, we have during the last decade, entered long-term agreements to master licence our w3p software platform as 'white label' in other countries. This year, three out of four of those agreements came to the end of their term, including one terminated prematurely as result of insolvency. We don't anticipate that we'll licence our software this way in future. Instead, we'll always welcome approaches from potential partners who'd like to master licence Nettl in their country. Where possible we have migrated legacy white label end users to become Nettl partners.

Online and trade channels

Product sales on our online and trade channels were **£2.87m** *(2018: £3.39m)*. Although volumes dropped, so did our overheads, as we redeployed people and resource to support our brand partner network. We continue to test new initiatives on these channels. After the year end, Marqestpace.com became the world's first online printer to offer "Pay later" credit facilities powered by challenger bank, Klarna. This allows clients to apply for 30 or 60 days interest free credit, with an instant decision during checkout. Klarna undertakes collection and takes credit risk. We plan to roll this out across our channels.

Why buy a new printing press?

As I mentioned, our litho volumes have been declining over time. Most research forecasts litho print will continue to decline. So why would we invest over £2m in a new press? Last year we began a substantial evaluation exercise. We looked at outsourcing our litho print function, in whole or in part. Finding a reliable local source, with sufficient capacity and ability to meet our service level requirements proved challenging. Since our review, two of the three final shortlisted candidates have closed their plants.

As run lengths have got shorter, the key drivers are how long it takes to change from one batch to another and how many sheets of paper are wasted while the machine gets to 'sellable' print. During this evaluation, it became clear quite how much technology has advanced since we last invested in presses. We found that we'd be able to produce the same amount of work on a single press, with half the press labour and power and reductions in consumable costs.

We upgraded our press technology during early 2019.

So as previously announced, we made the decision to replace three ageing presses with a single new high-specification machine. More importantly, it has released space in our Manchester production hub. Since the year end, we've installed a new mezzanine floor and have combined Image's main factory with our hub. As well as operational efficiencies, this combined hub will result in savings on rent, rates and other occupation costs like power. Our analysis indicated that a new press would be cash generative in year two and we believed the investment was the right decision. We are forecasting that sales of litho print will continue to decline and we will experience further margin pressure. However, we are expecting further growth in the sales of signage, display and ink-on-fabric digital textiles, all of which have grown this year.

Outlook

As a result of these changes to our cost base, we estimate we will be breakeven on a monthly EBITDA run rate during the current financial year. As Jan said, we are targeting an EBITDA margin of 10-15% in the medium term, although we make decisions for the long-term sustainability of the business, rather than short-term performance.

Meet you in Birmingham?

We'd like to invite you to our AGM. Last year, we had some shareholders want to attend but couldn't because it was in holiday season. So, we've decided to move the AGM to a time when everyone is 'back to school'. We like to hold the AGM in a different location each year, so our shareholders can see different parts of the business. This year it will be at our Nettl of Birmingham Business Store, a short stroll from Birmingham Central New Street Station.

As with last year, once the formalities are over, we'll share some more insights about our plans. Different members of our team will talk about different topics and be around to answer questions over a nibble.

Until then,

Peter Gunning
Chief Executive
27 August 2019

We opened Nettl of Exeter Business Superstore in March 2019 in a former car showroom.

STRATEGIC REPORT

FINANCIAL REVIEW

Simon Barrell
Interim Finance Director

Revenue

The year under review showed growth in revenue and gross profit, partly through the acquisition of Image Group which now includes a full year of revenue and increases in Subscriptions and Licence Fees. Group Revenues increased by **9%** to **£15.96m** *(2018: £14.63m)*. Revenues from the Eurozone were 3% of the total *(2018: 3%)* as disclosed in the Segmental Analysis in note 3. However, overall our losses increased for a number of reasons mentioned below.

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 increased by **2.5%** to **£8.55m** *(2018: £8.34m)*.

There has been a continued decline in traditional print volumes. Most of our raw materials are sourced in the UK but originate from Europe. Our biggest material cost is paper.

Despite increasing pressure on our costs, we have continued to find it difficult to increase print prices. Competition remains fierce, as evidenced by recent insolvencies in the market and market prices falling further during the year. As a result, our gross margin percentage decreased from 57% to **54%**. This change is also partly due to the acquisition of sign businesses last year and this year, which have different margin characteristics to our traditional business.

Other costs

We continue to invest in acquiring brand partners in the UK and Nettl in the Netherlands and more recently in the US. All of these costs are front-loaded and we incur them before we see a return through subscription income. Staff costs increased significantly with new business coming on stream last year and during the year. Staff costs increased in the year to **£6.08m** *(2017: £4.56m)*.

EBITDA

The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.11m)** *(2018: profit £0.75m)*. EBITDA represents an indicator of the Group's potential to generate cash. The EBITDA loss represents the continued price pressures experienced in the business.

Interest Received and Charged

Interest received in the year was **£7,000** *(2018: £1,000)*. Interest charges increased to **£0.19m** *(2018: £0.14m)* from lease agreements, interest due on vendor loan notes and the utilisation of the invoice discounting facility.

Pre-Tax Loss

The Group recorded a pre-tax loss of **£3.17m** *(2018: £1.24m).* The depreciation and amortisation charge for the year was **£1.87m** *(2018: £1.87m).*

Taxation

As in the prior year, the Group gained Research & Development Relief and have accrued for the current year claim which contributed to a Tax income of **£0.34m** *(2018: £0.3m).*

Earnings Per Share (EPS)

There is no dilution of continuing loss per share (EPS) in either year **3.79p** *(2018: 2.07p)*, based on a weighted average number of shares in issue of **74,504,359** *(2017: 45,638,192).*

Cash Flow

At the year end, the Group had cash balances of **£1.35m** *(2018: £0.17m)*. Net Debt was **£3.12m** with **£2.59m** of asset finance, **£0.81m** of vendor loan notes and deferred consideration, and **£0.28m** of net funds *(Net borrowings 2018: £0.93m).* Operational cash utilised after movements in working capital was **(£0.96m)** *(2018: generated £1.23m).*

Capital Expenditure

Capital investment on plant and equipment, excluding acquisitions, was **£2.46m** *(2018: £1.09m)* financed in the main by new finance leases. This included the investment in the new printing press, as discussed in the Chief Executive's statement, of £2.01m. This will enable the Group to reduce operating costs. Capital expenditure reflected investment in the development of the Group's systems; the major item being software for Nettl and the Group's SaaS platforms totalling **£0.74m** *(2018: £0.85m).*

Share Capital

On 3 May 2018, the company completed a fundraise of approximately £3.5m before expenses through a placing of 29,258,331 new ordinary shares of 1 pence each at an issue price of 12 pence per share.

On 29 March 2019 the company raised approximately £1.1m, before expenses, by way of a subscription for 7,868,517 new ordinary shares of 1 pence each at an issue price of 13.5 pence per share from existing investors.

Acquisitions

During the year, the Group also spent £0.15m on the acquisitions of AG Sign and Print Limited and Artichoke Design Limited *(2018: £1.15m initial consideration on Image Group acquisition).* The Group also acquired the clients list of H&H Print Services Limited trading as Nettl of Liverpool for non-cash consideration of £0.04m.

Also, the Group amended the purchase price agreement for Image Group during the year. An Earn-out agreement totalling £0.6m was part of the acquisition agreement for Image Group when acquired in July 2017. On 26 September 2018 it was agreed with the vendors of Image Group that the potential earn-out be replaced with a fixed additional deferred consideration of £0.55m, payable in cash. This deferred consideration will be paid in 12 monthly instalments commencing 30 September 2019. Under the original terms of the acquisition, the earn-out was to be fully paid by September 2019. The agreement delayed the full payment of the lower amount over the period to 31 August 2020 which is the final instalment date of the Deferred Consideration.

It was agreed that the repayments to be made in respect of the vendor loan notes of £1.25m issued in conjunction with the acquisition of Image will be reduced by £0.19m.

Following the variation of the terms of the acquisition, the total consideration for Image is expected to be £2.76m, satisfied in cash of £1.15m on completion, secured vendor loan notes of £1.06m repayable in monthly instalments over a period of approximately two years from completion (final payment August 2019) and unsecured deferred consideration of £0.55m, payable in monthly instalments over the following 12 month period (final payment August 2020).

Post Balance Sheet Events

On 1 April 2019, the business of ADD Signs Limited was hived up into Grafenia Operations Limited.

On 2 July 2019, an agreement was reached in respect of a further variation to the terms of its acquisition of Image Everything Limited ("Image"). This variation relates to Neil Cousins, one of the vendors of Image, who will step down as an executive of the Group on 30 August 2019.

Mr Cousins has entered a new consultancy agreement, together with a Nettl partner licence agreement. Under the consultancy agreement, he will continue to provide services to the Group for a minimum of 12 months. He will forgo his pro rata share of the £0.55m Deferred Consideration due to the vendors of Image, being £0.22m.

On 24 July 2019, the Group announced that it had conditionally raised approximately £4.01m before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each at an issue price of 14 pence per share. The placing was approved at the General Meeting on 12 August 2019.

Future developments

The future developments of the business are included in the Chairman's statement and the Chief Executive's statement.

Brexit

The Group has reviewed its operations as a result of the UK's referendum to leave the European Union ("Brexit"). Whilst it is impossible to forecast what will happen, it is not expected to have a material impact on the operations or financial results of the Group. The Group will endeavour to pass on any additional costs to customers. Strategic suppliers, particularly paper, are ensuring that supply is not interrupted and as we get closer to 31 October 2019 the Group will consider what levels of stock to hold. It is recognised that depending on the specific exit arrangements that are agreed and how these are implemented, there could be an impact on exchange rates, however this is not expected to impact significantly on the Group as the majority of revenue is in sterling.

Principal Risks and Uncertainties

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

- uncertainty in the general economic environment, including Brexit, that may impact upon revenues and profitability;
- markets in which the Group operates 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, 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 ongoing operations. The Board anticipate cash balances will rise moving forward. The Board has developed a model to establish a fair value for the Company's shares and will only purchase shares when the offer price is materially below that value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes, see Note 21.

Simon Barrell
Interim Finance Director
27 August 2019

DIRECTORS

Jan Mohr
Chairman

Jan is based in Hamburg, Germany and is MD of the advisory firm JMX Capital GmbH. He previously worked with Investmentaktiengesellschaft fuer langfristige Investoren TGV, Hauck & Aufhaeuser and McKinsey & Company. Jan graduated from Frankfurt School of Finance and Management and earned a Master in Finance at Stockholm School of Economics as a German National Merit Scholar.

Jan was appointed to the Board in March 2016. Age 30.

Peter Gunning
Chief Executive

After obtaining his Masters Degree in Accountancy and Finance from Heriot-Watt University in 1997, Peter established The Design Foundry Scotland Limited and was a client of the business. Since joining the Group in 1998, he has been responsible for developing the Nettl and printing.com studio concepts, associated marketing and operations infrastructure.

Peter was appointed to the Board in June 2001. Age 44.

Simon Barrell
Interim Finance Director

Simon qualified as a chartered accountant in 1983 and is a Fellow of the Institute of Chartered accountants in England and Wales. He's held various posts as Finance Director and has experience across multiple industries working in both the public and private sectors. He has also held numerous non-executive positions for a number of public companies and continues to act as an adviser to listed and non-listed companies. He is currently a non-executive director of Windar Photonics plc and SRT Marine Systems plc.

Simon joined the Group in June 2018. Age 60.

Gavin Cockerill
Chief Operating Officer

After graduating from Birmingham City University in 2000 and following a short stint in advertising, Gavin helped launch and grow the printing.com studio in Birmingham. Since joining the Group he has been involved in progressing the Nettl and printing.com business models across the UK and its numerous master licenses globally. Moving to Manchester in 2012 he launched and developed the group's TemplateCloud and Flyerzone offerings.

