Annual Report & Accounts

2020

GRAFENIA plc


CHECK-IN
nettl
EXHIBIT
DISPLAY
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NANTY NARKIN
CHUCKABOO
SIT DOWN
NANTY NARKING
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Contents

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 2020	*Year ended 31 March 2019*
	£000	*£000*
Subscription and Licence Fees	**2,083**	1,975
Company Stores	**2,806**	2,629
Works Sign Businesses	**4,624**	4,910
Brand Partner Print	**3,414**	3,577
Online and Trade	**2,677**	2,871
Revenue	**15,604**	15,962
Gross Profit	**7,977**	8,545
EBITDA	**(1,289)**	(1,112)
Amortisation and Depreciation	**(2,025)**	(1,875)
Operating Loss	**(3,314)**	(2,987)
Net Finance Expense	**(317)**	(179)
Tax Income	**258**	343
Loss for the Year	**(3,373)**	(2,823)
EPS – Continuing Operations	**(3.27)p**	(3.79)p
Total Dividend per Share	**Nil**	Nil
Investment in property plant and equipment	**£0.43m**	£2.47m
Acquisition of subsidiaries	**Nil**	£0.27m
Net debt (excluding right of use assets)	**£(1.42)m**	£(3.12)m

Top: Cone signs, a new social distancing product

Bottom: New social distancing products launched this year

Chairman's Statement

In the last fiscal year we continued on our journey to build, buy and licence Nettl. The results for this strategy became visible in our numbers at the end of the fiscal year. Subsequently, Covid-19 hit and shook our industry in an unprecedented way. However, the crisis brought out the best in our team. I could not be more proud of a management team that steered the ship in a calm and decisive manner. We never forgot to be human.

It has become clear that partners and clients value being part of a large network such as Nettl. In fact, having added products beyond print to our offering a few years back, these provided our partners with the opportunity to help their clients in the most challenging of times.

On to our scorecard of the 2019/20 fiscal year:

Operational Performance

In the recent fiscal year, our turnover decreased by 2.2% to **£15.60m** *(2019: £15.96m)* and gross profit decreased by **6.6% to £7.98m** *(2019: £8.55m)*. The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation, to **(£1.29m)** *(2019: loss £1.11m)*. Our loss for the year came in at **£3.37m** versus *£2.82m* last year. We finished the year with a cash position of **£1.10m** *(2019: £1.35m)* and net debt (including deferred consideration, excluding 'right of use asset' related liabilities) of **£1.42m** *(2018: £3.12m)*. We invested £0.43m on capex *(2019: £2.47m)*, and capitalised £0.68m in R&D *(2019: £0.74m)*.

Importantly, these results include several cost items that are either one-time in nature, or constitute up-front costs, rather than ongoing operating costs. Such costs went down in the fiscal year in comparison to the prior year. The finance function restructuring has progressed well and the major operating cost investment in the US is finished. However, we did incur substantial restructuring costs in our UK business in the context of the redesign of our production hub. In addition, we have taken an increased charge against aged debtors at the year end to reflect the uncertainties due to Covid-19 and the changed economic outlook this presents.

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.

I want to reiterate this approach and strongly believe that Grafenia can and will become significantly free cash-flow generative in the mid-term. The results in the last months of the fiscal year are a cause for optimism and it is now of paramount importance to emerge from the Covid-19 dislocation stronger.

In the past, I have called out our like-for-like (i.e. excluding acquisitions) development of gross profit. In the last fiscal year, that figure declined by more than we hoped. This decline has been significantly more severe in the past. Nonetheless, growth is of paramount importance. Peter and I will use our letters to explain how we expect to get there.

People at Grafenia & Priorities in the last year

In past letters, I wrote that there were three areas where my fellow non-executive directors and I can impact the Grafenia organisation. Firstly, get governance right. Secondly, set the right incentives. Thirdly, make rational capital allocation decisions.

Events started to be cancelled in January

We were rather quiet on the capital allocation and M&A front in the last fiscal year. By and large, we haven’t found valuations particularly attractive. Certainly, we got lucky not acting too quickly as some areas of the sign industry (e.g. trade fair related) have been hit dramatically in recent months. Nonetheless, we have learned a lot about what we are looking for when acquiring signage firms and have been seeing more and more opportunities. Valuations went from rich to realistic. Peter does a great job explaining our focus at the moment and I sincerely hope to report value-accretive new additions to the Grafenia family next year.

In July 2020, we announced a bond issuance programme that allows us to raise up to GBP 50m in capital.

As Chairman, I feel strongly about protecting value for shareholders. The bond programme gives us the possibility to tap capital markets without diluting our shareholders, which we find is an important arrow in our quiver.

In fact, I’m frustrated to not report better progress in making use of our public company listing. As a public company we keep on having listing costs which are way too high and overhead relative to the size of our operating business. More than ever, using the utility of our public listing will be among my key priorities. With our supportive shareholder base and optionality in our capital structure, we are ready to act when opportunity emerges.

Last year I said:

"...from lots of work with numbers, we had some (quite literally) heavy-lifting to do in our business."

The heavy lifting in 19/20 involved numbers! As described in the letter last year, we have been tackling some important improvements in our finance department. Some of them were outright necessities of day-to-day finance operations. Others will enable us to be more effective decision makers and to integrate acquisitions much more efficiently. Our most recent addition to the executive team, Iain Brown, has proven to be the very right person for the FD role. The overhaul of our finance function has proven to be much more complicated and took much longer than I expected. Iain however achieved progress in months for which we needed years before. Thank you Iain!

Sharing ideas with partners at a Pow Wow

Outlook and Current Priorities

The core idea behind Nettl is to help our partners better serve their clients. On the months after the fiscal year-end, Covid-19 has turned our industry on its head.

When the Nettl idea was conceived, the ability to create websites for clients was an innovative and new tool to offer our partners.

After Covid-19 hit, litho print volumes essentially went to zero. Not only for us, but for the entire industry.

Not surprisingly, demand for websites and signs went through the roof. The trend in website deployments has been upwards and grown to a significant level over the last months – but materially accelerated from March onwards.

Signage was a promising and growing category that our partners started to offer over the last year. However, the board has always had slightly higher expectations of sales traction. These hopes materialised from March onwards with signage sold by partners increasing more than eightfold. Arguably, some of that is one-time protection equipment for stores and offices which will not recur. Nonetheless, we are absolutely certain that every partner and client now understands that Nettl is about more than print and websites!

Nettl of Edinburgh Business Store

Apart from our direct trade sales and sales in our own stores, we do track product revenue sold per partner quite closely. Interestingly, this aggregated number has been fairly resilient throughout the Covid-19 crisis. Clients ordered fewer business cards but instead thought about websites, e-commerce solutions and signs.

For Nettl to become a long-term success, we need to continue to offer our partners new products to sell, while being the best supplier to them for their existing range. We will be successful when our partners are successful and the last few months arguably improved our standing with our partners.

There is absolutely no reason to believe why our number of partners cannot grow further – in the UK but also internationally – and why we cannot sell significantly more products per partner.

With that being said, we reiterate our mid-term guidance of 10-15% EBITDA margin.

Unfortunately, we can only hold a virtual AGM this year due to health and safety considerations. We have enjoyed the dialogue with shareholders a lot and it's a bit sad to miss the event this year. We'll try hard to make the virtual AGM this year worthwhile participating in.

The AGM will take place at 9am on Tuesday 22nd September.

Jan-Hendrik Mohr
Chairman
11 August 2020



We make face covers in-house

STRATEGIC REPORT

Chief Executive's Statement

Dear Shareholders,

Oh boy

Since I last wrote to you in November's interim report, the world is a very different place. We've had two Prime Ministers, the briefest of 'Boris bounces' and then we've run face-mask-first into the biggest economic crisis in generations.

We made good progress on our transformation plan during the first half. As with many businesses, things got tougher in the second half.

Before we get into the detail, it's worth recapping on our strategy. That hasn't changed. Although how we get there, has adapted.

Build, buy and licence

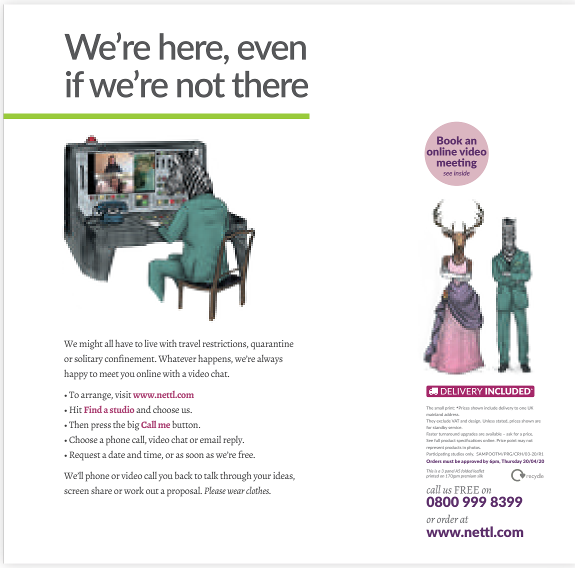
That's it. We build performance in our company-owned Nettl locations, buy sign and graphic businesses and licence our know-how and systems to others. I'll go into more detail on each of the sections in turn.

Nettl company stores

In our Nettl company stores, we sell websites, ecommerce shops, online booking systems, SEO, printing, displays, exhibition and signage. We mostly sell to SME clients, who often don't have their own in-house marketing department. Increasingly, we're selling to larger businesses, where our relationship starts with signage.

We operate five company-owned Nettl locations. In Birmingham, a 2,000sq.ft. city-centre Nettl Business Store. In Liverpool and Exeter, out-of-town Nettl Business Superstores, each 5,000 to 7,500 sqft. A first-generation small Nettl web studio in central Dublin and a huge Nettl 'pop-up' Business Store in Manchester city centre.

Sales in our company stores increased to **£2.80m** *(2019: £2.63m)*. In this revenue segment, we count all invoiced sales to end clients of our company stores, whether they be print, display, design, websites or search engine optimisation. Essentially, everything we ring through the till in our own stores. In the first half of the year, sales were up 20% compared to last year. In the second half, sales were impacted by the lockdown in the UK and Ireland.



Online appointment booking

We closed our company stores on 23 March 2020. Some team members worked remotely and some were furloughed under the Government scheme. We upgraded our Nettl.com site to make it easier for clients to schedule video calls with us. We were still 'here', just not 'there'. Some stores re-opened on 6 July 2020 and all were open by 20 July 2020.