Gavin joined the Group in 2000 and was appointed COO in October 2015. Age 40.

Conrad Bona

Non-Executive Director

Conrad is a business consultant, investor and entrepreneur who started his career as a banking and finance lawyer and has worked in Toronto, London and Tokyo. He has a degree in economics from the University of Western Ontario, law degrees from the University of Edinburgh and the University of New Brunswick and qualified to practice as a lawyer in multiple jurisdictions. No longer practicing law, Conrad now advises companies on a wide range of commercial, financial and business matters. He has both Canadian and British citizenship and is based in London, England.

Conrad was appointed to the Board in October 2015. Age 50.

Richard Lightfoot

Company Secretary

Richard graduated from Manchester Metropolitan University in 1998 with a First Class honours degree in Business Studies. He subsequently worked for a Corporate Finance advisory firm assisting on mergers & acquisitions and venture capital fund raisings. Since joining the Group in 2004 he has performed a number of roles supporting the board in implementing strategic initiatives.

Richard was appointed Company Secretary in October 2015. Age 47.

DIRECTORS' REPORT

The Directors present their report and the financial statements of Grafenia plc and its subsidiary companies for the financial year ended 31 March 2019. The Directors have proposed that no final dividend will be paid *(2018: nil).*

FINANCIAL INSTRUMENTS

It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and finance leases. See Note 21.

DIRECTORS

The following Directors have held office since 1 April 2018:

J-H Mohr	Non-executive Chairman
C C Bona	Non-executive Director
P R Gunning	Chief Executive Officer
A Q Roberts	Finance Director – Resigned 26 June 2018
S G Barrell	Interim Finance Director – Appointed 25 June 2018
G G Cockerill	Chief Operating Officer
R A Lightfoot	Director and Company Secretary

All the Directors are subject to re-election at intervals of no more than 3 years.

J-H Mohr and C C Bona retire by rotation in accordance with the Company's Articles of Association both being eligible, offer themselves up for re-election

Details of Directors' interests in the share capital of the Company as shown in the register, together with details of share options granted and awards made to the Directors, are included in the Report on Directors' Remuneration on pages 45 to 47.

The Company maintains cover for its Directors under a directors' liability insurance policy, as permitted by the Companies Act 2006.

EMPLOYEES

The employment policies of the Group embody the principles of equal opportunity and the Group does not discriminate against anyone on any grounds. The Group ensures that every consideration is given to applications of employment from disabled persons. If an employee became disabled, every effort would be made to offer suitable alternative employment within the Group and assistance with retraining.

The Group keeps employees informed via its Intranet and by periodic staff meetings and internal announcements and takes account of any comments and feedback provided by employees in the formulation of its policies and procedures.

HEALTH AND SAFETY

Emphasis is placed upon providing a safe and healthy working environment for employees, customers and suppliers. The Group ensures that regular risk assessments are carried out and that plant and machinery is properly maintained. Working practices are continually refined to embody safe systems of work and the Group ensures that employees receive ongoing instruction, training and supervision for working and health and safety issues.

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

The Board considers social, environmental and ethical matters in all aspects of the business of the Group. They and senior management review and assess the significant risks to the Group's short and long term value as impacted upon by social, environmental and ethical issues. The Group comply with environmental laws and regulations and work with suppliers and customers to improve the effectiveness of environmental management.

SUBSTANTIAL SHAREHOLDERS

In addition, to the Directors' interests noted in the Directors' Remuneration Report, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 31 March 2019:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	**24,853,481**	**29.35%**
Value Focus Beteiligungs GmbH	**18,796,295**	**22.20%**
Scherzer & Co SA	**5,675,500**	**6.70%**
Axion SA	**4,985,000**	**5.89%**
Stefan Winterling	**4,779,074**	**5.64%**
IPConcept (Luxembourg) S.A.	**2,777,777**	**3.28%**

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Wednesday 25 September 2019 in Birmingham. In addition to the ordinary business, the Company will also propose a number of resolutions, which will be dealt with as special business. Details are contained in the Notice of the Annual General Meeting.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

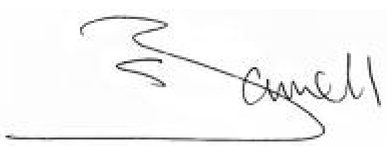
DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

AUDITOR

RSM UK Audit LLP has indicated its willingness to continue in office and a resolution to reappoint it as Auditor will be proposed at the next Annual General Meeting.

By order of the Board



Simon Barrell
Interim Finance Director
27 August 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and to have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

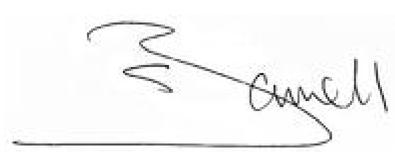
In preparing each of the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Grafenia plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Simon Barrell
Interim Finance Director
27 August 2019

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

AIM-quoted companies have been required to apply a recognised corporate governance code since 28 September 2018 as a result of changes to AIM rules introduced on 30 March 2018. The information on Corporate Governance set out below is, in the opinion of the Board, fully in accordance with the revised requirements of AIM Rule 26. The Board has determined that the Quoted Companies Alliance's ("QCA") Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26) would be the most appropriate for the Group to adhere to.

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The Board considers that it does not depart from any of the principles of the QCA Code during the period under review.

The following paragraphs set out the Group's compliance with the ten principles of the QCA Code. Further details are available at www.grafenia.com.

1. ESTABLISH A STRATEGY AND BUSINESS MODEL WHICH PROMOTE LONG TERM VALUE FOR SHAREHOLDERS

Our vision was first shared with our shareholders at our 2017 AGM. It puts customers and brand partners at the centre of our focus in a relentless drive to exceed customer expectations, and is as follows:

"To be the world's leading network of web, design, sign and print studios. Known as the local place for business, where business happens. Where customer experience is our priority. Where we deliver compelling value and reliable service every time. So we are rooted in every team member's and partner's success."

Our strategy to achieve this is to, build our network of studios, buy businesses to accelerate our growth, and license our intellectual property both in the UK and overseas.

Our strategy and business operations are set out more fully in the Strategic Report section of the Group's Annual Report. Further information in respect of our acquisition strategy can be found on the website and in our most recent Shareholder Circular.

The Group's principle risks and uncertainties and the systems and internal controls developed to mitigate them are set out in the disclosure to principle 4 of the code.

2. SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS

The Company believes strongly in transparency and an open door policy towards shareholder communications. It aims to provide fair and objective reporting and seeks to ensure its strategy, business model and performance are clearly communicated and understood through its half year and full year reports. Past and present versions are published on the Company's website.

Given the stage of the Company's development its AGM provides the key opportunity for dialogue with shareholders. All members of the Board attend the AGM. A Notice of AGM is circulated to all shareholders on the register at least 20 working days in advance of the AGM. Our AGM format was significantly overhauled in 2017 to be more inclusive, informative and fun, the growth in numbers of shareholders attending in the past couple of years is testament to the success of this initiative. This year the Company also distributed an invite incorporating an agenda and laid on transport from the Company's Manchester Hub and Manchester airport to the AGM venue.

The Chairman and Company Secretary go to additional lengths to identify and communicate with major shareholders whose holding is via nominee accounts and encourage both voting and attendance at the Company's AGM.

The number of proxy votes received for each vote are announced at the AGM and the results of the AGM are announced and published on website.

The Company does not presently have significant representation from traditional institutional investors. However, at an appropriate juncture it will seek to develop this area with the support of its broker Allenby Capital.

3. TAKE INTO ACCOUNT WIDER STAKEHOLDER AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS

The Company actively seeks to engage with its wider stakeholder base in order to maximise decision making, ensure alignment of interests and balance the needs of all stakeholders, whilst meeting its primary responsibility to promote the success of the Company for the benefit of its members as a whole via the execution of its strategy and business model set in the disclosures to principle 1 of the code.

Employees

The Company regularly engages with its staff via a number of practices and procedures. Staff are able to give valued feedback on the working environment and other stakeholder insights through, for example:

- the Company's works council which meets quarterly and includes four production representatives and provides a forum for production staff feedback.
- an annual two day conference bringing together our customer facing operational senior management and team leaders.

The Company believes the best way to achieve alignment with its staff and encourage them to think and act like owners is to help them become owners. We are delighted that approximately half of our team, from production to studios, from designers to installers, participate in the Company's "Save As You Earn" Scheme which allows employees to save monthly and then purchase shares in the Company at a pre-agreed price.

The Company is advocate of apprenticeships and goes beyond its legal obligations such as the payment of the apprentice levy in its commitment to this stakeholder group. In addition to apprentice opportunities across the Group generally, the Nettl Academy was established to offer a free programme of skills training and experience aimed at increasing a graduate's employability. Graduates from the Nettl Academy are promoted to Nettl partners globally, intern programs are also available, as well as help and support to fund a start-up Nettl business.

Customers and Suppliers

The Company invests in customer service software and infrastructure to support feedback from theses stakeholder groups and monitors and measures internal targets for response times and quality.

Our vision is to be rooted in every team member's and partner's success. To that end the Company regularly engages with its partner network through roadshows, conferences, w3pin Discussion (the Group's on-line message board and forum) and on-line polls and votes, the responses to some of which have shaped key strategic and operational decisions around important aspects of our business, ranging from pricing to environmental policies and considerations.

Environment

The Company is conscious of the environmental impact of the industry that it operates in. We seek to mitigate and minimise the Company's impact on the environment through practices and procedures including sourcing of sustainable paper supplies and supply and promotion of biodegradable products. We recently switched all our matt and gloss laminated print to a new biodegradable film and will continue to cut our use of single use plastics where we can.

The Company operates a comprehensive Environmental Management System (of which wider stakeholder feedback forms a part) setting out processes, procedures and controls and objectives and targets in respect of the Company's environmental footprint.

4. EMBED EFFECTIVE RISK MANAGEMENT, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION

Principal risks and uncertainties faced by the Group are set out in the Group's Annual Report.

The Board is responsible for establishing and maintaining the Company's system of internal control, which is designed to meet the particular needs of the Company and mitigate the risks to which it is exposed. Such a system is designed to manage these risks, to provide reasonable, but not absolute, assurance against material misstatement or loss, and to maintain proper accounting records to ensure the integrity of the financial information used within the business and for external publication.

The Board reviews the effectiveness of the system of internal control and considers whether the Company's internal controls processes would be significantly enhanced by an internal audit function and has taken the view that at the Company's current stage of development, this is not required. The Board will continue to review this matter each year.

The Board considers that the internal controls in place are appropriate for its size and resources, its activities and the risk profile. The key elements of the control system in operation are:

The Board meets regularly to consider matters reserved to it and has put in place an organisational structure with clear lines of defined responsibility and with appropriate delegation of authority to manage risk.

The senior management team meets every Monday providing an opportunity to consider operational risks faced and provide stakeholder feedback from across the Group's operations.

An organisational structure exists with defined roles and accountability and a culture is fostered which encourages entrepreneurial decision making while minimising risks. A key component of this is our Leadership Values book which sets out nineteen things we look for and measure our people on ask them to hold their peers, colleagues and leaders to account over.

GrafOS, (hosted on w3p, the Platform that manages our entire organisation) provides mechanisms for peer-to-peer evaluation and continuous 360 degree feedback, it's essentially an early warning system for undesirable behaviour.

w3pedia (also hosted on w3p) sets out the written operating procedures for all aspects of our business together with our staff handbook which contains policies providing guidance on things that could get our employees into trouble (including anti bribery, data protection, use of mobile phones whilst driving and much more).

The Company has information systems for monitoring its financial performance against approved budgets and forecasts.

Documented quality systems include comprehensive health and safety policies and procedures which encompass all aspect of the Group's day-to-day operations. The Company's Works Council monitors, reviews and make decisions concerning health and safety matters. The Executive management team reports to the Board on any health and safety issues at every Board meeting.

The Audit Committee receives reports from the external auditors on a regular basis and from executive directors of the Company. The Board receives periodic reports from all Committees.

The Group retains an insurance broker and maintains appropriate insurance cover in respect of actions taken against Directors and in respect of materials loss or claims against the group and the risks it faces. The types of cover and insured values are reviewed annually.

5. MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR

In 2017 we conducted a self-evaluation exercise to find out what type of board we need to drive Grafenia forward. We took a long hard look at how many Non-Executive board members we should have and what their competencies should be. The result of that exercise was that the following the 2017 AGM the number of Non-Executive directors (including the Chairman) was reduced from three to two and fees reduced by 25% and 50% respectively. The make-up of the Board is reviewed on an ongoing basis in light of the Company's development, requirements and resources.

The Board currently comprises two Non-Executive Directors (including the Chairman) and four Executive Directors. Last year the Finance Director retired from full time work and was replaced by an Interim Finance Director.

All of the Directors are subject to election by shareholders at the first Annual General Meeting after their appointment and the article 32 of the Company's articles of association requires anyone who has been in office for three years without re appointment to seek re-election.

The Non-Executive Directors are considered by the Board to be independent under the QCA Code's guidance for determining such independence. All Non-Executives receive a fixed fee for their services and do not participate in any performance-related remuneration schemes, or have any interest in a company share option scheme (including the Company's Save As You Earn Scheme).

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information. Scheduled Board meetings lasting at least half a day are held at least seven times a year together with adhoc meetings as the Company's requirements demand. The director's attendance records over the past 12 months (excluding directors who have ceased to be directors in the period), is as follows:

	Board meetings	Audit committee meetings	Remuneration Committee meetings
Number held	10	5	2
Jan-Hendrik Mohr (Chairman)	10	5	2
Conrad Bona (Non-Executive Director)	10	5	2
Peter Gunning (CEO)	10	-	-
Gavin Cockerill (COO)	9	-	-
Richard Lightfoot (Director & Company Secretary)	10	-	-
Simon Barrell (Interim Finance Director) –since election	8	-	-

Board meetings and the Company's AGM are held at various Group premises giving, in particular the Non-Executive Directors, access to different operations and the opportunity to develop a wide understanding of the Group's activities.

The Company Secretary reports directly to the Chairman on governance matters. The Board believe that Richard Lightfoot's appointment as Director and Company Secretary is appropriate at this stage of the Company's development and given its requirements and resources. This arrangement is assessed on an ongoing basis and separation of duties will be implemented as appropriate.

6. ENSURE THAT BETWEEN THEM THE DIRECTORS HAVE THE NECESSARY UP-TO-DATE EXPERIENCE, SKILLS AND CAPABILITIES

The Board considers that all of its directors are of sufficient competence and calibre and between them provide an appropriate and effective balance of skills and experience, including in the areas of retailing, wholesaling, marketing, print production, software development, ecommerce, finance and mergers and acquisitions. Directors' biographies are set out on the website.

The Directors all ensure that their skills are kept up to date by the attendance of courses, briefings from professional advisors and reading relevent industry and professional publications.

The Board is supported where necessary by its external professional advisers. The Board continually reviews the performance of third party advisers to ensure they are the most effective business partners for the Group. Our Auditors were last changed in July 2017.

Directors have access to advice and services of the Company Secretary and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group.

Whilst the Board presently consists of one German national and one member with both Canadian and British citizenship we are mindful of the absence of ethnic diversity and gender balance. The Board is committed to continual assessment of its composition as the Company evolves.

The Company Secretary provides Directors with updates on key developments relating to the Company and legal and governance matters including advice from the Company's broker, lawyers and advisors.

7. EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT

An evaluation of Board performance was conducted internally in 2017.

The Chairman assesses the individual contributions of each of the members of the team to ensure that:

- they are performing their roles and carrying out their responsibilities to the highest standards;
- their contribution is relevant and effective;
- where relevant, they have maintained their independence.

Appraisals are carried out each year for all Executive Directors and to assess overall Board composition. The appraisal process is an ongoing consideration of the Board as a whole. The Board intends to implement other procedures for appraisal of Board performance, that of each committee and each director in the coming year including where appropriate utilising the services of an independent third party organisation, and will provide an update on these measures in next year's Corporate Governance statement.

Presently no formal Nomination Committee exists in view of the stage of growth of the Company. Appointments to the Board and succession planning are considered by the Board as a whole and are made on merit against objective criteria relating to the skills, knowledge and expertise required, and with due regard for the benefits of diversity on the Board and requirements of the Company.

8. PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS

The Board firmly believes that culture is driven from the top and through sound Corporate governance, it takes ultimate responsibility for the culture that is developed and evolves under its leadership and guidance. That's why we developed our Leadership Values which sit at the centre of GrafOS.

GrafOS is our operating system for people. Each role in our business is part of a career storyline with required "Intelligence" levels. Team members collect badges as they acquire competences. We encourage team members to 'catch colleagues doing things right' and leave positive feedback against specific Leadership Values they've observed. Likewise, if they spot someone behaving contra to our Leadership Values, they can share a private ImproveNote with the individual and their leader. It's all designed to encourage and deliver ethical and entrepreneurial behaviour.

The Company's staff manual sets out whistleblowing policy and procedures.

9. MAINTAIN GOVERNANCE STRUCTURES AND PROCESSES THAT ARE FIT FOR PURPOSE AND SUPPORT GOOD DECISION-MAKING BY THE BOARD

The Board
The Board is responsible to shareholders for the proper management of the Group. The Board is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters and approval of Annual and Interim results and budgets.

The Executive Directors have responsibility for the day-to-day operational management of the Group's activities. The Non-Executive Directors are responsible for bringing independent objective judgement to board decisions.

All directors are supplied with the Company's continuing Obligations memorandum which is reviewed and updated regularly. The memorandum sets out and explains Directors responsibilities and obligations under the AIM Rules, the Market Abuse Regulation and other wider applicable legislation.

A formal schedule of all matters reserved for Board decision is maintained and reviewed regularly (last update February 2017) covering:

- Setting and Review of Strategy and Performance;
- Structure and Capital;
- Maintenance of Financial Reporting and Controls;
- Maintenance of Internal Control and Risk Management systems;
- Material Contracts;
- Investor Relations and Regulatory communications;
- Constitution of Board Membership and other appointments;
- Setting of Directors and Senior Management Remuneration;
- Delegation of Authority amongst the Board and its Committees;
- Implementation of Corporate Governance;
- Approval of Policies.

The Board maintains a rolling scheduled programme of seven board meetings each year aligned with relevant events in the Company's financial and trading calendar. Additional meetings are held as and when required.

A formal agenda is prepared for each meeting, Board papers including a CEO's report and KPIs, and FD's report are circulated in advance and minutes are circulated following each meeting recording actions arising and noting any unresolved matters.

We increasingly involve non board members in relevant Board discussions and will extend this in the future.

Chairman and Chief Executive Officer
The differing roles of Chairman and Chief Executive are acknowledged and there is a clear division of responsibility at the head of the Company.

The key functions of the Chairman are, to oversee the adoption, delivery and communication of the Company's Corporate Governance model, the effective conduct of Board Meetings and meetings of shareholders, to ensure that all Directors are properly briefed in order to take a full and constructive part in Board discussions, and to ensure the Group has appropriate strategic focus and direction.

The Chief Executive has responsibility for leading the implementation of agreed strategy and managing the day-to-day operations of the Group.

Committees

The Board has established an Audit Committee and a Remuneration Committee. In view of the stage of growth of the Company there are no formal Nomination Committee or Corporate Governance Committees, however these arrangements will remain under review.

The Audit Committee and Remuneration Committee presently comprise of Jan-Hendrik Mohr (Chairman) and Conrad Bona (Non-Executive Director), the Company's present policy is for any new Non-executive Directors to join both Committees.

The Audit Committee's principal tasks are to review the scope of external audit, to receive regular reports from the auditors, and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on legal requirements and accounting standards as well as areas of management judgment and estimation.

The Audit Committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes.

The Audit Committee meets at least twice a year including immediately before the submission of the Annual and Interim Financial Statements to the Board.

The Audit Committee also undertakes a formal assessment of the auditors' independence each year which includes:

- a review of the non-audit services provided to the Company and related fees;
- discussion with the auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence;
- A review of the auditors' own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner;
- Obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in the Group's Annual Report.

The Audit Committee advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work.

Ultimate responsibility for reviewing and approving the Annual and Interim financial statements remains with the board and a statement of directors' responsibilities in respect of the accounts is set out in the Group's Annual Report.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. It also considers and oversees the implementation of any share incentive schemes, the Company's Save As You Earn scheme being the only such scheme at present.

The Board itself determines the remuneration of the Non-Executive Directors.

The Remuneration Committee meets at least once a year.

A Directors' Remuneration report is set out in the Group's Annual Report.

10. COMMUNICATE HOW THE COMPANY IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS

The Board places a high priority on clear, fair and objective reporting with its various stakeholder groups.

The Company is presently of a size that doesn't support having a dedicated investor relations department, however the CEO's mobile phone number is provided on all announcements and the Company Secretary's contact details are set out on the website for shareholder enquiries. The Chairman also talks on and adhoc basis with major shareholders and provides feedback to the Board.

We are conscious that, given its present size, the Company attracts limited analyst attention. To that end the CEO maintains strong links with relevant industry media and seeks to articulate Company strategy consistently through them. Calls with journalists are also held to coincide with the release of the Group's Annual Report.

The Group's website is regularly updated and in addition to the Corporate Governance Statement sets out past and present Annual and Interim Reports and Accounts and all Announcements.

The result of voting in the 2018 AGM is presented as follows:

Resolutions	* For	Against	Withheld
1. To receive the Company's Annual Accounts	26,015,693	0	0
2. To re-elect Richard Alan Lightfoot as a Director	25,242,060	768,633	5,000
3. To re-elect Gavin Graham Cockerill as a Director	25,247,060	768,633	0
4. To re-elect Simon Gregory Barrell as a Director	25,176,496	839,197	0
5. To re-elect RSM UK Audit LLP as auditors of the Company	26,070,693	0	5,000
6. To authorise the Company to allot shares and to grant rights to subscribe for or convert any security into such shares	26,938,929	75,764	5,000
7. To disapply statutory pre-emption rights	25,934,929	75,764	5,000
8. To authorise the Company to make market purchases of its own shares	25,931,688	84,005	0

* including any votes giving discretion to the Chair.

AUDIT COMMITTEE REPORT

The Audit Committee comprises Jan Mohr as chairman and Conrad Bona. The Audit Committee meets at least twice a year and is responsible for reviewing the annual and half-yearly financial statements, the system of internal controls and risk management, and the terms of appointment and remuneration of the auditor. It is also the forum through which the auditor reports to the Board. The Audit Committee is also responsible for reviewing the objectivity of the external auditor and the terms under which the external auditor is appointed to perform non-audit services.

During the year the Audit Committee worked with the Group auditors, on the findings of the 2018 audit as well as reviewing the company's full year and half year results on behalf of the Board. It considered significant accounting policies, ensured compliance with accounting standards and considered reports from the external auditor on accounting topics of a judgemental nature requiring attention. The Committee over the year, had separate discussions with the auditor without management being present on the adequacy of controls and any judgemental areas, as well as feedback on the 2018 audit.