One method we use to grow sales in company stores is to "acqui-hire" existing Nettl partners. Effectively we acquire their client base and hire their sales and design team. We rolled in a couple of businesses in the prior year, but didn't agree terms with any new ones this year. However, we expect to find further roll-in opportunities in the future. When we roll-in, we're able to strip out overhead and have more people work from our locations. We aim to keep client relationships intact. When we strip out these roll-ins, like-for-like sales were up 3% in H1, but H2's performance dropped and the year ended 6% down, like-for-like. We like rolling in existing teams, since we've usually got a long trading relationship and historical performance data. As studios use our systems to manage their businesses, the data we harvest is very rich indeed.

Buy sign and graphic businesses

We've talked many times about our acquisition strategy, to roll up the signs sector. We still find this sector attractive, for a variety of reasons. There's both investment and industrial logic. Logic twins, as it were. Almost always, the businesses we target are buying some of our product range from elsewhere. We don't factor that into our valuations, but those are very real merger benefits. *Nothing tastes sweeter than deleting a competitor from the supplier list of a business we acquire.*

We're looking in two areas. With smaller businesses with revenues up to £500k, we'd like to roll-in to one of our existing locations. Some could be Nettl teams or individuals, where we've got a long partnership history. Others could be clients - sign businesses where we have a trading relationship. We've had plenty of discussions with businesses like these, typically where the owner is looking to retire. For us to consider these, location is important. We'd rather not remotely manage a distant team, so some of those discussions are parked, until we have a suitable location to roll into. However, if the owner has already replaced themselves with a capable manager, we'd take a look.

We've sold lots of sneeze guards

The other area is sign businesses with revenues above £2m or so. That's where we're targeting our outreach activity.

If I asked you to think of a sign, chances are *"No entry"* or *"No shirt, no service"* springs to mind. The signs sector is hugely diverse. And the word "signs" covers anything from a small wall poster to a building wrap. From a branded reception desk to a giant flag. Vehicle livery to exhibition stands. Printed deckchairs and gazebos. Banners, beanbags, bunting and billboards. In a visual world, every surface can be a sign.

That means every sign business has a slightly different expertise and exposure. Some mostly work with retailers, others with construction. Some are geared towards events and exhibitions. Others focus on fabrication of structural signage. Coronavirus has impacted each business differently and luck has played a large part in that.

Last year, we'd talked to plenty of these businesses. With some, we weren't able to agree on valuations. With others, when we started due diligence, we didn't like the smell or sustainability of some of their revenue streams. We didn't rush to do deals, for the sake of doing deals.

At the start of the crisis, we refreshed our marketing and changed our deal structure approach. We figured some decent businesses would face difficulties. The UK Government's response package has definitely helped many businesses stay afloat, particularly the furlough scheme. If you told us in February the Government would pay 80% of salaries for six months, we'd definitely have nodded very slowly whilst backing away. But they have. And with deferred VAT, rent holidays, very low interest loans, businesses have kept going for now. As these measures end, the crunch starts.

We estimate there are a few hundred larger sign businesses in the UK who could act as regional hubs for our network. We mailed a prospectus-in-a-box to 200 targets in May. Why a box? Nothing beats the 'thud factor'. You can filter an email. You can discard a postcard. What kind of monster could toss a black box without opening it? You can read the prospectus at www.grafenia.com/acquisition. It explains our transparent approach. We have ongoing discussions with potential vendors and hope to find a way forward for some businesses, who value the safety of being part of a larger group.

Sign business acquistion marketing

These larger businesses tend to have a locally-known brand, which we keep. Existing clients will continue to deal with the name they trust. They'd also become "Nettl Works". We think we need five of these regional hubs. Our first is "Works Manchester", which I'll talk a little more about later. We're looking for other businesses primarily in The Midlands, South West England, Greater London and Scotland or Northern England.

In our revenue segments, we show these in "Works sign businesses". For now, Image Group is the only business in there. Sales were **£4.62m** *(2019: £4.91m)*, hampered by the cancellation of multiple events and exhibitions at the start of 2020.

Licence our systems

We licence our software, brands and systems to design studios, printers and sign companies around the world. Some use it under white label, where the end client is unaware they're using our software. However, in most cases, the end client interacts with one of our **Brand Partners**. We call them brand partners, because they present themselves as part of the Nettl or printing.com network.

Our partners use content and marketing material, such as e-shots, website landing pages, catalogues, brochures, direct mail, point-of-sale and product samples that we create. They use that to keep in touch with existing clients and attract new ones. It helps them sell print, websites and signs. We release fresh content multiple times a month, to stay in clients' front-of-mind.

Partners pay us a subscription fee, depending on the size of their exclusive territory, ranging from £300 to £1,000 per month. To grant them geographical exclusivity, they pay an initial licence fee of around £2,000. Our standard licence agreement is three or five years, sometimes with an option to break at 18 or 24 months.


Inviting partners to renew their vows

Historically, after the initial term was completed, partners rolled into monthly agreements, with three month's notice to terminate. In January 2020, we introduced a new rolling three-year extension and invited existing partners to extend their agreement. As a thank you, we gave them product credits which could be used on orders for new customers. We were pleased that more than 70 partners extended their contracts by three further years. More than 150 partners now have contracts where their next break option is greater than a year from now.

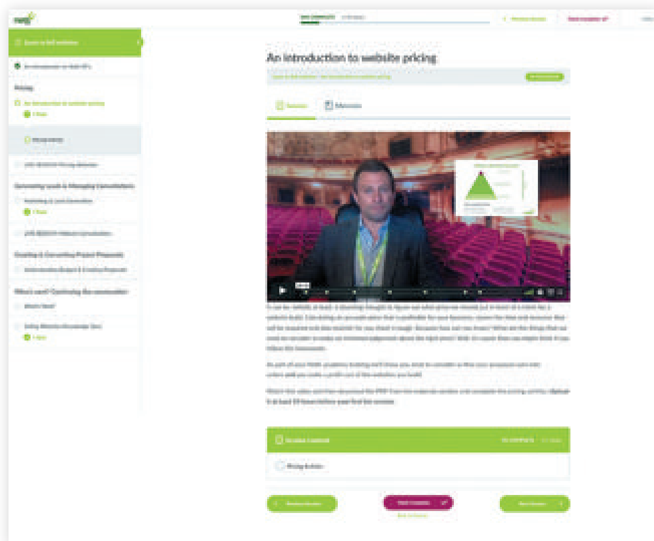
But times are tough for resellers. Anyone who has been reliant on selling print and print alone has had a rough year. Traditional print is in decline and there is still too much overcapacity. The pandemic will remove some capacity. We've had a higher-than-usual churn in the second half, as some partners have closed or sought to cut all investment.

Nonetheless, our Nettl partner network has grown to **239** locations around the world *(2019: 228)*. At the date of our last trading update, we had 183 active Nettl partners in the UK and Ireland, 25 in Benelux, 9 in France, 15 in the USA, four in New Zealand and three in Australia. We also currently have 59 printing.com locations *(2019: 85)*. Upgrading from printing.com to Nettl is a path well trodden and we anticipate further partners will diversify their businesses away from simply selling print.

Subscription and Licence Fees increased to **£2.08m** *(2019: £1.97m)*. In this segment, we count initial licence fees, monthly subscriptions, website deployment royalties, the wholesale price of hosting, domain names, digital stock photography and search engine optimisation sold via our brand partners.

Since the year end, and during the pandemic, we've supported our partners in different ways. Every partner is different. For some, we're their entire business. For others, we're just part of what they do. As the crisis deepened, we put individual measures in place. Those could be paused licence fees, while they hibernated under lockdown, deferred fees for three months or by agreeing extended payment terms. We genuinely consider ours a true partnership and we wanted to provide assistance, to strengthen our relationship, and ensure our partners get through this crisis.

As the world entered lockdown, our usual methods of acquiring new partners were impacted. We followed up our pipeline, but as you'd expect, many businesses were nervous about the future and cautious about entering into new contracts. So we adapted our offering, to make it easier to join Nettl. We set a shorter break of six or nine months and deferred initial licence fee and grant of exclusive territory until after the break was passed. In the lockdown period, we added 14 new Nettl partners in the UK, two in The Netherlands and two in America. I'll come back to America later.



All our training is now online at Nettl Academy

Every new partner subscription includes classroom training seats. As the lockdown prohibited non-essential travel, this posed a problem. Figuring out how to build e-commerce sites may well be critical for a print business to learn, but we're sure the police would have taken a different view. So rather than risk partners travelling from Durham or London, we've migrated all our training syllabuses online. Now they're a mix of pre-recorded content and live group video sessions in our virtual Nettl Academy. When events are allowed, we'll once again get together with partners at regional "Pow Wows", like we did in February just before lockdown. However, now it will be more productive and cost-effective to deliver our training exclusively online.

We increased the frequency of our virtual group 'do more together' partner sessions. These cover different topics, around marketing, technical application, product development and sales opportunities. We've seen a significant increase in engagement on our internal partner community forums and discussions, as partners look to others for guidance. At times like this, the strength of being part of a network is demonstrated very clearly. We recently interviewed partners from around the world and shared the videos online. If you'd like to hear it from the zebras' mouths, as it were, take a look at **www.nettl.com/action**.

As well as licence fees, Nettl and printing.com partners are able to buy printing, exhibition kit, displays and signs from our Works Manchester hub. They pay a wholesale price and resell to end clients. Most Nettl and printing.com partners are seasoned print buyers. They have alternative suppliers. In the second half, trade prices continued to fall. Last year, I mentioned Personal Shopper - a way for partners to get help with more complex projects or choosing the right options. We're often asked to match competitor pricing, even by less than a pound. So in August last year we launched CrowdPrice. If one partner requests a price match, and it passes our commercial rules, we make that price match available to all other partners automatically. Our aim is to reduce the need for partners to shop around. Overall, sales of product to Brand Partners was **£3.41m** *(2019: £3.58m)*.

Marqetspace.com and online channels

We sell print and signs to professional buyers through Marqetspace.com and a few other online channels. This space is super-competitive. Not only are there many trade-only printers in the UK, but shipping from mainland Europe is currently cost-effective for continental printers. Marqetspace is important to us for a number of reasons.