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION REPORT

As a company listed on AIM the Company is exempt from the S420 obligation of the Companies Act 2006 to prepare a Directors' Remuneration Report and the S439 obligation to put a written remuneration policy to a shareholder vote once every three years.

REMUNERATION COMMITTEE

The Company has an established Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Jan Mohr and Conrad Bona who are Non-executive Directors, Jan Mohr chairs the Committee.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive about its proposals. The Committee also sources reports from the Company's various advisers.

REMUNERATION POLICY

The policy of the Committee is to reward Executive Directors in line with the current remuneration of directors in comparable businesses taking into consideration the advice of independent bodies, in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for Executive Directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual cash bonus payments which cannot exceed 30% of basic salary, with the exception of the Chief Executive who has a long term scheme tied to the growth in free cash flow;
- Pension arrangements.

BASIC ANNUAL SALARY

Basic pensionable salary is reviewed annually in March with increases, if awarded, taking effect from 1 April. In addition to basic salary, the Executive Directors also receive certain benefits in kind, principally a car and private medical insurance.

ANNUAL CASH BONUS

The Committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward Executive Directors and other senior employees for achieving above average performance which also benefits shareholders. The maximum performance related bonus that can be paid is 30% of basic salary. No incentive payments have been made for the financial year ended 31 March 2019.

PENSION ARRANGEMENTS

The Company contributes to individual money purchase schemes for the Executive Directors.

DIRECTORS' CONTRACTS

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice, except for the Chief Executive who has a twelve month notice period. There are no specific provisions for compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of any early termination and determine compensation payments accordingly.

NON-EXECUTIVE DIRECTORS

The fees of each Non-executive Director are determined by the Board as a whole, excluding the Non-executive being reviewed, having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors' contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION

Year ended 31 March 2019:

	Basic salary	Fees	Benefits	Bonuses	Pension	2019 Total
	£	£	£	£	£	£
J-H Mohr	**-**	**15,044**	**-**	**-**	**-**	**15,044**
C C Bona	**-**	**15,044**	**-**	**-**	**300**	**15,344**
P R Gunning	**170,749**	**-**	**841**	**-**	**15,525**	**187,115**
A Q Roberts (resigned 25 June 2018)	**65,475**	**-**	**6,793**	**-**	**2,513**	**74,781**
S G Barrell (since appointment) *	**-**	**80,500***	**-**	**-**	**-**	**80,500**
G G Cockerill	**90,264**	**-**	**390**	**-**	**1,800**	**92,454**
R A Lightfoot	**75,792**	**-**	**1,161**	**-**	**1,540**	**78,493**
	402,280	**110,588**	**9,185**	**-**	**21,678**	**543,731**

*S G Barrell offers consultancy services to Grafenia Operations Limited through SGB Consulting and the amounts shown are fees paid via Grafenia Operations Limited.

Year ended 31 March 2018:

	Basic salary	Fees	Benefits	Bonuses	Pension	2018 Total
	£	£	£	£	£	£
J-H Mohr	-	14,942	-	-	-	14,942
C C Bona	-	14,942	-	-	218	15,160
P R Gunning	169,595	-	841	-	15,525	185,961
A Q Roberts	84,524	-	21,725	-	9,736	115,985
G G Cockerill (since appointment)	17,407	-	73	-	227	17,707
R A Lightfoot (since appointment)	13,946	-	216	-	207	14,369
P Begun (resigned 8th July 2017)	-	4,903	-	-	-	4,903
	285,472	34,787	22,855	-	25,913	369,027

DIRECTORS' INTERESTS

At 31 March 2019, the Directors had the following beneficial interests in the Company's shares.

	Ordinary shares of 1p each	
	31 March 2019	31 March 2018
J-H Mohr	**-**	-
C C Bona	**1,087,222**	540,000
P R Gunning	**1,625,000**	1,250,000
G G Cockerill	**4,874**	4,874
R A Lightfoot	**75,000**	75,000
S G Barrell	**-**	-

On the 13 April 2018 the Company issued 29,258,331 ordinary shares, Conrad Bona participated and increased his holding to 865,000 shares Peter Gunning also increased his holding to 1,625,000 shares.

On the 28 March 2019 the company issued 7,868,517 ordinary shares, Conrad Bona participated and increased his holding by 222,222.

No Directors, or other family members, had any interests in the deferred share capital of the Company.

The market price of shares as at 31 March 2019 was 11.50 pence *(2018: 12.00 pence*). The range during 2018 was 9.20 pence to 16.50 pence. At the close of business Friday 16 August 2019, the price was 11.50pence.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAFENIA PLC

OPINION

We have audited the financial statements of Grafenia Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

GROUP KEY AUDIT MATTERS

RECOVERABILITY OF TRADE RECEIVABLES

(Refer to accounting policy on page 56 regarding calculation of recoverable amount, accounting policy on page 58 regarding trade and other receivables, the accounting policy on page 62 regarding recoverability of receivables, note 14 regarding trade and other receivables and the credit risk section of note 21 regarding financial instruments)

THE RISK

The group trades with a wide variety of customers in terms of their size and nature of trade. Management's assessment of the recoverability of debts with their customers is inherently judgemental. There is a risk that the impairment provision and trade receivables are materially misstated.

This is also the first year the group has applied IFRS 9 Financial Instruments. There is a risk that the standard has not been applied appropriately.

OUR RESPONSE

The impairment provision was reviewed through a combination of substantive analytical review and tests of detail. The methodology utilised by management to calculate the provision was reviewed and the cash received after the year end was checked. Management's judgements over the quantum of the impairment provision were then challenged.

Management's assessment of the impact of IFRS 9 was reviewed. The underlying data tested for reliability and key judgements challenged and sensitised.

VALUATION OF INTANGIBLE ASSETS AND INVESTMENTS

(Refer to the accounting policy on page 60 in respect of impairment of assets and note 11 in respect of intangible assets and investments)

THE RISK

The group holds significant intangible assets including domains and brand, software, development costs, customer lists and goodwill. The parent company holds significant investments in its subsidiaries. There is a risk that the amounts held on the balance sheet are no longer reflective of the true value in use of the underlying assets and trade.

OUR APPROACH

Management's impairment review of intangible assets was obtained and reviewed. We challenged the assumptions used by management and sensitised the net present value calculations and compared cash flows to budget information to ensure this was consistent with our understanding of the business and its strategic plans for the intangible assets under scrutiny.

SALE AND LEASEBACK TRANSACTIONS

(Refer to accounting policy on page 59 in respect of tangible fixed assets and sale and leaseback arrangement, note 4 in respect of operating losses and underlying costs, note 10 in respect of tangible fixed assets and note 16 in respect of deferred income.)

THE RISK

The group entered into a sale and leaseback transaction for a new piece of plant and machinery during the year. This transaction incorporated assets which had already been sold and leased back, assets which were not new to the business but had not previously been financed, and new assets. The values involved in this transaction are significant. There is a risk that the transaction is not appropriately reflected in the financial statements.

OUR APPROACH

A detailed step by step analysis of the transaction was obtained from management. The accounting treatment was reviewed against supporting lease and fixed asset documentation. The disclosure of the transaction in the financial statements was reviewed.

REVENUE RECOGNITION

(Refer to pages 56 and 58 regarding the accounting policy in respect of revenue recognition and note 3 in respect of revenue and operating segments).

THE RISK

This is the first annual report in which the group has adopted IFRS 15 Revenue Recognition. There is a risk that management's accounting policies are not appropriate because the performance obligations within the contracts with customers have not been correctly identified and that for each, revenue has not been recognised as those obligations are satisfied. In addition, there is a risk that revenue is not recognised in line with the accounting policies adopted.

OUR RESPONSE

We tested revenue by performing substantive analytical review procedures. In addition, the accuracy of revenue recognised was assessed via the detailed review of specific contracts with customers and invoices issued to customers. In reviewing sales and contracts, we considered the application of the group's accounting policies and requirements of IFRS 15.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements.
During planning materiality for the group financial statements as a whole was calculated as £229,500, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £96,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £1,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Grafenia Plc, Grafenia Operations Limited and Image Everything Limited were subject of full scope audit procedures for group and statutory purposes. The financial information of ADD Signs Limited, AG Signs and Print Limited, Artichoke Designs Limited and Grafenia France S.à.r.l. included in the consolidated financial statements were subject to full scope audit procedures using group materiality. We did not rely on the work of any component auditors. As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration at the component and group level. Procedures were then performed to address the risk identified and for the most significant assessed risks the procedures performed are outlined above in the key audit matters section of this report.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.
If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect amaterial misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

JONATHAN LOWE (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
27 August 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019	Note	2019	2018
Continuing Operations		**£000**	£000
Revenue	3	**15,962**	14,630
Raw materials and consumables used		**(7,417)**	(6,293)
Gross profit		**8,545**	8,337
Staff costs	5	**(6,077)**	(4,577)
Other operating charges	4	**(3,533)**	(2,989)
Share based payments	4	**(47)**	-
Earnings before interest, tax, depreciation and amortisation		**(1,112)**	771
Depreciation and amortisation		**(1,875)**	(1,874)
Operating loss	4	**(2,987)**	(1,103)
Financial income		**7**	1
Financial expenses	6	**(186)**	(138)
Net financing expense		**(179)**	(137)
Loss before tax		**(3,166)**	(1,240)
Tax income	7	**343**	294
Loss for the year		**(2,823)**	(946)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(2,823)**	(946)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted, pence per share	8	**(3.79)p**	(2.07)p

(1) Earnings per share suffers no dilution

The notes on pages 56 to 79 form part of these financial statements.

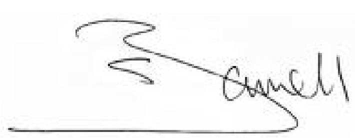
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2019

	Note	**Group 2019 £000**	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Non-current assets					
Property, plant and equipment	10	**4,060**	2,076	**-**	-
Intangible assets	11	**4,371**	4,808	**-**	-
Investments in subsidiaries	12	**-**	-	**3,457**	3,242
Deferred tax assets		**10**	-	**10**	-
Total non-current assets		**8,441**	6,884	**3,467**	3,242
Current assets					
Inventories	13	**455**	450	**-**	-
Trade receivables	14	**2,573**	2,765	**-**	-
Other receivables	14	**154**	48	**5,788**	3,628
Prepayments		**548**	482	**101**	-
Current tax receivable		**281**	111	**2**	-
Cash and cash equivalents	15	**1,354**	171	**965**	-
Total current assets		**5,365**	4,027	**6,856**	3,628
Total assets		**13,806**	10,911	**10,323**	6,870
Current liabilities					
Other interest-bearing loans and borrowings	17	**1,695**	2,009	**211**	600
Deferred consideration	16	**366**	-	**366**	-
Trade payables	16	**1,488**	1,437	**2**	26
Other payables and accruals	16	**1,344**	1,207	**25**	52
Deferred income	16	**256**	280	**-**	-
Total current liabilities		**5,149**	4,933	**604**	678
Non-current liabilities					
Other interest-bearing loans and borrowings	17	**2,180**	1,055	**-**	245
Deferred consideration	16	**229**	358	**229**	358
Deferred income	16	**36**	-	**-**	-
Deferred tax liabilities	9	**576**	580	**-**	-
Total non-current liabilities		**3,021**	1,993	**229**	603
Total liabilities		**8,170**	6,926	**833**	1,281
Net assets		**5,636**	3,985	**9,490**	5,589
Equity attributable to equity holders of the parent					
Share capital	19	**847**	475	**847**	475
Merger reserve		**838**	838	**627**	627
Share premium	20	**4,125**	-	**4,125**	-
Share based payment reserve		**47**	-	**47**	-
Retained earnings		**(221)**	2,672	**3,844**	4,487
Total equity		**5,636**	3,985	**9,490**	5,589

The notes on pages 56 to 79 form part of these financial statements.