Firstly, it's often where our relationships start. We get to know printers, graphic designers and sign companies with a simple trading relationship. Then we build trust. Then we figure out if any of our software tools or systems can help them achieve their own objectives. And so Marqetspace is a fertile ground for cultivating Nettl partners.

Secondly, we use it to test and develop automation. It's the first place we try new features for online channels, before we roll them out. We had lower people costs in this segment than last year.

Thirdly, it contributes to our print volumes. Prior to the events in March, sales were broadly flat and ended at **£2.68m** (*2019: £2.87m).*

Prospectus explaining Nettl of America packages

Nettl of America

We said in the interim report that we were seeing slower traction in signing up partners in America. We knew the 200 page franchise disclosure document would slow things down, but not by as much as it has. So we developed a second model for the US.

We call it Nettl System. It's essentially everything that a Nettl Franchise gets, without access to the brand or rights to use any marketing material.

Now, given what we said about how our partners value marketing, you'd be forgiven for thinking we'd drunk bleach. But Federal law is pretty strict about what constitutes a franchise. As none of us look good in orange, we need to work within the law. So, Nettl System is a licence agreement, like in the UK, without the rights to use the brand. We can meet a partner, sign them up and they can get started immediately. It allows them to learn-by-doing and hopefully answers most of the questions that they would have had during the due diligence process.

Of course, we still want System users to upgrade to become Franchisees. And after the year-end, the first did just that, signing a ten year Franchise agreement.

We'd planned to host an event in Fort Lauderdale, Florida during April 2020. With the travel bans in place, that was subsequently cancelled. We replaced it with some virtual sessions and we're further testing different marketing until we find something we can scale.

Secrets & Chandeliers

The system which drives our whole business is called w3p. It's used by every partner. Clients order on websites powered by it. Conveyors and belts and chutes in Works Manchester are controlled by it.

Printed copies were mailed to 10,000 prospects

It's a big system. By its nature, there's a lot to learn. We wanted existing partners to get a concise understanding of everything it does and discover parts they weren't making the most of. So we wrote a book, "Secrets & Chandeliers". Partners got a printed copy as an early Christmas present. But we didn't want it to be a dry, user instruction manual. Instead, it starts with a true story. And explains all of the things that had to come together to deliver a great client experience. It tells the reason why each feature was built.

We thought other graphic professionals might enjoy it too. So we're also using it as part of our Nettl partner acquisition toolkit and have distributed 10,000 copies to prospects in the UK and US.

If you'd like to read it, you can buy it on the Kindle store. But here's a secret. You can get a free printed copy at **www.nettl.com/secrets**.

Pandemic Paraphernalia Pivot

March is historically a strong sales month, boosted by event season. Lots of exhibitions take place in the Spring and our company stores, brand partners and Image Group help clients with pop-up displays, exhibition stands and all the printed collateral that gets distributed. We started to hear of events being cancelled at the end of January. First it was those which had a strong presence from Asia, where companies were prohibited from international travel. Then steadily, one after another, event after event began to get cancelled, and with it, expected orders. Then lockdown hit. The NEC, the UK's biggest exhibition space, have now said they don't expect to hold any indoor events in 2020. At all.

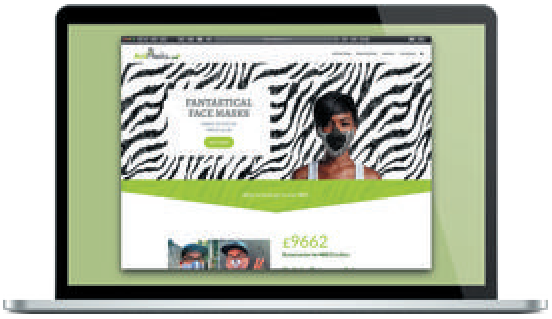
Sneeze screens and masks and social distancing

We kept our Works Manchester production hub open, with a limited number of people and social distancing measures. As we began to imagine what clients might need to re-open their businesses, we started to launch new social distancing products. Our product engineering and production teams were fantastically agile as we switched to producing sneeze guards, custom printed face masks, hand sanitiser stands, crowd control material, social distancing stencils and floor graphics. Getting stock has been challenging and in-demand materials needed prepayment. For a couple of months, we suspended postal mailings, as many businesses were either closed or working from home. So each product was launched with digital marketing. As businesses started to reopen in June, they were able to browse our 52 page Pandemic Paraphernalia buying guide.

When I look back at how many products we sold in June that didn't exist in March, it's even more astonishing what our teams were able to achieve. More than half our sales in June were for Covid-secure products. We're grateful for their combined efforts in invention, merchandising, prototyping, selling and manufacturing.

Doing the right things

At the start of the pandemic, we convened daily crisis meetings. We called them "GRABRA", as a nod to the Government's COBRA meetings. Although, our executive board and production management did actually turn up to each one. We would be formulating our response to the daily Government Briefings, then keeping our teams updated. It was a very stressful and upsetting time for many of our team members. Some were impacted by the loss of family and friends.



At times of crisis, nobody wants to be sold to. Research shows that advertising, which is heavily price-led becomes less effective. So we initially turned off product-led marketing messages. Instead, we delivered content to reassure and build trust. That included charity animal-face masks, printed and stitched in-house, with proceeds donated to NHS charities. So far, we've donated over £10,000 to charities, from sales of **Animasks.co.uk**, an ecommerce site our Nettl team developed.

We also created print-at-home colouring books to keep bored kids occupied. We scheduled a weekly release of 'Nettl Chaise Lounge' playlists to work or relax to. They're all on Spotify and Youtube if you'd like to listen: **www.nettl.com/uk/mixtape**

Listen to Nettl Chaise Lounge on Spotify

And we made checklists, guides and return-to-work guides available for free download. Partners were able to locally proliferate this stream of content on a daily basis, keeping front-of-mind and building positive brand association.

We did this because we believe businesses who did the right thing, would be viewed favourably on the other side. I'm sure we can all think of examples of businesses that acted in their own self-interest. Those memories last.

Works Manchester

In July 2019 we completed the relocation of Image Group's main factory into our litho hub. There are multiple parts to integrate. Having enough toilets is the easiest challenge to fix. Combining teams and systems is a little more tricky.

After some bedding in time, we started a restructuring in January 2020 to address some duplication of roles. This restructuring completed at the end of February 2020 and resulted in annualised savings of around £0.5m.

We brought all our teams together in a series of town-hall meetings, to share our plans for the road ahead and what part each individual must play.

We've been selling products produced by Image Group through all our channels since they became part of Grafenia in July 2017. Having two software systems is never ideal. w3p was built to handle thousands of set-specification orders each week. The system Image Group uses caters for projects, rather than products. So we've had to upgrade w3p. As with all of our software development, we've done this in stages. The final part is presently in development and we aim to fully migrate to one system by the end of the calendar year. Once this is in place, future Nettl Works will share a combined product catalogue and workflow.

Our blended Works Manchester production team

March of the Works Makers

Whatever an SME needs to promote their business, we want to be there to support. Whether that's online or offline, paper or board, vinyl or metal. Most of what we sell, we make in our factories. We do sell some niche products, made by other third parties. In the past, we've listed products like pens and bags on our websites for anyone to buy. In other cases, weird products have been sourced ad-hoc.

As part of our upgrade to w3p, we've made it easier to sell third party products. We're asking manufacturers of specialist, niche items to become Works Makers. They use w3p to upload their products for approval. Once each goes through our verification process, their products are listed on all our websites, like printing.com, nettl.com and marqetspace.com. They're sold to our brand partners at wholesale prices, and they use the same tools to place orders, just like print and signs. When orders are placed, the Works Maker downloads an order pack and produces the order and ships directly to the client, using our carrier infrastructure.

Adding more products via Nettl Works Makers

The first products already for sale include printed socks, golf umbrellas, coasters, bunting, wristbands and mugs. We're currently working with the first Works Makers and expect to significantly grow our product range during the coming months. We're inviting suppliers of other platforms to register at **www.nettl.works**.

We plan to use the same infrastructure to connect third party installers with clients needing installation of window and wall graphics.

Share stake and save as you earn

As we announced on 28 April 2020, all the Executive Directors have elected to receive between 20% and 30% of their monthly net remuneration in New Ordinary Shares from 1 April 2020 for a period of seven months. Non Executive Directors have elected to receive 100% of their fees in New Ordinary Shares for the same period. The Company's Chairman, Jan-Hendrik Mohr, has also donated his fee to "The Chairman's Seam Team Fund" for the same period. This initiative has donated sewing machines to seamsters who've been made redundant or furloughed from other businesses, so they can volunteer to make Animasks.

All New Ordinary Shares in respect of the Scheme will be issued in December 2020, at a price of 7.75p per share, which is above the market price on the date of announcement and the same as the exercise price of share options, which matured under the Company's Save as You Earn share scheme on 1 March 2020. As the share price was below the option price in the SAYE scheme, we invited eligible team members to participate in the Share Stake scheme.

Outlook

In our Annual Report last year, we estimated we would be on a run-rate breakeven during this financial year. With reductions in our cost base, partly due to our factory merger and restructuring, we were breakeven at EBITDA level in the month of February 2020. In normal years, February has lower sales seasonality than strong months September, October, November, March and April. We were on track. However, we updated the market on 25 March 2020, to say we'd take a little longer to reach breakeven, given the lockdown. On 15 July 2020, our release said Coronavirus impacted sales in March (65% of last year), April (30% of last year) and May (40% of last year). In June 2020, sales were 90% of last year, and we achieved breakeven at EBITDA level. In July, sales ended around 70% of last year. We still do not have visibility on what will happen to our clients as economic stimulus ends. We have a diverse product portfolio and it is likely that a significant number of our competitors will be impacted by the economic climate, perhaps fatally.

Despite the haziness on the horizon, we will continue to be agile and adapt our product offering and marketing emphasis to support our clients and our partners. Our aim is to come out the other side of this crisis with more clients, more partners, more products, more locations and more profit than we entered it with. We keep our eyes firmly on a mid-term goal of 10-15% EBITDA.

Virtually meet you

Our annual meetings are usually a good time for shareholders and our key team to meet face-to-face. Last year, we met in our Nettl of Birmingham Business Store, and shareholders asked questions while our saxophonist-cum-designer played some soothing jazz. This year, a masked-saxophonist feels impossible.

Our in-house saxophonist at last year's AGM

With social distancing and transport restrictions, we're not sure whether we'll be able to meet in person. So this year, we'll meet online.

Until then,

Peter Gunning
Chief Executive
11 August 2020

A business social in Nettl of Exeter

STRATEGIC REPORT

Financial Review

Revenue

Group revenue this year finished at **£15.60m**, down from *£15.96m in 2019.* Despite Brexit and election uncertainty impacting the business for the most part of the year, going into March we were still expecting to report a growth in revenue. Then the impact of Covid-19 first started to be felt in earnest and our revenue fell to 65% of the prior year level for the month of March.

As you can see in our segmental disclosure (note 3) 95% of our business remains in the UK & Ireland. Despite the overall fall in revenue, we have seen a marginal increase in licence fee income, **£2.08m** *(2019: £1.97m)* thanks to growth in subscription services. Our Company stores have returned a higher revenue, **£2.81m** *(2019: £2.63m)*, benefitting from a full year of contribution from prior year roll-ins. But these results, along with our other channels, have been suppressed by the wider economic factors already mentioned. Sales of print and other products through our Brand Partner Network fell to **£3.41m** *(2019: £3.58m)*, online and Trade sales fell to **£2.68m** *(2019: £2.87m)* and Works Signs Businesses fell to **£4.62m** *(2019: £4.91m)*.

Gross profit

Gross Profit, defined as revenue less direct materials (including the cost of distribution when made direct to customers, fell to **£7.98m** *(2019: £8.55m)*.

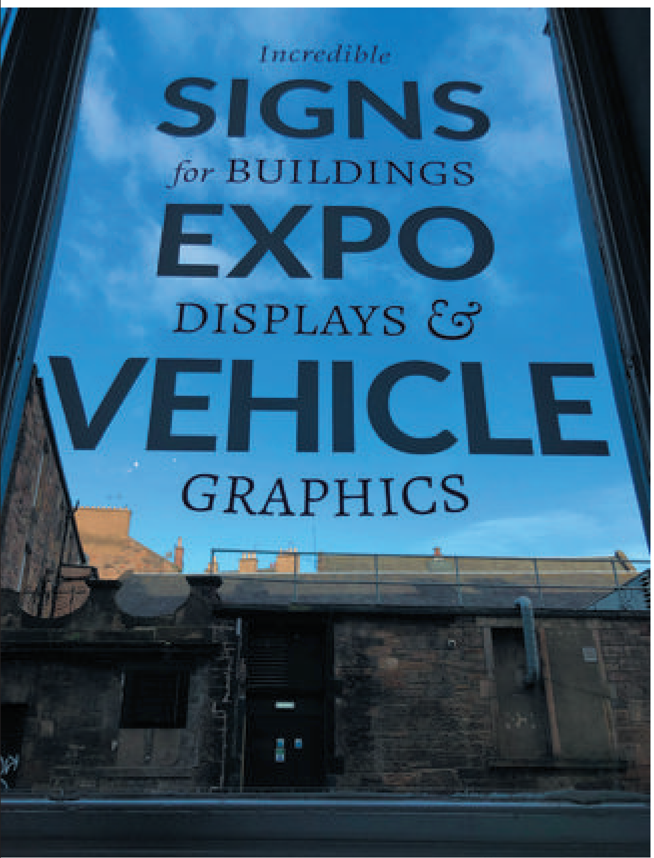
The reduced gross margin percentage of **51.1%** *(2019: 53.5%)* comes during a year full of uncertainty. Print margins continued to erode, as input costs have risen and trade prices pursue their race to the bottom. Services, subscription and licence income has increased year-on-year, and carries a higher margin than Print and Signage, but has not been sufficient to offset the fall in other parts of the business.

Other operating costs

Staff costs reduced by 6.4% to **£5.69m**, as we have integrated our operations following acquisitions and business roll-ins from previous years, whilst other operating charges have been flat at **£3.55m**. This includes various costs incurred in the year aimed at reducing our future cost base; redundancy payments to reduce our staff costs, plus factory dilapidation and site move costs incurred relocating the Image Group factory into our Trafford Park hub that totalled £0.20m.

In addition, with tougher trading conditions and then the impact of Covid-19, we have reassessed our receivables and deemed it prudent to increase the bad debt provision by £0.60m. We are working with our customers and Partners to try to come through the current difficulties together, however we have to accept that some of those debts may never be paid.

The other significant change from last year has been the impact of IFRS 16, which has become effective for the first time for this financial year. Payments that would previously have been treated as a cost within other operating costs of £0.36m have been replaced with an increased depreciation charge of £0.30m and finance costs of £0.13m.



Nettl sell websites, signs and print

Profitability

As a combination of the factors discussed above, our pre tax loss has worsened to **£3.63m** *(2019: £3.17m)*. Despite this, the loss per share of 3.27p improved against the loss of *3.79p in 2019* as a result of increasing the number of shares in issue during the year.

Operating Cash Flow

In the current year the Group used **£1.16m** of cash through operating activities *(2019: £0.96m)*, closely reflecting the EBITDA loss in the respective years.

Investment activity

The current year has seen investment in plant and equipment of **£0.43m**, primarily in our hub with the construction of a new mezzanine level that gave us the space to merge two factories into one, enabling the group to reduce operating costs in the years to come. We have also continued our investment in the Group's systems, totalling **£0.63m** *(2019: £0.74m)*, the major item being software for Nettl and the Groups SaaS platforms.

Financing activity

On 24 July 2019, the Group announced that it had 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. Issue costs incurred with the transaction were **£0.06m**.

We changed primary bankers during the year and as part of that move repaid our invoice finance funding by **£0.95m**. We've also paid **£0.44m** in vendor loan notes and deferred consideration related to the acquisitions in previous years, reducing the outstanding payments to **£0.15m**.

KPIs

Management monitors a number of KPIs, which underpin the performance of the business. The **number of Nettl Network Partners** has grown in the year, as discussed by earlier. The **average product price per partner** has marginally reduced, reflecting the pressure on gross margin. **Website deployments and hosting fees per month** have continued to increase, along with the number and value of **SEO subscriptions**.

Post balance sheet events

New range of Covid-19 products

Covid-19 has significantly impacted the whole industry since March, and Grafenia has not been immune. Revenue in April was 30% of the previous year, and May only 40% of the result 12 months prior. We have however seen a stronger recovery in June to 90% of prior year revenue, driven by our new Covid related product ranges, and 70% in July. In response to the pandemic, we have updated our forecasts and applied reasonable sensitivities to cover a range of operational scenarios. We have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants, rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities, and renegotiated with suppliers and to reduce cash outflows through this period.

To further ensure that the business has enough liquidity through this period, we secured an additional term loan for **£1.00m** through the Coronavirus Business Interruption Loan Scheme (CBILS) and refinanced our primary hire purchase facility through CBILS, reducing our cash repayments for 12 months.

On 15th July we announced the creation of a **£50.00m** perpetual bond facility and the issue of £3.00m of the bonds, at nominal value, to investors, raising approximately **£2.01m** before expenses. This facility ensures that we have the capital available to execute our acquisition strategy discussed by Peter earlier.

Outlook

The future developments of the business are included in the Chairman's statement and Chief Executive's statement. With the restructuring activity undertaken in this financial year, and the financial support secured through the bond issue and CBILS loan, we believe we have secured the financial future of the business and have the resources to execute our expansion plans. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

A business social in Nettl of Birmingham

Principal Risks and Uncertainties

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

- uncertainty in the general economic environment, including Brexit and Covid-19, 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;
- 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 anticipates 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.

Iain Brown
Group Finance Director
11 August 2020

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 31.

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 45.

Iain Brown
Group Finance Director

After Graduating from Leeds University with a Bachelor of Arts degree in Accountancy and Finance in 2008, Iain joined audit practice with Baker Tilly UK LLP and subsequently qualified as a chartered accountant with the Institute of Chartered accountants in England and Wales. Prior to joining Grafenia, he has held a number of senior financial positions with Myriad Group AG, a publicly listed Swiss software business trading across the world from multiple locations, before ultimately being appointed as Group Financial Controller in 2016.

Iain joined the Group in October 2019 and was appointed Group Finance Director in January 2020. Age 33.

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 41.

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 51.

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 48.

Simon Barrell
Non-Executive 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 SRT Marine Systems plc.

Simon joined the Group in June 2018 as Interim Finance Director and was appointed to the Board as a Non-Executive Director in January 2020. Age 61.

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 2020. The Directors have proposed that no final dividend will be paid *(2019: nil).*

PRINCIPAL ACTIVITIES

We generate revenue from two main sources: licensing brands and software, and manufacturing product. We license our brands, software and technology to partners in the UK and internationally. We also directly manufacture a range of printing, signage, promotional items and expo displays in the UK.

DIRECTORS

The following Directors have held office since 1 April 2019:

J-H Mohr	Non-executive Chairman
C C Bona	Non-executive Director
S G Barrell	Non-executive Director (formerly Interim Finance Director)
P R Gunning	Chief Executive Officer
G G Cockerill	Chief Operating Officer
R A Lightfoot	Director and Company Secretary
I S Brown	Group Finance Director – Appointed 9th January 2020

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

P R Gunning and I S Brown 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 41-42.

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 2020:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	**33,434,909**	**29.45%**
Value Focus Beteiligungs GmbH	**30,224,866**	**26.62%**
Stefan Winterling	**7,279,074**	**6.41%**
Scherzer & Co SA	**5,675,500**	**5.00%**
IPConcept (Luxembourg) S.A.	**5,634,919**	**4.96%**
Axion SA	**4,985,000**	**4.39%**

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Tuesday 22 September 2020 via an online meeting. 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

Iain Brown
Group Finance Director
11 August 2020

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.

Corporate governance statement

FOR THE YEAR ENDED 31 MARCH 2020

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 our website and in our most recent Shareholder Circular.

The Group's principal 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 21 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. The forthcoming AGM necessarily takes on a virtual format in light of Covid-19.

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 our 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:

- w3pin the Company's on-line message board and forum as well as third party applications such as business communication platform Slack. Use of such platforms has come into sharp focus since the onset of Covid-19 and increased homeworking;
- 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. Approximately half of our team, from production to studios, from designers to installers, participated 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 an advocate of apprenticeships and goes beyond its legal obligations such as the payment of the apprentice levy in its commitment to this stakeholder group.