These financial statements were approved by the board of directors on 27 August 2019 and were signed on its behalf by:



S G BARRELL

Director

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

GROUP – YEAR ENDED 31 MARCH 2018

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Share Premium £000	Share Based Payment Reserve £100	Retained Earnings £100	Total £000
Balance at 31 March 2017	475	838	(261)	-	-	3,561	4,613
Loss and total comprehensive income for the year	-	-	-	-	-	(946)	(946)
Own shares sold	-	-	261	-	-	(13)	248
Exchange differences	-	-	-	-	-	70	70
Total movement in equity	-	-	261	-	-	(889)	(628)
Balance at 31 March 2018	475	838	-	-	-	2,672	3,985

GROUP – YEAR ENDED 31 MARCH 2019

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Share Premium £000	Share Based Payment Reserve £100	Retained Earnings £100	Total £000
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(2,823)**	**(2,823)**
Shares issued in the period	**372**	**-**	**-**	**4,202**	**-**	**-**	**4,574**
Costs associated with share issue	**-**	**-**	**-**	**(77)**	**-**	**-**	**(77)**
Share option reserve	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Exchange differences	**-**	**-**	**-**	**-**	**-**	**(70)**	**(70)**
Total movement in equity	**372**	**-**	**-**	**4,125**	**47**	**(2,893)**	**1,651**
Balance at 31 March 2019	**847**	**838**	**-**	**4,125**	**47**	**(221)**	**5,636**

COMPANY – YEAR ENDED 31 MARCH 2018

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Share Premium £000	Share Based Payment Reserve £100	Retained Earnings £100	Total £000
Balance 31 March 2017	475	627	(261)	-	-	4,724	5,565
Loss and total comprehensive income for the year	-	-	-	-	-	(224)	(224)
Own shares sold	-	-	261	-	-	(13)	248
Total movement in equity	-	-	261	-	-	(237)	24
Balance at 31 March 2018	475	627	-	-	-	4,487	5,589

COMPANY – YEAR ENDED 31 MARCH 2019

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Share Premium £000	Share Based Payment Reserve £100	Retained Earnings £100	Total £000
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(643)**	**(643)**
Shares issued in the period	**372**	**-**	**-**	**4,202**	**-**	**-**	**4,574**
Costs associated with share issue	**-**	**-**	**-**	**(77)**	**-**	**-**	**(77)**
Share based payments	**-**	**-**	**-**	**-**	**47**	**-**	**47**
Total movement in equity	**372**	**-**	**-**	**4,125**	**47**	**(643)**	**3,901**
Balance at 31 March 2019	**847**	**627**	**-**	**4,125**	**47**	**3,844**	**9,490**

The notes on pages 56 to 79 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 MARCH 2019

	Note	**Group 2019 £000**	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Cash flows from operating activities					
Loss for the year		**(2,823)**	(946)	**(643)**	(224)
Adjustments for:					
Depreciation, amortisation and impairment		**1,876**	1,874	**292**	-
Profit on sale of plant and equipment		**(105)**	-	**-**	-
Release of deferred profit on sale of plant and equipment		**(218)**	(102)	**-**	-
Share based payments		**47**	-	**47**	-
Net finance expense		**179**	137	**18**	36
Foreign exchange loss		**(70)**	-	**-**	(4)
Tax income		**(343)**	(294)	**(10)**	-
Operating cash flow before changes in working capital and provisions		**(1,457)**	669	**(296)**	(192)
Change in trade and other receivables		**(154)**	(882)	**(2,350)**	1,355
Change in inventories		**439**	(81)	**-**	-
Change in trade and other payables		**214**	1,528	**(52)**	10
Cash (utilised by)/generated from Operations		**(958)**	1,234	**(2,698)**	1,173
Interest paid		**(179)**	(138)	**(18)**	-
Income tax received /(paid)		**97**	(3)	**-**	-
Net cash (outflow)/ inflow from operating activities		**(1,040)**	1,093	**(2,716)**	1,173
Cash flows from investing activities					
Proceeds from sale of plant and equipment		**265**	900	**-**	-
Acquisition of plant and equipment		**(480)**	(1,136)	**-**	-
Capitalised development expenditure	11	**(375)**	(424)	**-**	-
Acquisition of other intangible assets	11	**(325)**	(430)	**-**	-
Acquisition of Subsidiary net of cash (group)		**(134)**	(1,000)	**(153)**	(1.420)
Overdraft purchased on acquisition		**-**	(38)	**-**	-
Net cash used in investing activities		**(1,049)**	(2,128)	**(153)**	(1,420)
Cash flows from financing activities					
Funding from invoice finance		**(1)**	1,098	**-**	-
Payment of loan notes		**(634)**	(258)	**(634)**	-
Sale of own shares		**-**	246	**-**	246
Payment of finance leases		**(561)**	(404)	**-**	-
Payment of deferred consideration		**(29)**	-	**(29)**	-
Issue of shares (net of costs)		**4,497**	-	**4,497**	-
Net cash generated from financing activities		**3,272**	682	**3,834**	246
Net increase/(decrease) in cash and cash equivalents		**1,183**	(353)	**965**	(1)
Cash and cash equivalents at start of year		**171**	524	**-**	1
Cash and cash equivalents at 31 March 2019	15	**1,354**	171	**965**	-

The notes on pages 56 to 79 form part of these financial statements.

NOTES TO THE THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

GENERAL INFORMATION

Grafenia plc (the "Company") is a public limited company incorporated and domiciled in the UK. The company's registered office is Third Avenue, The Village, Trafford Park, Manchester M17 1FG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and are presented in sterling. The parent company financial statements present information about the Company as a separate entity and not about its Group.

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new standards, interpretations and amendments have not had a material effect on the financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue Recognition

IFRS 9 FINANCIAL INSTRUMENTS

The Group has adopted the new IFRS 9 standard on 1 April 2018. The adoption of IFRS 9 has had no impact on the financial statements and the prior year has not been restated. The standard looks at how an entity should classify and measure financial assets, financial liabilities, and contracts to buy or sell non-financial items.

The Group has reviewed its classification and measurement of financial assets and liabilities as from the implementation of IFRS 9 and considered the effects of transitioning to the new standard. The classification of financial assets and liabilities has changed however, they are still carried at amortised cost and there has been no impact on the result for the current or prior year.

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model, The Group continues to trade with the similar customers in the same market sectors and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

Intercompany debtors represent financial assets and are also considered for impairment on an expected credit loss model, the implementation of IFRS 9 on intercompany debtors has resulted in an impairment provision in the current year, but no impairment in the prior year.

IFRS 15 REVENUE RECOGNITION

The Group has adopted the new revenue recognition standard, IFRS 15, from 1 April 2018. The standard looks at the timing of revenue recognition on contracts with customers. The new standard has had no impact on the Group result in 2019 as the revenue was previously recognised when the risk and rewards of the product or service were transferred to the customer. Assessing the performance obligations of customer contracts for the sale of products and services the Group has assessed that control passes to the customers at the same time the risk and rewards transfer under IAS 18, and thus there is no change in the revenue recognition for the Group. The Group considered this for all outstanding obligations in respect of the transition to IFRS 15 at 31 March 2019 and found that there was no transition impact of the adoption of the standard.

The amendments and interpretations to published standards that have an effective date on or after 1 January 2019 or later periods have not been adopted early by the Group.

IFRS 16 LEASES

IFRS 16 will become effective for accounting periods commencing on 1 January 2019. The Group has undertaken an evaluation of the potential impact of IFRS 16 in respect of leases. IFRS 16 requires the Group to account for the lease liability of the asset and the right of use asset at cost. This will mainly affect the treatment of operating leases which were previously recorded as an annual cost to the Group. The Group has determined to use the cumulative catch up approach for the valuation of leases, rather than the full transition method due to the current leases held.

1. ACCOUNTING POLICIES (CONTINUED)

The Group currently leases land and building and motor vehicles that has been historically recorded as operating leases. These leases have been assessed under IFRS 16 and there will be a material effect on the financial statements as follows:

	As per financial statements At 31 March 2109 £000	Adjusted for IFRS 16 At 31 March 2109 £000
EBITDA	(1,112)	(590)
Loss before tax	(3,166)	(3,228)
Property Plant and equipment	4,060	6,732
Net Debt	(3,116)	(5,753)

BASIS OF PREPARATION

The Group financial statements comprise the financial statements of the Company and all of its subsidiaries made up to the financial year end. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements are prepared under the historic cost convention.

The principal accounting policies adopted in the preparation of the financial information are set out below. The policies have been consistently applied to all the periods presented except for the adoption of IFRS 15 and 9 as discussed above.

The financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRSs") issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

Intercompany balances and transactions have been eliminated. Profits from intercompany sales, to the extent that they are not yet realised outside the Group, have also been eliminated.

GOING CONCERN

Information regarding the Group's business activities together with the factors likely to affect its future development, performance and position is set out in the Chairman's and Chief Executive's Statement on pages 3 to 25. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 27 to 31. In addition, note 21 to the financial statements includes details of the Group's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

After the year end and in light of the Group's signs rollup strategy the Board decided to seek Shareholder support and raised £4.01m through a placing in August. Consequently, the Group now has the focus and financial resources to grow. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries and reviewing forecasts, including a consideration of reasonable sensitivities, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Cash flow forecasts indicate cash inflows to ensure that sufficient cash is available for future trading and investment. The Group's external funding is made up of finance leases and invoice financing through it's bank. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

BUSINESS COMBINATIONS

For acquisitions the Group measures goodwill at the acquisition date as the:

- fair value of the consideration transferred; plus
- recognised amount of any non-controlling interests in the acquiree; plus
- fair value of the existing equity interest in the acquiree; less
- net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

1. ACCOUNTING POLICIES (CONTINUED)

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

INVESTMENTS

Investments in subsidiaries are stated at cost less provision for any permanent diminution in value. Where in the opinion of the Directors an impairment of the investment has arisen, the value of the investment will be written down to the recoverable amount in accordance with IAS 36 'Impairment of Assets'.

REVENUE

IFRS 15 in respect of the recognition of Revenue from Contracts with customers required the Group to recognise revenue with respect to various components of the contractual arrangements with the customer. The Group contracts with its customers on two main bases:

- Production of product. The revenue is recognised when the product is delivered and where required, installed.
- Licence fees, including franchise fees, for SaaS products are recognised as supplied or milestones met. Any initial fees are spread over the period of the agreement.

No adjustment is made to the revenue recognised in respect of any financing component of the contract.

SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the board of directors.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and is valued at purchased cost. Net realisable value is based on estimated selling price less additional costs to completion and necessary costs to make the sale.

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

The Group classifies all its financial assets into the amortised cost category. The Group's accounting policy for each category is as follows:

- Trade and loan receivables: Trade receivables are initially recognised by the Group and carried at original invoice amount less an allowance for any uncollectible or impaired amounts. An impairment provision is calculated by considering the trade receivables and expected credit losses. The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers.
- An estimate for doubtful debts is also made when collection of the full amount is no longer probable. Debts are written off when they are identified as being uncollectible. Trade receivables and other receivables are recognised at fair value.
- Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the intercompany loans; Impairment of loan receivables is calculation utilising the lifetime expected credit losses of these loans and the changes in the credit risk of the counterparty.
- Cash and cash equivalents in the statement of financial position comprise cash at bank and cash in hand.

FINANCIAL LIABILITIES

The Group treats its financial liabilities in accordance with the following accounting policies:

- Trade payables and other short-term monetary liabilities are recognised at fair value and subsequently at amortised cost.
- Invoice discounting and loans are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. "Interest expense" in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

1. ACCOUNTING POLICIES (CONTINUED)

SHARE CAPITAL

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability.