Customers and Suppliers

The Company invests in customer service software and infrastructure to support feedback from these 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 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, supply and promotion of biodegradable products and adoption of technologies to reduce the Company's energy consumption. All of our matt and gloss laminated print for example is produced using a biodegradable film and during the year we invested in voltage optimisation equipment.

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.

Since the onset of Covid-19 towards the end of the year under review the executive members of the Board have met on a daily basis to consider the opportunities and threats facing the Company.

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 and 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 aspects of the Group's day-to-day operations. The Company's Works Council monitors, reviews and makes 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

The make-up of the Board is reviewed on an ongoing basis in light of the Company's development, requirements and resources.

During the year the Group appointed a permanent Finance Director (on 9 January 2020). At that time the Interim Finance Director became a Non Executive Director in order to ensure a seamless transition and handover of the finance function.

The Board currently comprises three Non-Executive Directors (including the Chairman) and four Executive Directors.

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. A rolling programme of Board meetings is maintained throughout the year together with adhoc meetings as the Company's requirements demand. The director's attendance records in the year under review (excluding directors who have ceased to be directors in the period), is as follows:

	Board meetings	Audit committee meetings	Remuneration Committee meetings
Number held	6	6	2
Jan-Hendrik Mohr (Chairman)	6	6	2
Conrad Bona (Non-Executive Director)	6	6	2
Simon Barrell (Non-Executive Director) – audit since becoming non-exec	6	1	-
Peter Gunning (CEO)	6	-	-
Gavin Cockerill (COO)	6	-	-
Richard Lightfoot (Director & Company Secretary)	6	-	-
Iain Brown (Group Finance Director) – since election	3	-	-

In the past Board meetings and the Company's AGM have been 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. Since the onset of Covid-19 Board meetings have necessarily been held remotely and, since the end of the financial year on a significantly more frequent basis.

The Company Secretary reports directly to the Chairman on governance matters. The Board believes 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 relevant 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 nomad, lawyers and other advisors.

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

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 undertook a first annual review of its effectiveness, in accordance with Principle 7 of our Corporate Governance Statement regarding board effectiveness, after the Company's 2019/20 financial year. The process was led by the Chairman Jan Hendrik-Mohr. The Board will carry out further reviews of its effectiveness on an annual basis and may use an external adviser. The objective of this evaluation process is to bring to light possible changes which could make the Board's activities and administration more effective and efficient.

The Board Evaluation covered the following areas:

- the manner in which the Board is run, and operates as a team;
- the skills, experience and independence of the Board;
- the strategy of the business;
- the risks of the business;
- the Company's ethical values and behaviours; and
- engagement with shareholders and other stakeholders.

The exercise identified a number of positive areas particularly relating to the skills and experience and independence of the Board and the level of engagement with shareholders. The main area for improvement identified in the previous evaluation was formal succession planning and lack of diversity, and a process to address this in more detail will start during the 2020/21 financial year.

BOARD REVIEW

Manner in which the Board is run	The level of engagement between NEDs and executives is high. The Board decided to drastically increase the cadence of meetings during the Covid pandemic to weekly which has proven to be informative and allow for quick decision making. Before Covid, the Board changed the cadence to fewer-but-more-in-depth sessions to allow for complex discussions.
Skills, independence and experience	We have enlarged the Board over recent years and find the current set-up to reflect a broad perspective of different skills. Especially the appointment of Simon Barrell as NED significantly increased the financial and audit acumen of the Board. A core area of improvement in the Board is diversity. The current Board doesn't appropriately reflect the level of diversity we have in our organisation and future recruiting decisions should clearly take diversity into consideration. There is no formal succession policy which is a deficiency that is being addressed in the current fiscal year.
Strategy of the business	The Board has engaged in periodic planning and review processes for the "buy, build and license" strategy. During August 2020, the Board started a dedicated "Post-Covid" evaluation of strategy to ensure viability of the business model even in significantly reduced sales environments.
Risk of the business	Risk of the business is evaluated in-lieu of strategy as the Board perceives risk to be a core influence on strategy. When setting strategy, we reflect on the interdependencies for our risk appetite.
Ethical values and behaviours	Critical developments are monitored in the risk awareness section of every Board meeting. The Company maintains a peer review mechanism for all employees (GrafOS) that allows for flagging of misconduct and feedback mechanism.
Engagement with shareholders	The Board keeps an open and constructive dialogue with its shareholders. In particular, the largest 5-6 shareholders engage in fairly frequent discussions after RNS announcements. We have used our AGM as a platform to communicate strategy and invite shareholders to ask questions in a friendly, constructive and inclusive environment.

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 as required. 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 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.

Non Board members are also invited to attend on occasion to participate in relevant Board discussions.

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), Conrad Bona (Non- Executive Director) and Simon Barrell (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 such as the Company's Save As You Earn scheme and Share Stake scheme launched following the onset of Covid-19 whereby members forgo a proportion of their remuneration in return for ordinary shares in the Company.

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 an 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 2019 AGM is presented as follows:

Resolutions	* For	Against	Withheld
1. To receive the Company's Annual Accounts	9,805,956	0	0
2. To re-elect RSM UK Audit LLP as auditors of the Company	9,805,956	0	0
3. To re-elect Jan-Hendrik Mohr as a Director	9,805,956	0	0
4. To re-elect Conrad Bona as a Director	9,805,956	0	0
5. To authorise the Company to replace the existing authority to allot shares and to grant rights to subscribe for or convert any security into such shares	9,785,956	20,000	0
6. To disapply statutory pre-emption rights	9,012,323	793,633	0
7. To authorise the Company to make market purchases of its own shares	9,780,956	25,000	0

* including any votes giving discretion to the Chair.

S.172 COMPANIES ACT 2006 STATEMENT

In addressing each of the ten points of the QCA code above, we provide examples of how the Company:

- takes into account the likely consequences of decisions in the long term;
- have regard to the interests of the Company's shareholders, employees and other stakeholders;
- promotes openness amongst employees and endeavours to maintain a culture built on integrity;
- take into account the desirability of the Company maintaining a reputation for high standards of business conduct, and;
- have regard to the need to act fairly.

The Directors assess and take into account what is most likely to promote the success of the Company for its members in the long term as part of their decision-making process, and make this assessment fairly and in good faith. The Directors continue to promote the success of the Company in accordance with section 172 of the Companies Act 2006.

Audit committee report

The Audit Committee comprises Jan-Hendrik Mohr as chairman, Conrad Bona and Simon Barrell. 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 2019 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 2019 audit.

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-Hendrik Mohr, Conrad Bona and Simon Barrell who are Non-executive Directors. Jan-Hendrik 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.

The main elements of the remuneration packages for Executive Directors and senior management is Basic annual salary (including Directors' fees) and benefits. The Chief Executive receives pension payments over and above the statutory minimums.

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 private medical insurance.

ANNUAL CASH BONUS

No incentive payments have been made for the financial year ended 31 March 2020.

PENSION ARRANGEMENTS

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

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 2020:

	Basic salary £	Fees £	Benefits £	Bonuses £	Pension £	2020 Total £
J-H Mohr	-	15,000	-	-	-	15,000
C C Bona	-	15,000	-	-	455	15,455
S G Barrell *	-	64,047*	-	-	-	64,047
P R Gunning	170,250	-	968	-	15,525	186,743
I S Brown (since appointment)	22,256	-	-	-	589	22,845
G G Cockerill	90,000	-	442	-	2,700	93,142
R A Lightfoot	77,000	-	1,367	-	2,310	80,677
	359,506	94,047	2,777	-	21,579	477,909

*Includes £61,600 of consultancy services provided through SGB Consulting Limited whilst acting as Interim Finance Director to Grafenia Operations Limited.

Post the year-end all of the Executive Directors elected to receive between 20% and 30% of their monthly net remuneration in new ordinary shares from 1 April 2020 for a period of seven months. Non-Executive Directors elected to receive 100% of their fees in new ordinary shares for the same period. The Chairman donated his fee to "The Chairman's Seam Team Fund" for the same period.

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 provided consultancy services to Grafenia Operations Limited through SGB Consulting and the amounts shown are fees paid via Grafenia Operations Limited.

DIRECTORS' INTERESTS

At 31 March 2020, the Directors had the following beneficial interests in the Company's shares.

	Ordinary shares of 1p each	
	31 March 2020	31 March 2019
J-H Mohr	**-**	-
C C Bona	**1,086,427**	1,087,222
P R Gunning	**1,725,000**	1,625,000
G G Cockerill	**4,874**	4,874
R A Lightfoot	**75,000**	75,000
I S Brown	**-**	-
S G Barrell	**-**	-

On 5 April 2019 Conrad Bona transferred 149,545 ordinary shares from his personal holding to his individual savings account and 71,882 Ordinary Shares from his personal holding to his self-invested personal pension. These transactions resulted in a disposal of 795 Ordinary Shares.

On 27 November 2019 Peter Gunning purchased 100,000 Ordinary Shares increasing his holding to 1,725,000.

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 2020 was 6.25 pence *(2019: 11.50 pence)*. The range during the period under review was 3.75 pence to 13.50 pence.

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 2020 which comprise the consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in shareholders' equity, consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 2020 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 United Kingdom Generally Accepted Accounting Practice; 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.

SUMMARY OF AUDIT APPROACH

Key audit matters	**Group** · Revenue recognition · Recoverability of trade receivables **Parent Company** · Valuation of investments and intercompany balances
Materiality	**Group** · Overall materiality: £361k *(2019: £230k)* · Performance materiality: £270k *(2019: £115k)* **Parent Company** · Overall materiality: £295k *(2019: £96k)* · Performance materiality: £221k *(2019: £48k)*
Scope	Our audit procedures covered 98% of revenue, 100% of net assets and 99% of loss before tax.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company 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 and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

REVENUE RECOGNITION

Key audit matter description	(Refer to page 53 regarding the accounting policy in respect of revenue recognition and note 3 in respect of revenue and operating segments). There are numerous revenue streams within the business. There is a risk that revenue is not accurately captured within the financial statements or that the established revenue recognition policy is not appropriately applied given the various types of revenue earned.
How the matter was addressed in the audit	The existence and accuracy of revenue recognised was assessed via detailed testing by reference to contracts with customers and invoices issued. The recognition of revenue around the period end was reviewed to determine that it had been captured in the correct period. The completeness of revenue was reviewed by reference to evidence of delivery and performance.