The Company's ordinary shares are classified as equity instruments.

BORROWING COSTS

Borrowing costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

CURRENT TAXATION

The current tax is based upon the taxable profit for the period together with adjustments, where necessary, in respect of prior periods. The Group's asset or liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the financial period end date.

Current tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

DEFERRED TAXATION

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Fixtures and fittings	- 20% - 33% straight line
Plant and equipment	- 7% - 30% straight line
Motor Vehicles	- 25% straight line
Leasehold improvements	- over remaining lease life

Where assets have been depreciated down to their estimated residual value they are no longer depreciated, a number of assets were subject to this in the year.

The Company has no Premises, Plant or Equipment.

SALE AND LEASEBACK

The Group has sold and leased back various assets. Where these assets are still held and the leases have not yet been fully repaid, any profit or loss on the sale and leaseback of these assets are released over the period of the lease, the amount not released held as deferred income.

Where the leased assets have been disposed of the full profit or loss on the sale is realised to the profit and loss account.

1. ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

RESEARCH AND DEVELOPMENT COSTS

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over three years. Impairment risk is reviewed by the Board.

Amortisation on patents, trademarks and development costs is charged to profit and loss on a straight-line basis over the useful economic life of the asset.

Patents and trademarks	- 20 years
Domain names	- 5% straight line
Capitalised development costs	- 3 years
Customer Lists	- 5 to 10 years

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

SOFTWARE

External expenditure on computer systems and software is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the useful economic life of the asset set at three years.

CUSTOMER LISTS

Customer lists arise on purchased on the buy-back of Studios and on the acquisition of subsidiary companies. Customer lists are being amortised over three to five years and are individually tested bi-annually for indications of impairment.

GOODWILL

Goodwill may arise on acquisitions, where this occurs the valuation will be supported by a fair value assessment of the revenues expected to flow from customer relationships allowing for an appropriate level of attrition.

IMPAIRMENT OF NON FINANCIAL ASSETS

The carrying amounts of the Group's non financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

1. ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss as an integral part of the total lease expense over the term of the lease. In future these will be treated under IFRS16 see above.

FINANCE LEASE PAYMENTS

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Where a gain has been made on a sale and leaseback contract the benefit is released to the profit and loss pro-rata to the interest charged.

FINANCING COSTS

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit and loss on the date the entity's right to receive payments is established.

SHARE BASED PAYMENTS

The Group operates an equity-settled share-based compensation plan through a SAYE scheme, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the instruments granted. At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. At each Balance Sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the Balance Sheet date. Translation differences on monetary items are taken to profit and loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

The financial statements of overseas subsidiaries are translated into sterling at the exchange rate ruling at the Balance Sheet date; income and expenses are translated at exchange rates at the date of transaction. The resulting surpluses and deficits are taken directly to profit and loss.

On disposal of a foreign subsidiary any cumulative exchange differences held in shareholders' equity are transferred to the Consolidated Statement of Comprehensive Income.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

1. ACCOUNTING POLICIES (CONTINUED)

INTANGIBLES – CAPITALISATION AND VALUATION OF SOFTWARE AND DEVELOPMENT COSTS AND ACQUIRED INTANGIBLES

The Board consider that the Group's key differentiators stem from its proprietary software, operationally W3P, developed to support Brand Partners Nettl and printing.com, Marqetspace and Online initiatives. It is essential to continue investing in these assets. Projects are agreed with user forums to improve functionality for Partners. Separate projects are defined for international expansion and for new initiatives as they are identified. Development costs are capitalised where a project has been defined, tested and expected to realise future economic benefits. Programming is carried out by third parties working to a detailed specification and schedule. The Board exercises judgement in determining the costs to be capitalised and determine the useful economic life to be applied typically 3 years or whilst the asset in question remains in use. Acquired intangibles have been identified as the customer base and brand, the valuation is based upon future discounted cash flows and expectations for the business. Further, the Board will use estimates of future incremental cash flows to periodically assess the carrying value of intangible assets.

IMPAIRMENT OF INTANGIBLE ASSETS AND INVESTMENT IN SUBSIDIARIES.

In assessing impairment, Management estimates the recoverable amount of cash generating units based on expected future cash flows and uses the weighted average cost of capital to discount them. At the end of each reporting period the Management reviews a four year forward looking financial projection including a terminal value for the Group. The Management has further evaluated the terminal growth expectations and the applied discount rate applicable to derive a Net Present Valuation (NPV) of the Group. If the NPV of the Group shows a lower valuation than the net assets or the company cost of investment in subsidiary an impairment will be made. Based on this evaluation including management estimates and assumption no impairment was made during the reporting period. Estimation uncertainty relates to assumptions about future operating results in particular sales volumes and the determination of a suitable discount rate.

ESTIMATION OF THE EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES

In assessing the expected credit losses, in respect of the trade receivables under IFRS9, the Group considers the past performance of the receivable book along with future factors, that may affect the credit worthiness of the entire trade receivables. Estimations have therefore been made within these assumptions which could affect the carrying value of the trade receivables.

2. ACQUISITIONS OF SUBSIDIARIES

ACQUISITIONS IN THE CURRENT PERIOD

On 30 September 2018, the company acquired all of the ordinary shares of AG Signs and Print Limited for an initial consideration of £0.102m, satisfied in cash and £0.45m in vendor loan notes repayable over 12 months. The company is a leading signage business. On 1 October 2019, the company was hived up into Grafenia Operations Limited as part of the new Exeter superstore.

In the six months of ownership, the subsidiary contributed sales of £0.39m. If the acquisition had occurred on 1 April 2018, Group revenue would have increased by £0.51m and generated an estimated net profit of £0.05m.

On 25 March 2019, the Group acquired all of the ordinary shares of Artichoke Design Limited Print for a consideration of £0.053m, satisfied in cash and £0.027m vendor loan notes repayable over 12 months. The company is a leading design business and was hived up into Grafenia Operations Limited on the date of acquisition and now operates as part of our existing Birmingham business store.

The period of less than one week is immaterial to the period, however we expect the full year sales to contribute circa £0.1m sales and an estimated net profit of £0.02m in future years.

On 1 September 2019, Grafenia Operations Limited acquired the client list of H&H Print Service Limited trading as Nettl of Liverpool in exchange for the debt owed to the business of £0.043m.

These acquisitions further complement our strategy of rolling up signage businesses alongside our existing print businesses.
In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of accounting period.

2. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

EFFECT OF ACQUISITIONS

The acquisitions had the following effect on the Group's assets and liabilities.

	Book and Fair values on acquisition £000	Intangibles acquired £000	Total assets and liabilities £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	**47**	**-**	**47**
Intangible assets	**-**	**196**	**196**
Inventories	**22**	**-**	**22**
Trade and other receivables	**76**	**-**	**76**
Cash and cash equivalents	**20**	**-**	**20**
Interest-bearing loans and borrowings	**(23)**	**-**	**(23)**
Trade and other payables	**(99)**	**-**	**(99)**
Deferred Tax	**-**	**(29)**	**(29)**
Net identifiable assets and liabilities	**43**	**167**	**210**
Goodwill			**60**
Consideration paid:			
Initial cash price paid			**155**
Non cash consideration			**43**
Deferred consideration at fair value			**72**
Total consideration			**270**

Intangibles acquired include the Customer Base and Brand Recognition arising on the acquisition and recognising the value placed upon acquired customer revenues, those Intangibles result in a Deferred Tax charge.

3. REVENUE AND SEGMENTAL INFORMATION

The Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service includes Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. This disclosure correlates with the information which is presented to the Board, which 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.

ANALYSIS BY LOCATION OF SALES	UK & Ireland £000	Europe £000	Other £000	Total £000
Year ended 31 March 2019				
Segment revenues	**15,163**	**447**	**352**	**15,962**
Year ended 31 March 2018				
Segment revenues	13,791	489	350	14,630

Revenue generated outside the UK is attributable to partners in France, New Zealand, Australia, Poland and the USA.

No single customer provided the Group with over 6% of its revenue.

3. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

DISAGGREGATION OF REVENUE

The disaggregation of revenue from contracts with customers is as follows:

	Licence Fees £000	**Company Studios £000**	**Brand Partner Print £000**	**Signs £000**	**Online & Trade £000**	**Total £000**
Year ended 31 March 2019	**1,975**	**2,629**	**3,577**	**4,910**	**2,871**	**15,962**
Year ended 31 March 2018	1,773	1,594	3,870	4,000	3,393	14,630

Of the Group's non-current assets (excluding deferred tax) of £8,276,000, £8,242,000 are located in the UK. Non-current assets located outside the UK are in France £7,000 *(2018: £8,000)* and the Republic of Ireland £33,000 *(2018: £40,000).*

4. LOSS BEFORE TAXATION

Included in profit are the following:

	2019 £000	2018 £000
Operating lease rentals	**613**	463
Amortisation of intangible assets	**1,393**	1,486
Depreciation	**482**	388
Profit on sale of plant and equipment	**105**	-
Profit on sale and leaseback recognised in the year	**218**	102
Restructuring costs	**(75)**	(20)

Auditors' remuneration:

	2019 £000	2018 £000
Audit of these financial statements	**39**	24
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**34**	26
Tax compliance services	**8**	11
Other tax advisory services	**4**	12
Review of interim financial statements	**6**	6
Other assurance services	**2**	2

The 2019 Auditors' remuneration for statutory audit services are to be paid to RSM UK Audit LLP and non-audit services relate solely to amounts paid to RSM UK Tax and Accounting Limited, in the prior year RSM UK were also auditors to Grafenia plc.

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year analysed by category, were as follows:

Number of employees	**Group 2019**	Group 2018	**Company 2019**	Company 2018
Administration	**35**	33	**2**	2
Sales and distribution	**67**	56	**-**	-
Production	**86**	76	**-**	-
	188	165	**2**	2

Defined contribution plan

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The amounts charged to the Consolidated Statement of Comprehensive Income represent the contributions payable to the scheme in respect of the accounting period. In the year ended 31 March 2019 £111,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2018: £79,000)*. As at 31 March 2019 £26,000 *(2018: £5,000)* contributions were outstanding on the balance sheet.

The aggregate payroll costs of all employees, including Directors, were as follows:

	Group 2019 £000	Group 2018 £000	**Company 2017 £000**	Company 2018 £000
Wages and salaries	**5,395**	3,992	**30**	35
Social security costs	**571**	506	**1**	1
Other pension costs	**111**	79	**-**	-
	6,077	4,577	**31**	36

KEY MANAGEMENT COMPENSATION:

	2019 £000	2018 £000
Key managements' emoluments	**491**	308
Company contributions to money purchase pension plans	**21**	26
	512	334

The Group considers the key management to be the Executive Directors of the Group. Information covering Directors' remuneration is set out in full in the 'Elements of remuneration' section of the Directors Remuneration Report on page 45 where details of fees and benefits can be found.

The aggregate of emoluments for the highest paid Director was £171,000 *(2018: £170,000*), and Company pension contributions of £16,000 *(2018: £16,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes 4 *(2018: 2)*.

6. FINANCE INCOME AND EXPENSE

Finance expense	**2019 £000**	2018 £000
Lease interest	**139**	88
Invoice finance	**24**	17
Loan note interest	**23**	32
Interest payable	**186**	137

7. TAXATION

Recognised in the income statement	**2019 £000**	2018 £000
Current tax expense		
Current year	**(201)**	-
Foreign tax	**6**	8
Adjustments for prior years	**(86)**	(40)
	(281)	(32)
Deferred tax expense		
Origination and reversal of temporary differences (see note 8)	**(213)**	(264)
Adjustment in respect of prior year	**151**	2
Total tax in income statement	**(343)**	(294)

7. TAXATION (CONTINUED)

RECONCILIATION OF EFFECTIVE TAX RATE

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2018: lower)* than the standard rate of corporation tax in the UK of 18% *(2018: 20%)*. The differences are explained below:

	2019 £000	2018 £000
Loss for the period	**(3,166)**	(1,240)
Tax using the UK corporation tax rate of 18% *(2018:20%)*	**(570)**	(247)
Effects of:		
Permanent differences	**-**	75
Other tax adjustments, reliefs and transfers	**3**	(6)
Adjustments in respect of prior periods – current tax	**(87)**	(40)
Adjustments in respect of prior periods – deferred tax	**151**	2
Deferred tax not recognised	**174**	-
Withholding tax	**7**	8
Research and Development losses surrendered	**54**	-
Research and Development super deduction	**(128)**	(117)
Movement due to the change in the tax rate	**53**	31
Total tax credit	**(343)**	(294)

The Group tax debtor amounts to £253,000 *(2018 Debtor: £111,000)*. The deferred tax liabilities as at 31 March 2018 have been calculated using the tax rate of 17% 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 18% from 1 April 2020.

8. EARNINGS PER SHARE

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

	2019 £000	2018 £000
Loss after taxation for the financial year from continuing operations	**(2,823)**	(946)
	Number of Shares	Number of Shares
For basic earnings per ordinary share	**74,504,359**	45,638,192
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**74,504,359**	45,638,192
Basic loss and diluted, pence per share	**(3.79)p**	(2.07)p

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.

9. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

Recognised deferred tax assets and liabilities

	Assets 2019 £000	Assets 2018 £000	**Liabilities 2019 £000**	Liabilities 2018 £000
Property, plant and equipment	-	-	**519**	49
Intangible assets	**10**	-	**-**	531
Tax liabilities	**10**	-	**519**	580

Movement in deferred tax during the year.	**1 April 2018 £000**	**Adjustment for prior years £000**	**Recognised in income £000**	**Recognised in income due to tax rate change £000**	**31 March 2019 £000**
Property, plant and equipment	**49**	**133**	**(182)**	**-**	**-**
Intangible assets	**531**	**18**	**(30)**	**-**	**519**
	580	**151**	**(212)**	**-**	**519**

Movement in deferred tax during the year.	1 April 2017 £000	Adjustment for prior years £000	Recognised in income £000	Recognised in income due to tax rate change £000	31 March 2018 £000
Property, plant and equipment	313	-	(264)	-	49
Intangible assets	3	530	(2)	-	531
	316	530	(266)	-	580

Company

The Company had £10,000 of deferred tax assets as at 31 March 2019 *(2018: £nil).*

10. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Land and buildings £000	Plant and equipment £000	Assets held for resale £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost						
Balance at 31 March 2017	576	6,801	-	86	853	8,316
Additions	-	27	-	-	209	236
Acquisition of subsidiary	-	282	-	2	40	324
Revaluation of sale and leaseback assets in the year	-	(3,412)	-	-	-	(3,412)
Balance at 31 March 2018	576	3,698	-	88	1,102	5,464
Balance at 31 March 2018	576	3,698	-	88	1,102	5,464
Additions	-	2,261	-	-	206	2,467
Acquisition of subsidiary	-	54	-	24	16	94
Revaluation of sale and leaseback assets in the year	-	(150)	-	-	-	(150)
Disposals	-	(230)	-	(29)	-	(259)
Transfer asset to held for resale	-	(250)	250	-	-	-
Revaluation of assets held for resale	-	-	15	-	-	15
Balance at 31 March 2019	**576**	**5,383**	**265**	**83**	**1,324**	**7,631**
Depreciation and impairment						
Balance at 31 March 2017	573	5,860	-	65	485	6,983
Depreciation charge for the year	1	206	-	10	171	388
Acquisition of subsidiary	-	-	-	-	-	-
Revaluation of sale and leaseback assets in the year	-	(3,983)	-	-	-	(3,983)
Balance at 31 March 2018	574	2,083	-	75	656	3,388
Balance 31 March 2018	574	2,083	-	75	656	3,388
Depreciation charge for the year	2	327	-	12	142	483
Acquisition of subsidiary	-	29	-	6	12	47
Revaluation of sale and leaseback assets in the year	-	(163)	-	-	-	(163)
Disposals	-	(75)	-	(24)	-	(99)
Transfer asset to held for resale	-	(85)	85	-	-	-
Revaluation of assets held for resale	-	-	(85)	-	-	(85)
Balance at 31 March 2019	**576**	**2,116**	**-**	**69**	**810**	**3,571**
Net book value						
At 31 March 2017	3	941	-	21	368	1,333
At 31 March 2018	2	1,615	-	13	446	2,076
At 31 March 2019	**-**	**3,267**	**265**	**14**	**514**	**4,060**

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2019, the Group had leased assets with a carrying value of £2,589,000 *(2018: £1,272,000).*

11. INTANGIBLE ASSETS AND INVESTMENTS

Research and development costs

Group	**Domains & brand £000**	**Software £000**	**Development costs £000**	**Customer Lists £000**	**Goodwill £000**	**Other £000**	**Total £000**
Cost							
Balance at 31 March 2017	356	3,340	2,890	279	62	154	7,081
Additions – internally developed	-	-	424	-	-	-	424
Additions – purchased	-	307	-	120	-	3	430
Acquisitions of subsidiary	549	-	-	2,570	16	-	3,135
Balance at 31 March 2018	905	3,647	3,314	2,969	78	157	11,070
Balance at 31 March 2018	905	3,647	3,314	2,969	78	157	11,070
Additions	-	-	-	-	3	-	3
Additions – internally developed	-	-	372	-	-	-	372
Additions – purchased	7	318	-	43	-	-	368
Acquisition of subsidiary	-	-	-	153	60	-	213
Balance at 31 March 2019	**912**	**3,965**	**3,686**	**3,165**	**141**	**157**	**12,026**
Amortisation and impairment							
Balance at 31 March 2017	289	2,517	1,607	268	12	83	4,776
Amortisation for the year	32	580	676	179	-	19	1,486
Balance at 31 March 2018	321	3,097	2,283	447	12	102	6,262
Balance at 31 March 2018	321	3,097	2,283	447	12	102	6,262
Amortisation for the year	45	396	589	357	-	6	1,393
Balance at 31 March 2019	**366**	**3,493**	**2,872**	**804**	**12**	**108**	**7,655**
Net book value							
At 31 March 2017	67	823	1,283	11	50	71	2,305
At 31 March 2018	584	550	1,031	2,522	66	55	4,808
At 31 March 2019	**546**	**472**	**814**	**2,361**	**129**	**49**	**4,371**

11. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

IMPAIRMENT TESTING

Goodwill

The recoverable amount of goodwill is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and two-year business plans. For the purposes of impairment testing inflationary growth of 3% is assumed beyond this period. The sales growth relates to all key revenue streams of the business.

Rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites.

A pre-tax discount factor of 12.5% *(2018: 12.5%)* was applied.

If the growth rate were not achieved and was reduced 1% and the discount factor was increased to 15% there would be no impairment in the carrying value.

Amortisation and impairment charge

The amortisation charge of £1,393,000 *(2018: £1,486,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2018: £nil)* was recognised during the year.

12. Investments – Company	**Shares in Subsidiary undertakings £000**	**Total £000**
Cost		
Balance at 31 March 2017	637	637
Balance at 31 March 2018	3,242	3,242
Acquisitions in the year	215	215
Balance at 31 March 2019	**3,457**	**3,457**

The Company owns the whole of the issued ordinary share capital of the following undertakings:

UK incorporated Subsidiary undertakings – wholly owned	**Nature of business/status**
Grafenia Operations Limited*	Printing – trading
Image Everything Limited*	Sign Design, Manufacture and Installation – trading
ADD Signs Limited*	Sign Design, Manufacture and Installation – trading
Printing.com (UK Franchise) Limited*	Partner contracts – dormant
Printing.com Franchise Limited*	Partner contracts – dormant
Nettl UK Limited*	Partner contracts – dormant
Grafenia Systems Limited*	Licence agreements – dormant
Grafenia Technology Limited*	Licence agreements – dormant
Creative Enterprise Support Limited*	Enterprise Support – dormant
TemplateCloud Limited*	Template Provision – dormant
W3P Limited*	Software – dormant
W3P Platforms Limited*	Licence agreements – dormant
Artichoke Designs Limited*	Printing and design – trading
AG Signs and Print Limited*	Sign Design, Manufacture and Installation – trading
Nettl of America LLP^	Franchising – trading
Grafenia France S.à.r.l.	Partner contracts – trading

*** - Owned directly by Grafenia PLC**

^ - Owned by indirectly through ownership of the company's 100% subsidiary Grafenia Operations Limited

Registered address for all UK businesses is Focal Point, Third Avenue, Trafford Park, Manchester M17 1FG

13. INVENTORY

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Raw Materials	**452**	429	**-**	-
Work in progress	**3**	21	**-**	-
	455	450	**-**	-

14. TRADE AND OTHER RECEIVABLES

Other receivables due from subsidiary companies do not have fixed repayment terms.

At 31 March 2019 trade receivables are shown net of an impairment allowance of £412,000 *(2018: £339,000).*

An analysis of impairment losses recognised in the year is given in note 16.

Trade and other receivables denominated in currencies other than sterling comprise £149,000 *(2018: £133,000)* of trade receivables.

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £00
Trade receivables	**2,985**	3,104	**-**	-
Less provision for trade receivables	**(412)**	(339)	**-**	-
Trade receivables net	**2,573**	2,765	**-**	-
Other receivables due from subsidiary companies		-	**6,078**	3,615
Less provision for subsidiary companies	**-**	-	**(292)**	-
Total financial assets other than cash and cash equivalents classified at amortised cost	**2,573**	2,765	**5,786**	3,615
Corporation tax	**281**	111	**2**	-
Other taxes	**154**	-	**-**	-
Other receivables	**-**	48	**2**	13
Total Other receivables	**435**	159	**4**	13
Total trade and other receivables	**3,008**	2,924	**5,790**	3,628

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying value of trade and other receivables classified at amortised cost approximates fair value

	Under 6 months £000	Over 6 months £000	Total £000
Gross carrying amount	2,242	743	2,985
Loss provision	(112)	(300)	(412)
Net carrying amount	**2,130**	**443**	**2,573**

Trade and other receivables represent financial assets and are considered for impairment on an expected credit loss model. The Group continues to trade with the same customers and in the same market place and therefore the future expected credit losses have been considered in line with the past performance of the customers in the recovery of their receivables. The implementation of IFRS 9 has therefore not resulted in a change to the impairment provision in the current or prior year.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on factors affecting the Group's customers including the area of operations of those debtors and the market for the Group's products. The assessment of the expected credit risk for the year has not increased, when looking at the factors affecting the risk noted above.

Movements in the impairment allowance for trade receivables are as follows:

Impairment

Group	**As at 31 March 2019 £000**	As at 31 March 2018 £000
Balance at 31 March 2018 under IAS 39	**339**	414
Restated through opening reserves	**-**	-
Receivable written off during the year as uncollectible	**(136)**	(107)
Increase in impairment allowance	**209**	32
Balance at 31 March 2019	**412**	339

Of the total impairment provision £110,000 *(2018: £136,000)* relates to Partners that have ceased trading.