RECOVERABILITY OF TRADE RECEIVABLES

Key audit matter description	(Refer to accounting policy on page 53 regarding calculation of recoverable amount, accounting policy on page 53 regarding trade and other receivables, the accounting policy on page 53 regarding recoverability of receivables, note 14 regarding trade and other receivables and the credit risk section of note 21 regarding financial instruments) 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 provision for bad and doubtful debts is not calculated on an appropriate basis or is not calculated in line with IFRS 9 Financial Instruments.
How the matter was addressed in the audit	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. The underlying data was tested for reliability and key judgements challenged and sensitised.

VALUATION OF INVESTMENTS AND INTERCOMPANY BALANCES

Key audit matter description	(Refer to the accounting policy on page 55 in respect of impairment of assets and note 11 in respect of intangible assets and investments) The parent company holds significant investments and intercompany balances with its subsidiary companies. 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 trade or balances.
How the matter was addressed in the audit	Management's impairment review of investments and intercompany accounts 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 group.

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 the effects of 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. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£361k *(2019: £230k)*	£295K *(2019: £96k)*
Basis for determining overall materiality	5% of gross profit	10% of total assets
Rationale for benchmark applied	Profitable growth is considered the key benchmark for the group	The parent company's key function is as a holding company with investments in its subsidiary entities
Performance materiality	£270k *(2019: £115k)*	£221k *(2019: £48k)*
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £18k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £15k and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The group consists of 5 components, all of which are based in the UK with the exception of Grafenia France Sarl which is based in France and Nettl of America LLP which is based in the US. Full scope audit procedures were performed for all entities aside from Grafenia France Sarl and Nettl of America LLP for which specific procedures were performed.

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 THE DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 30, 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 a material 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

ALASTAIR JOHN RICHARD NUTTALL (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
11 August 2020

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 MARCH 2020	*Note*	**2020 £000**	2019 £000
Revenue	3	**15,604**	15,962
Raw materials and consumables used		**(7,627)**	(7,417)
Gross profit		**7,977**	8,545
Staff costs	5	**(5,686)**	(6,077)
Other operating charges	4	**(3,553)**	(3,533)
Share based payments		**(27)**	(47)
Earnings before interest, tax, depreciation and amortisation		**(1,289)**	(1,112)
Depreciation and amortisation		**(2,025)**	(1,875)
Operating loss	4	**(3,314)**	(2,987)
Financial income		**25**	7
Financial expenses	6	**(342)**	(186)
Net financing expense		**(317)**	(179)
Loss before tax		**(3,631)**	(3,166)
Tax income	7	**258**	343
Loss for the year		**(3,373)**	(2,823)
Other comprehensive income		-	-
Total comprehensive income for the year		**(3,373)**	(2,823)
Loss per share attributable to the ordinary equity shareholders of Grafenia plc			
Basic and diluted[1], pence per share	8	**(3.27)p**	(3.79)p

(1) Earnings per share suffers no dilution

The notes on pages 51-75 form part of these financial statements.

Consolidated and company statement of financial position

AT 31 MARCH 2020	Note	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Non-current assets					
Property, plant and equipment	10	5,483	4,060	-	-
Intangible assets	11	3,858	4,371	-	-
Investments in subsidiaries	12	-	-	3,457	3,457
Deferred tax assets		-	10	-	10
Total non-current assets		9,341	8,441	3,457	3,467
Current assets					
Inventories	13	346	455	-	-
Trade and other receivables	14	2,150	3,008	6,738	5,790
Prepayments		447	548	21	101
Cash and cash equivalents	15	1,104	1,354	387	965
Total current assets		4,047	5,365	7,146	6,856
Total assets		13,388	13,806	10,603	10,323
Current liabilities					
Other interest-bearing loans and borrowings	17	753	1,695	-	211
Deferred consideration	17	147	366	147	366
Trade and other payables	16	2,160	2,832	86	27
Deferred income	16	143	256	-	-
Total current liabilities		3,203	5,149	233	604
Non-current liabilities					
Other interest-bearing loans and borrowings	17	3,483	2,180	-	-
Deferred consideration	17	-	229	-	229
Deferred income	16	-	36	-	-
Deferred tax liabilities	9	448	576	-	-
Total non-current liabilities		3,931	3,021	-	229
Total liabilities		7,134	8,170	233	833
Net assets		6,254	5,636	10,370	9,490
Equity attributable to equity holders of the parent					
Share capital	19	1,135	847	1,135	847
Merger reserve		838	838	627	627
Share premium	20	7,801	4,125	7,801	4,125
Share based payment reserve		74	47	74	47
Retained earnings		(3,594)	(221)	733	3,844
Total equity		6,254	5,636	10,370	9,490

The Parent Company result for the year was a loss of £3,111,000 *(2019: £643,000)*.

The notes on pages 51-75 form part of these financial statements.

These financial statements were approved by the board of directors on 11 August 2020 and were signed on its behalf by:

I S BROWN

Director

Consolidated and company statement of changes in shareholders' equity

GROUP – YEAR ENDED 31 MARCH 2019

	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2018	475	838	-	-	2,672	3,985
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

GROUP – YEAR ENDED 31 MARCH 2020

	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**(3,373)**	**(3,373)**
Shares issued in the period	**288**	**-**	**3,738**	**-**	**-**	**4,026**
Costs associated with share issue	**-**	**-**	**(62)**	**-**	**-**	**(62)**
Share option reserve	**-**	**-**	**-**	**27**	**-**	**27**
Total movement in equity	**288**	**-**	**3,676**	**27**	**(3,373)**	**618**
Balance at 31 March 2020	**1,135**	**838**	**7,801**	**74**	**(3,594)**	**6,254**

COMPANY – YEAR ENDED 31 MARCH 2019

	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Balance at 31 March 2018	475	627	-	-	4,487	5,589
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

COMPANY – YEAR ENDED 31 MARCH 2020

	Share Capital £000	Merger reserve £000	Share Premium £000	Share Based Payment Reserve £000	Retained Earnings £000	Total £000
Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**(3,111)**	**(3,111)**
Shares issued in the period	**288**	**-**	**3,738**	**-**	**-**	**4,026**
Costs associated with share issue	**-**	**-**	**(62)**	**-**	**-**	**(62)**
Share based payments	**-**	**-**	**-**	**27**	**-**	**27**
Total movement in equity	**288**	**-**	**3,676**	**27**	**(3,111)**	**880**
Balance at 31 March 2020	**1,135**	**627**	**7,801**	**74**	**733**	**10,370**

The notes on pages 51-75 form part of these financial statements.

Consolidated statement of cash flows

FOR YEAR ENDED 31 MARCH 2020	Note	**Group 2020 £000**	Group 2019 £000
Cash flows from operating activities			
Loss for the year		**(3,373)**	(2,823)
Adjustments for:			
Depreciation, amortisation and impairment		**2,025**	1,876
Profit on sale of plant and equipment		**(99)**	(105)
Reduction in deferred consideration	4	**(220)**	-
Release of deferred profit on sale of plant and equipment		**(12)**	(218)
Share based payments		**27**	47
Net finance expense		**317**	179
Bad debt expense		**588**	-
Foreign exchange loss		**-**	(70)
Tax income		**(258)**	(343)
Operating cash flow before changes in working capital and provisions		**(1,005)**	(1,457)
Change in trade and other receivables		**444**	(154)
Change in inventories		**109**	439
Change in trade and other payables		**(708)**	214
Cash (utilised by)/generated from Operations		**(1,160)**	(958)
Interest paid		**-**	(179)
Income tax received /(paid)		**67**	97
Net cash (outflow)/ inflow from operating activities		**(1,093)**	(1,040)
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**265**	265
Acquisition of plant and equipment		**(383)**	(480)
Capitalised development expenditure	11	**(373)**	(375)
Acquisition of other intangible assets	11	**(305)**	(325)
Acquisition of Subsidiary net of cash (group)		**-**	(134)
Net cash used in investing activities		**(796)**	(1,049)
Cash flows from financing activities			
Repayment of funding from invoice finance		**(947)**	(1)
Payment of loan notes		**(211)**	(634)
Payment of finance leases (under IAS 17)		**-**	(561)
Capital payment of lease liabilities		**(622)**	-
Interest payment of lease liabilities		**(317)**	-
Payment of deferred consideration		**(228)**	(29)
Issue of shares (net of costs)		**3,964**	4,497
Net cash generated from financing activities		**1,639**	3,272
Net (decrease) /increase in cash and cash equivalents		**(250)**	1,183
Cash and cash equivalents at start of year		**1,354**	171
Cash and cash equivalents at 31 March 2020	15	**1,104**	1,354

The notes on pages 51-75 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

IFRS 16 LEASES

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 April 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application;
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones with a value of less than £3,000), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to its portfolio of leases;
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

1. ACCOUNTING POLICIES (CONTINUED)

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 April 2019.

The impact on the financial statements on 1 April 2019 has been to recognise a right of use asset within property, plant and equipment and equivalent lease liability of £2,092,000. These leases were previously reported as operating leases within administrative expenses. Interest charged on the lease liability for the period ended 31 March 2020 amounted to £125,000 and is included within finance expenditure. Depreciation charged on the right of use assets amounted to £296,000 for the period.

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 16 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.

The company has transitioned between frameworks from IFRS (as adopted by the EU) to FRS 101 during the period. The impact of this transition has been to remove the company statement of cash flows for which the exemption has been taken.

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 3-19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 21-25. 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.

From March 2020 onwards, our business, like many others, has been impacted by the Covid-19 pandemic. These impacts are discussed in detail within the strategic review. In response we have updated our forecasts and applied reasonable sensitivities to cover a range of operational scenarios. We have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants, rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities, and renegotiated with suppliers and existing providers of finance to reduce cash outflows through this period.

After the year-end and in light of the Group's signs rollup strategy the Board decided to offer a corporate bond facility and successfully raised £2.1m on 15th July. A further £1.0m term loan has been secured through the Coronavirus Business Interruption Loan Scheme (CBILS) to provide additional working capital to the Group. With funding secured, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook caused by Covid-19 and have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

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.

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 and Company classify all its financial assets into the amortised cost category. The accounting policies for each category is as follows:

- Trade and loan receivables: Trade receivables are initially recognised 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 calculated 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.

1. ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

The Group and Company treat 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.

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.

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% to 33% straight line
Plant and equipment	- 7% to 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.

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	- 3 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 ten 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)

LEASES

Policies applicable from 1 April 2019

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate category within Property, Plant and Equipment.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Policies applicable prior to 1 April 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Where a gain has been made on 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.

1. ACCOUNTING POLICIES (CONTINUED)

SHARE BASED PAYMENTS

The Group operates an equity-settled share-based compensation plan through a SAYE scheme, under which the Company 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:

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.

1. ACCOUNTING POLICIES (CONTINUED)

ESTIMATION OF THE EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES

In assessing the expected credit losses, in respect of the trade receivables under IFRS 9, 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

The Group made no acquisitions in the current period. Details of acquisitions in the prior year are available in previous years financial statements.

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 2020				
Segment revenues	**14,791**	**384**	**429**	**15,604**
Year ended 31 March 2019				
Segment revenues	15,163	447	352	15,962

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

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

DISAGGREGATION OF REVENUE

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

	Licence Fees £000	**Company Stores £000**	**Brand Partner Print £000**	**Works Sign Businesses £000**	**Online & Trade £000**	**Total £000**
Year ended 31 March 2020	**2,083**	**2,806**	**3,414**	**4,624**	**2,677**	**15,604**
Year ended 31 March 2019	1,975	2,629	3,577	4,910	2,871	15,962

Of the Group's non-current assets (excluding deferred tax) of £9,341,000, £9,335,000 are located in the UK. Non-current assets located outside the UK are in France £6,000 *(2019: £7,000)*.

4. LOSS BEFORE TAXATION

Included in profit are the following:

	2020 £000	2019 £000
Operating lease rentals	**217**	613
Amortisation of intangible assets	**1,192**	1,393
Depreciation	**834**	482
Doubtful debt expense	**588**	171
Profit on sale of plant and equipment	**101**	105
Profit on sale and leaseback recognised in the year	**12**	218
Gain on variation of prior acquisition*	**159**	-
Restructuring costs	**244**	(75)

*On 30 August 2019, one of the vendors of Image Everything Limited stepped down as an executive, forgoing £220,000 of deferred consideration. £61,000 of deemed salary cost deferred from the initial consideration was released to the income statement at the same time.

Auditors' remuneration:

	2020 £000	2019 £000
Audit of these financial statements	**40**	39
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**33**	34
Tax compliance services	**-**	8
Other tax advisory services	**-**	4
Review of interim financial statements	**5**	6
Other assurance services	**-**	2

The 2020 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 Audit LLP 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 2020**	Group 2019	**Company 2020**	Company 2019
Administration	**34**	35	**2**	2
Sales and distribution	**70**	67	**-**	-
Production	**99**	86	**-**	-
	203	188	**2**	2

In 2020 we have included an average of 17 temporary workers in the number of employees figures above. If the same approach had been applied in 2019, the average number of employees would have been 201.

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 2020 £120,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2019: £111,000)*. As at 31 March 2020 £78,000 *(2019: £26,000)* contributions were outstanding on the balance sheet.

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

	Group 2020 £000	Group 2019 £000	**Company 2020 £000**	Company 2019 £000
Wages and salaries	**5,062**	5,395	**32**	30
Social security costs	**504**	571	**1**	1
Other pension costs	**120**	111	**-**	-
	5,686	6,077	**33**	31

KEY MANAGEMENT COMPENSATION:

	2020 £000	2019 £000
Key managements' emoluments	**424**	491
Company contributions to money purchase pension plans	**21**	21
	445	512

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 pages 41-42 where details of fees and benefits can be found.

The aggregate of emoluments for the highest paid Director was £171,000 *(2019: £171,000*), and Company pension contributions of £16,000 *(2019: £16,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes 5 *(2019: 4)*.

6. FINANCE INCOME AND EXPENSE

Finance expense	**2020 £000**	2019 £000
Lease interest	**330**	139
Invoice finance	**10**	24
Loan note interest	**2**	23
Interest payable	**342**	186

Lease interest in 2020 includes £125,000 in relation to right of use assets recognised on 1 April 2019 following the adoption of IFRS 16. As the Group has applied IFRS 16 using the cumulative catch-up approach, the comparative figure for 2019 has not been restated.

7. TAXATION

Recognised in the income statement	2020 £000	2019 £000
Current tax expense		
Current year	**(146)**	(201)
Foreign tax	**-**	6
Adjustments for prior years	**6**	(86)
	(140)	(281)
Deferred tax expense		
Origination and reversal of temporary differences (see note 9)	**(128)**	(213)
Adjustment in respect of prior year	**10**	151
Total tax in income statement	**(258)**	(343)

RECONCILIATION OF EFFECTIVE TAX RATE

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2019: lower)* than the standard rate of corporation tax in the UK of 19% *(2019: 18%)*.

The differences are explained below:

	2020 £000	2019 £000
Loss for the period	**(3,631)**	(3,166)
Tax using the UK corporation tax rate of 19% *(2019:18%)*	**(690)**	(570)
Effects of:		
Other tax adjustments, reliefs and transfers	**(40)**	3
Adjustments in respect of prior periods – current tax	**6**	(87)
Adjustments in respect of prior periods – deferred tax	**10**	151
Deferred tax not recognised	**403**	174
Withholding tax	**-**	7
Research and Development losses surrendered	**227**	54
Research and Development super deduction	**(174)**	(128)
Movement due to the change in the tax rate	**-**	53
Total tax credit	**(258)**	(343)

The Group tax debtor amounts to £354,000 *(2019 Debtor: £281,000).* The deferred tax liabilities as at 31 March 2020 have been calculated using the tax rate of 19% 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. At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

8. EARNINGS PER SHARE

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

	2020 £000	2019 £000
Loss after taxation for the financial year from continuing operations	**(3,373)**	(2,823)

	Weighted average number of Shares	Weighted average number of Shares
For basic earnings per ordinary share	**102,993,216**	74,504,359
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**102,993,216**	74,504,359
Basic and diluted loss per share	**(3.27)p**	(3.79)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 2020 £000	Assets 2019 £000	Liabilities 2020 £000	Liabilities 2019 £000
Intangible assets	**-**	10	**448**	576
Tax liabilities	**-**	10	**448**	576

Movement in deferred tax during the year.	1 April 2019 £000	Adjustment for prior years £000	Recognised in income £000	Recognised in income due to tax rate change £000	31 March 2020 £000
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**
Intangible assets	**576**	**-**	**(128)**	**-**	**448**
	576	**-**	**(128)**	**-**	**448**

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)	57	576
	580	151	(212)	57	576

Company

The Company had no recognised deferred tax assets as at 31 March 2020 *(2019: £10,000)*.

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	Rights of use assets £000	Total £000
Cost							
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
Balance at 31 March 2019	576	5,383	265	83	1,324	-	7,631
IFRS 16 adoption	-	-	-	-	-	2,092	2,092
Additions	-	173	-	-	259	-	432
Disposals	-	(2)	(265)	-	-	-	(267)
Balance at 31 March 2020	**576**	**5,554**	**-**	**83**	**1,583**	**2,092**	**9,888**
Depreciation and impairment							
Balance at 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
Balance 31 March 2019	576	2,116	-	69	810	-	3,571
Depreciation charge for the year	-	369	-	5	164	296	834
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2020	**576**	**2,485**	**-**	**74**	**974**	**296**	**4,405**
Net book value							
At 31 March 2018	2	1,615	-	13	446	-	2,076
At 31 March 2019	-	3,267	265	14	514	-	4,060
At 31 March 2020	**-**	**3,069**	**-**	**9**	**609**	**1,796**	**5,483**

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2020, the Group had leased assets with a carrying value of £2,443,000 *(2019: £2,589,000).*

11. INTANGIBLE ASSETS AND INVESTMENTS

Group	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
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
Balance at 31 March 2019	912	3,965	3,686	3,165	141	157	12,026
Additions – internally developed	-	-	373	-	-	-	373
Additions – purchased	-	300	-	-	-	5	305
Balance at 31 March 2020	**912**	**4,265**	**4,059**	**3,165**	**141**	**162**	**12,704**
Amortisation and impairment							
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
Balance at 31 March 2019	366	3,493	2,872	804	12	108	7,655
Amortisation for the year	46	312	426	401	-	6	1,191
Balance at 31 March 2020	**412**	**3,805**	**3,298**	**1,205**	**12**	**114**	**8,846**
Net book value							
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
At 31 March 2020	**500**	**460**	**761**	**1,960**	**129**	**48**	**3,858**

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 five-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 6.8% *(2019: 6.2%)* was applied.

If the growth rate were not achieved and was reduced 0% and the discount factor was increased to 15% there would be no impairment in the carrying value.

Other intangible assets have also been considered for impairment due to indicators of impairment being present in the form of losses and wider economic conditions. These assets are not considered to be impaired.

Amortisation and impairment charge

The amortisation charge of £1,191,000 *(2019: £1,393,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2019: £nil)* was recognised during the year.

12. Investments – Company

	Shares in Subsidiary undertakings £000	Total £000
Cost		
Balance at 31 March 2018	3,242	3,242
Acquisitions in the year	215	215
Balance at 31 March 2019	3,457	3,457
Balance at 31 March 2020	**3,457**	**3,457**

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

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

*** - Owned directly by Grafenia PLC**

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

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

13. INVENTORY

	Group 2020 £000	Group 2019 £000	**Company 2020 £000**	Company 2019 £000
Raw Materials	**346**	452	**-**	-
Work in progress	**-**	3	**-**	-
	346	455	**-**	-

14. TRADE AND OTHER RECEIVABLES

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

At 31 March 2020 trade receivables are shown net of an impairment allowance of £1,000,000 *(2019: £412,000).*

An analysis of impairment losses recognised in the year is given in note 21.

Trade and other receivables denominated in currencies other than sterling comprise £112,000 *(2019: £149,000)* of trade receivables.