There is no material difference between the net book value and the fair values of trade and other receivables due to their short-term nature.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

Of the net trade receivables £1,075,000 *(2018: £1,076,000)* was pledged as security for the invoice discounting facility. The Group is committed to underwrite any of the debts transferred and therefore continues to recognise the debts sold within trade receivables until the debtors repay or default. Since the trade receivables continue to be recognised, the business model of the Group is not affected. The proceeds from transferring the debts of are included in other financial liabilities until the debts are collected or the Group makes good any losses incurred by the service provider.

Company

The Company did not have trade receivables at the year end. The intercompany receivables have been considered for impairment on an expected credit loss model and this has resulted in a provision of £292,000 in the year *(2018: £nil)*.

15. CASH AND CASH EQUIVALENTS

	Group 2019 £000	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Cash and cash equivalents	**1,354**	171	**965**	-

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash in transit and other short term highly liquid investments. All cash is held in Sterling other than Euro of £52,000 *(2018: £78,000)*.

16. TRADE AND OTHER PAYABLES

Current Liabilities	**Group 2019 £000**	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Trade payables	**1,488**	1,437	**2**	26
Accruals	**925**	703	**24**	52
Other liabilities	**419**	504	**-**	-
Total financial liabilities, excluding 'non-current' loans and borrowings classified as financial liabilities measured at amortised cost	**2,832**	2,644	**26**	78
Deferred income	**256**	280	**-**	-
Total trade and other payables	**3,088**	2,924	**26**	78

Non-current Liabilities	**Group 2019 £000**	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Deferred income	**36**	-	**-**	-
Total non-current liabilities	**36**	-	**-**	-

Other trade payables denominated in currencies other than Sterling comprise £42,000 *(2018: £67,000)* denominated in Euro.

The invoice discounting arrangement is secured upon the trade debtors to which the arrangement relates see note 14.

There is no material difference between the net book value and the fair values of current trade and other payables due to their short-term nature.

17. BORROWINGS

For more information on the Group and Company's exposure to interest rate, foreign currency risk and finance leases, see note 16.

Current Liabilities	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Invoice Financing	**1,075**	1,076	**-**	-
Finance Lease	**409**	333	**-**	-
Vendor Loan Notes	**211**	600	**211**	600
	1,695	2,009	**211**	600
Deferred consideration	**366**	-	**366**	-

Non-Current Liabilities				
Finance Lease	**2,180**	810	**-**	-
Vendor Loan Notes	**-**	245	**-**	245
	2,180	1,055	**-**	245
Deferred consideration	**229**	358	**229**	358

18. EMPLOYEE BENEFITS

Share-based Save as You Earn (SAYE) Scheme

The Company launched a SAYE Scheme commencing 1 March 2017. The Scheme offered all employees the opportunity to participate in the future growth of the Company through the granting of share options.

The scheme requires employees to commit to making a monthly payment of between £5 and £500 for 36 months. These instalments are paid into a savings account, operated by Royal Bank of Scotland plc, held independently from the Company.

Employees were invited to subscribe for options over ordinary shares of 1 penny each in the Company ("Ordinary Shares") with an exercise price of 7.75 pence per share, representing the closing mid-market price of the Ordinary Shares on the day prior to the invitation to participate. The options are exercisable when all 36 payments have been made, between 1 March 2020 and 31 August 2020.

A total of 49 employees elected to participate in the SAYE Scheme and were granted options over 4,359,460 Ordinary Shares on 23 February 2017, equating to 9.6 per cent of the current total voting rights in the Company. Two employees left during the year so the option total is now for 47 employees over 4,266,558 Ordinary Shares.

A second round of invitations to participate were made on 20 July 2018 for options with a savings contract start date of 1 September 2018 and an exercise price of 11.5 pence per share, representing the closing mid-market price of the Ordinary Shares on the day prior to the invitation to participate. The options are exercisable when all 36 payments have been made, between 1 September 2021 and 28 February 2022.

A total of 52 employees elected to participate in the second SAYE Scheme offer and were granted options over of 1,505,719 Ordinary Shares on 14 August 2018, equating to 1.96 per cent of the then current total voting rights in the Company.

In the financial year to 31 March 2019, 7 employees with options granted in the first SAYE Scheme offer left the Scheme and 7 employees with options granted in the second SAYE Scheme offer left the Scheme.

At the year end 40 employees with options granted in the first SAYE Scheme offer held options over 3,769,548 Ordinary Shares and 45 employees with options granted in the second SAYE Scheme offer held options over 1,319,478.

The total number of shares now under option is 5,089,026 equating to 6.01% per cent of the current total voting rights in the Company.

19. SHARE CAPITAL

SHARE CAPITAL – GROUP AND COMPANY

	Ordinary shares	Ordinary shares
In thousands of shares	**2019**	2018
In issue at 31 March 2018	**47,558**	47,558
Issued by the Company	**37,127**	-
Shares on the market at 31 March 2019 – fully paid	**84,685**	47,558

	£000	£000
Allotted, called up and fully paid	**£000**	£000
84,684,683 *(2018: 47,557,835)* ordinary shares of £0.01 each	**847**	475
63 deferred shares of £0.10 each	**-**	-
	847	475

On 24 July 2019, the Group announced that it had conditionally raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019.

Dividends

During the year and prior year no dividends were proposed or paid. After the balance sheet date, the Board proposed no final dividend would be made *(2018: £nil)*.

20. SHARE PREMIUM

	Group and company	
	2019 £000	2018 £000
At 31 March 2018	**-**	-
Premium on shares issued by the Company in the year	**4,202**	-
Share issue costs	**(77)**	-
At 31 March 2019	**4,125**	**-**

21. FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found on page 8. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and finance leases.

The Group's policy during the financial year ended 31 March 2019 and 31 March 2018 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of significant fixed assets through finance leases.

CREDIT RISK

Group

The Group's credit risk is primarily attributable to trade and other receivables both current and non-current. Trade receivables are included in the balance sheet net of doubtful receivables, estimated by the Group's management. The maximum credit risk in respect of the Group's and Company's financial assets at the yearend is represented by the balance outstanding on trade receivables and other receivables due from Partners as shown below.

During the year the Group has continued to use the Pay As You Go (PAYG) model to manage debtors and mitigate the credit risk through structured payments. This model ensures that in most instances total debts do not increase while continuing to serve the customer base. Repayment plans have been entered into separately for certain PAYG debtors and make up £478,000 *(2018: £509,000)* of total gross debtors. The Group retains the right to charge interest on overdue balances and re-call debts ahead of the payment plans agreed.

Interest rate risk

The Group and the Company do not have a material exposure to interest rates as most borrowings are at fixed interest rates.

Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting agreements:

31 March 2019

	Carrying amount £000	**Contractual cash flows £000**	**6 months or less £000**	**6-12 months £000**	**1-2 years £000**	**2-5 years £000**	**More than 5 years £000**
Trade and other payables	**3,088**	**3,088**	**3,088**	**-**	**-**	**-**	**-**
Finance lease liability	**2,589**	**3,304**	**288**	**306**	**558**	**1,456**	**696**
Loan Notes and deferred consideration	**807**	**807**	**246**	**333**	**228**	**-**	**-**
Invoice financing	**1,075**	**1,075**	**1,075**	**-**	**-**	**-**	**-**
	7,559	**8,274**	**4,697**	**639**	**786**	**1,456**	**696**

31 March 2018

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Trade and other payables	2,924	2,924	2,924	-	-	-	-
Finance lease liability	1,272	1,272	106	105	374	728	-
Loan Notes and deferred consideration	1,203	1,203	300	300	452	-	-
Invoice financing	1,076	1,076	1,076	-	-	-	-
	6,475	6,475	4,406	405	826	728	-

All trade receivables are contractually due within 6 months.

21. FINANCIAL INSTRUMENTS (CONTINUED)

FOREIGN CURRENCY RISK

Group

The Group transacts some business in foreign currency, principally Euro, and therefore incurs some transaction risk. The risk does not warrant hedging activity by the Group to defend against the impact of exchange rate movements

The Group's exposure to foreign currency risk denominated in GBP was as follows: -

	31 March 2019 Euro £000	**31 March 2019 GBP £000**	31 March 2018 Euro £000	31 March 2018 GBP £000
Trade receivables	**189**	**3,289**	178	3,408
Cash and cash equivalents	**52**	**1,320**	78	(1,005)
Trade payables	**42**	**(1,043)**	67	(1,504)
	283	**3,566**	322	899

SENSITIVITY ANALYSIS

Where the Group operate in Europe both revenues and costs are in the local currency therefore the level of exchange risk is low. In the Eurozone the Group have a presence in France, Ireland and The Netherlands. In managing currency risks the Company and Group aims to reduce the impact of short-term fluctuations on the Company and Group's earnings. At 31 March 2019, it is estimated that a general increase of 25% in the value of the Euro would increase the Group's profit before tax by approximately £4,000 *(2018: £4,000)* with an equal adjustment to equity.

The Groups activities in the USA only commence towards the end of the year and therefore no sensitivity analysis is shown.

FAIR VALUES

There is a difference of £985,000 *(2018: £309,000)* between fair and carrying values of the finance leases and loan notes on the balance sheet.

FINANCE LEASE LIABILITY / BANK LOANS

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest for finance leases is determined by reference to similar lease agreements.

22. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2019 £000	Group 2018 £000	**Company 2019 £000**	Company 2018 £000
Plant and machinery				
Less than one year	**56**	49	**-**	-
Between one and five years	**65**	31	**-**	-
Land and buildings				
Less than one year	**383**	276	**-**	-
Between one and five years	**411**	318	**-**	-
	915	674	**-**	-

The most significant lease in land and buildings is that of the Manchester Production Hub and Head Office.

Group

During the year £421,000 *(2018: £463,000)* was recognised as an expense in profit and loss in respect of operating leases.

23. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the yearend *(2018: £nil).*

24. CONTINGENCIES

Neither the Group nor the Company had contingencies at the year end *(2018: £nil).*

25. RELATED PARTIES

The Company provides cross company guarantees in respect of the invoice discounting from the Group's bankers for £1.08m.

In the year ended 31 March 2019 no dividends were received *(2018: nil).*

Transactions with key management personnel

At the year end the Directors of the Company controlled 3.27 per cent of the voting shares of the Group.

On the 13 April 2018 the Company issued 29,258,331 ordinary shares, Conrad Bona participated and increased his holding to 865,000 shares Peter Gunning also increased his holding to 1,625,000 shares.

On the 28 March 2019 the company issued 7,868,517 ordinary shares, Conrad Bona participated and increased his holding by 222,222.

The compensation of the Directors, who are the key management personnel, is disclosed in note 5.

26. POST BALANCE SHEET EVENTS

On 1 April 2019, the business of ADD Signs Limited was hived up into Grafenia Operations Limited.

On 2 April 2019, the relocation of Image Group from its current location to Trafford Park Hub was confirmed. This will leverage culture and capabilities of the two businesses and help provide financial synergies across the two groups. The major works have been completed along with relocation of Image Group. The expected savings from this project are circa £0.25m annually.

On 2 July 2019, an agreement in respect of a further variation to the terms of its acquisition of Image Everything Limited ("Image"). This variation relates to Neil Cousins, one of the vendors of Image, who will step down as an executive of the Group on 30 August 2019.

Mr Cousins has entered a new consultancy agreement, together with a Nettl partner licence agreement. Under the consultancy agreement, he will continue to provide services to the Group for a minimum of 12 months. He will forgo his pro rata share of the £550,000 Deferred Consideration due to the vendors of Image, being £220,000.

On 24 July 2019, the Group announced that it had conditionally raised approximately £4.01 million before expenses through a placing and subscription of 28,653,569 new ordinary shares of 1 penny each ("Placing Shares") at an issue price of 14 pence per share (the "Placing"). The placing was approved at the General Meeting on 12 August 2019.

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Grafenia plc is registered in England and Wales under number 03983312
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