	Group 2020 £000	Group 2019 £000	**Company 2020 £000**	Company 2019 £000
Trade receivables	**2,743**	2,985	**-**	-
Less provision for trade receivables	**(1,000)**	(412)	**-**	-
Trade receivables net	**1,743**	2,573	**-**	-
Other receivables due from subsidiary companies	**-**	-	**9,981**	6,078
Less provision for subsidiary companies	**-**	-	**(3,243)**	(292)
Total financial assets other than cash and cash equivalents classified at amortised cost	**1,743**	2,573	**6,738**	5,786
Corporation tax	**354**	281	**-**	2
Other taxes	**-**	154	**-**	-
Other receivables	**53**	-	**-**	2
Total Other receivables	**407**	435	**-**	4
Total trade and other receivables	**2,150**	3,008	**6,738**	5,790

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	1,353	1,390	2,743
Loss provision	(115)	(885)	(1,000)
Net carrying amount	**1,238**	**505**	**1,743**

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 marketplace 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 2020 £000**	As at 31 March 2019 £000
Balance at 1 April	**412**	339
Receivable written off during the year as uncollectible	**-**	(136)
Increase in impairment allowance	**588**	209
Balance at 31 March	**1,000**	412

Of the total impairment provision £72,000 *(2019: £110,000)* 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 £128,000 *(2019: £1,075,000)* 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 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 £3,243,000 in the year *(2019: £292,000)*.

15. CASH AND CASH EQUIVALENTS

	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Cash and cash equivalents	**1,104**	1,354	**387**	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 £138,000 *(2019: £52,000).*

16. TRADE AND OTHER PAYABLES

Current Liabilities	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Trade payables	**1,326**	1,488	**7**	2
Accruals	**472**	925	**79**	25
Other liabilities	**362**	419	**-**	-
Total financial liabilities, excluding 'non-current' loans and borrowings classified as financial liabilities measured at amortised cost	**2,160**	2,832	**86**	27
Deferred income	**143**	256	**-**	-
Total trade and other payables	**2,303**	3,088	**86**	27

Non-current Liabilities	Group 2020 £000	Group 2019 £000	Company 2020 £000	Company 2019 £000
Deferred income	**-**	36	**-**	-
Total non-current liabilities	**-**	36	**-**	-

Trade payables denominated in currencies other than Sterling comprise £28,000 *(2019: £42,000)* 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 lease liabilities, see note 21.

Current Liabilities	**Group 2020 £000**	Group 2019 £000	**Company 2020 £000**	Company 2019 £000
Invoice Financing	**128**	1,075	**-**	-
Lease liabilities	**625**	409	**-**	-
Vendor Loan Notes	**-**	211	**-**	211
	753	1,695	**-**	211
Deferred consideration	**147**	366	**147**	366
Non-Current Liabilities				
Lease liabilities	**3,483**	2,180	**-**	-
	3,483	2,180	**-**	-
Deferred consideration	**-**	229	**-**	229

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 remain in employment of the business and 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 then current total voting rights in the Company.

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.

As at 31 March 2019, 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.

In the financial year to 31 March 2020 5 employees with options granted in the first SAYE Scheme offer left the Scheme and 11 employees with options granted in the second SAYE Scheme offer left the Scheme.

The inputs used to value the options were:

	2017 Options	2018 Options
Expected life of options	3 years	3 Years
Volatility	40%	40%
Dividend yield	0%	0%
Risk free interest rate	1.0%	1.1%

The total number of shares now under option is 4,058,464 equating to 3.57% per cent of the current total voting rights in the Company.

19. SHARE CAPITAL

SHARE CAPITAL – GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2020**	Ordinary shares 2019
In issue at 31 March 2019	**84,685**	47,558
Issued by the Company	**28,840**	37,127
Shares on the market at 31 March 2020 – fully paid	**113,525**	84,685

Allotted, called up and fully paid	**£000**	£000
113,525,346 *(2019: 84,684,683)* ordinary shares of £0.01 each	**1,135**	847
63 deferred shares of £0.10 each	**-**	-
	1,135	847

On 24 July 2019, the Group announced that it had 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. During the year 187,094 employee options over shares with a nominal value of 1p each were exercised at an issue price of £0.0775.

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 *(2019: £nil)*.

20. SHARE PREMIUM

	Group and company	
	2020 £000	2019 £000
At 31 March 2019	**4,125**	-
Premium on shares issued by the Company in the year	**3,738**	4,202
Share issue costs	**(62)**	(77)
At 31 March 2020	**7,801**	4,125

21. 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 lease liabilities.

The Group's policy during the financial year ended 31 March 2020 and 31 March 2019 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 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 year-end 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 £272,000 *(2019: £478,000)* 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 2020

	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	**2,160**	**2,160**	**2,160**	**-**	**-**	**-**	**-**
Lease liabilities	**4,108**	**5,532**	**441**	**447**	**865**	**2,410**	**1,369**
Loan Notes and deferred consideration	**147**	**147**	**102**	**45**	**-**	**-**	**-**
Invoice financing	**128**	**128**	**128**	**-**	**-**	**-**	**-**
	6,543	**7,967**	**2,831**	**492**	**865**	**2,410**	**1,369**

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	-	-	-	-
Lease liabilities	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

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 2020 Euro £000	**31 March 2020 GBP £000**	31 March 2019 Euro £000	31 March 2019 GBP £000
Trade receivables	**144**	**2,453**	189	3,289
Cash and cash equivalents	**138**	**966**	52	1,320
Trade payables	**(125)**	**(2,035)**	42	(1,043)
	157	**1,384**	283	3,566

SENSITIVITY ANALYSIS

Where the Group operates in Europe both revenues and costs are in the local currency therefore the level of exchange risk is low. In the Eurozone the Group has 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 2020, 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 £6,000 *(2019: £4,000*) with an equal adjustment to equity. A general increase of 25% in the value of the US Dollar would increase the Group's profit before tax by approximately £2,000 *(2019: N/A)* with an equal adjustment to equity.

LEASE LIABILITIES / 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 lease liabilities is determined by reference to similar lease agreements.

22. CHANGES IN ACCOUNTING POLICIES

As a result of the changes in the Group's accounting policies for the adoption of IFRS 16, the opening statement of financial position has been restated. The tables below show the adjustments recognised in the consolidated statement of financial position as at 1 April 2019.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 April 2019 is 6.4%. The following table shows the operating lease commitments disclosed applying IAS 17 at 31 March 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	£000
Operating lease commitments at 31 March 2019	**915**
Present value of the lease payments due in period covered by extension options that are included in the lease term and not previously included in operating lease commitments	**1,869**
Short-term leases and leases of low-value assets	**(66)**
	2,718
Effect of discount the above amounts	**(626)**
Finance lease liabilities recognised under IAS 17 at 31 March 2019	**2,589**
Lease liabilities recognised at 1 April 2019	**4,681**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Group 31 March 2019 £000	Impact of IFRS 16 £000	**Group 1 April 2019 £000**
Non-current assets			
Property, plant and equipment	4,060	2,092	**6,152**
Intangible assets	4,371	-	**4,371**
Investments in subsidiaries	-	-	**-**
Deferred tax assets	10	-	**10**
Total non-current assets	8,441	2,092	**10,533**
Current assets			
Inventories	455	-	**455**
Trade receivables	2,573	-	**2,573**
Other receivables	154	-	**154**
Prepayments	548	-	**548**
Current tax receivable	281	-	**281**
Cash and cash equivalents	1,354	-	**1,354**
Total current assets	5,365	-	**5,365**
Total assets	13,806	2,092	**15,898**
Current liabilities			
Other interest-bearing loans and borrowings	1,695	232	**1,927**
Deferred consideration	366	-	**366**
Trade payables	1,488	-	**1,488**
Other payables and accruals	1,344	-	**1,344**
Deferred income	256	-	**256**
Total current liabilities	5,149	232	**5,381**
Non-current liabilities			
Other interest-bearing loans and borrowings	2,180	1,860	**4,040**
Deferred consideration	229	-	**229**
Deferred income	36	-	**36**
Deferred tax liabilities	576	-	**576**
Total non-current liabilities	3,021	1,860	**4,881**
Total liabilities	8,170	2,092	**10,262**
Net assets	5,636	-	**5,636**
Equity attributable to equity holders of the parent			
Share capital	847	-	**847**
Merger reserve	838	-	**838**
Share premium	4,125	-	**4,125**
Share based payment reserve	47	-	**47**
Retained earnings	(221)	-	**(221)**
Total equity	5,636	-	**5,636**

23. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2020 £000	Group 2019 £000	**Company 2020 £000**	Company 2019 £000
Plant and machinery				
Less than one year	**1**	56	**-**	
Between one and five years	**-**	65	**-**	-
Land and buildings				
Less than one year -	**6**	383	**-**	-
Between one and five years	**-**	411	**-**	-
	7	915	**-**	-

The adoption of IFRS 16 has changed the way in which leases are treated, resulting in a significant reduction in the value of operating lease commitments. The details of the changes in policy and its impact on the financial statements are discussed within the accounting policies and note 22.

Group

During 2019 £421,000 was recognised as an expense in profit and loss in respect of operating leases.

24. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the year end *(2019: £nil).*

25. RELATED PARTIES

The Company provides cross company guarantees in respect of the invoice discounting for £0.13m. In the year ended 31 March 2020 no dividends were received *(2019: nil)*.

Transactions with key management personnel

At the year end the Directors of the Company controlled 2.55 per cent of the voting shares of the Group.

On 5 April 2019 Conrad Bona transferred 149,545 ordinary shares from his personal holding to his individual savings account and 71,882 Ordinary Shares from his personal holding to his self-invested personal pension. These transactions resulted in a disposal of 795 Ordinary Shares.

On 27 November 2019 Peter Gunning purchased 100,000 Ordinary Shares increasing his holding to 1,725,000.

The compensation of the Directors, who are the key management personnel, is disclosed in note 5 and within the Directors Remuneration Report on pages 41-42.

26. POST BALANCE SHEET EVENTS

Covid-19 has significantly impacted the whole industry since March, and Grafenia has not been immune. Revenue in April was 30% of the previous year, and May only 40% of the result 12 months prior. We have however seen a stronger recovery in June to 90% of prior year revenue, driven by our new Covid related product ranges. In response to the pandemic, we have utilised government support where available through the Coronavirus Job Retention Scheme, local business grants and rates relief and Time-To-Pay arrangements for our PAYE and NI liabilities.

To further ensure that the business has enough liquidity through this period, we have secured an additional term loan for £1.00m through the Coronavirus Business Interruption Loan Scheme (CBILS). Further, we have also refinanced our primary hire purchase facility through CBILS, thereby reducing our cash repayments for 12 months.

On 15th July we announced the creation of a £50.00m perpetual bond facility and had issued £3.00m of the bonds, at nominal value, to investors, raising approximately £2.01m before expenses.

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