3 September 2019

Accrol Group Holdings plc
("Accrol", the "Group" or the "Company")
AIM: ACRL

AUDITED FINAL RESULTS FOR THE YEAR ENDED 30 APRIL 2019
Group now operationally efficient: profitability[2] restored and ready for growth

Accrol Group, the UK's leading independent tissue converter, announces its audited Final Results for the year ended 30 April 2019 ("FY19").

Summary of progress

The scale and pace of change implemented in the business in FY19 to effect a successful and rapid turnaround were extraordinary. Accrol is now a simpler, stronger and more operationally efficient business than it has ever been. Monthly profitability has been restored, despite input cost headwinds of £10.8m, the Group is cash generative and net debt is reducing. With a highly experienced senior leadership team in place and the Group's primary market growing rapidly, the re-engineered business is ready to capitalise on this opportunity.

The financial results in FY19 were as expected and, despite strengthening foreign exchange ("FX") headwinds, the Group remains on track to meet market expectations in the year ending 30 April 2020 ("FY20").

Key financials:

	FY19	*FY18*
Underlying results		
Core revenue	***£116.7m***	*£115.3m*
Adjusted gross profit[1]	***£21.7m***	*£24.5m*
Adjusted gross margin	***18.2%***	*17.5%*
Adjusted EBITDA[2]	***Profit £1.0m***	*Loss £5.8m*
Adjusted loss per share basic and diluted	***1.4p***	*7.4p*
Reported results		
Revenue	**£119.1m**	£139.7m
Gross profit	**£17.6m**	£24.5m
Gross margin	**14.7%**	17.5%
Loss before tax	**£14.0m**	£24.1m
Net debt	**£27.1m**	£33.8m
Loss per share basic and diluted	**6.2p**	18.7p

(1) Adjusted gross profit excludes turnaround and operational costs reported in cost of sales;
(2) Adjusted EBITDA is defined as profit before finance costs, tax, depreciation, amortisation, turnaround and operational costs and share based payments, is a non-GAAP metric used by management and is not an IFRS disclosure.

Analysis of core revenue:

Core revenue comprises retail sales of Toilet Tissue, Kitchen Towel and Facial Tissue. It excludes the Away From Home ("AFH") business, exited in June 2018.

	FY19	***FY18***	***Change***
Core revenue	**£116.7m**	£115.3m	£1.4m

Current trading and outlook:

- Accrol is now profitable, cash generative and fit for purpose
- Total exceptional costs in FY20, including costs associated with FCA investigation, are expected to reduce to c.£1.0m (FY19: £7.9m), c.£0.5m of which will relate to final turnaround activities.
- The Board has approved in principle the investment in further machine capacity and the Group will continue to optimise production through automation
- Net debt is expected to continue to improve as the business grows
- Brand-killer: Accrol perfectly positioned to capitalise on the accelerating consumer shift from expensive established brands to best value tissue products
- The Board continues to explore opportunities to grow the business and de-risk its exposure to FX and tissue price volatility
- Despite strengthening FX headwinds, the Group remains on track to meet market expectations in FY20

Dan Wright, Executive Chairman of Accrol, said:

"The new Board and management team of Accrol delivered a complex and comprehensive turnaround plan in FY19, simplifying and strengthening the business to improve efficiency and optimise operational performance. Following the conclusion of this restructuring, I am pleased to say that I believe the business is more operationally efficient and fit for purpose than it has ever been.

"By the end of the year, we achieved our stated objective to return the Group to monthly profitability and I am pleased to report that the reengineered business is showing resilience in the face of strengthening FX headwinds. The Group is beginning to secure enhanced credit terms from its key suppliers and capitalising on this initiative is a core element of our continued working capital management and improving debt profile.

"The Group has delivered improving levels of monthly profitability since the year end. As such, we are on track to meet market expectations in FY20 and the Board is confident that the Group will exit FY20 at an accelerating monthly run rate."

Gareth Jenkins, Chief Executive Officer of Accrol, added:

"The heavy lifting of the turnaround is now behind us and the ongoing challenge of maintaining consistent delivery of low cost, quality product to our customers remains. We are now able to instil continuous improvement disciplines into an operation that is fit for purpose.

"As the new financial year progresses, we will continue to be innovative in our approach to winning new business and take steps to bring our low cost, high service brand-killer approach to different products and markets.

"We keep a watchful eye on the strength of the pound and will take the steps necessary to mitigate the risks of continued currency weakness, but that should not distract us from profitably meeting our customers' needs. The business has now been reset. There is a huge opportunity for the Group in the rapidly growing personal hygiene value market and, whilst there is more to do, the Board has real confidence that the foundations have been laid for a successful future."

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About us

New Group website: www.accrol.com

Accrol Group Holdings plc is a leading tissue converter and supplier of toilet rolls, kitchen rolls and facial tissues, as well as other tissue products, to major discounters and grocery retailers throughout the UK.

Our vision is to deliver the best possible value to the UK consumer on essential everyday tissue products. We are shaking up the traditional tissue brands by delivering the quality the consumer demands for the price they want to pay.

The business operates from four sites in Lancashire:

- A manufacturing, storage and distribution facility in Blackburn;
- A storage and administrative centre in Blackburn;
- A facial tissue plant, also in Blackburn; and
- A manufacturing, storage and distribution facility in Leyland.

CHAIRMAN'S STATEMENT

The new Board and management team of Accrol delivered a complex and comprehensive turnaround plan in FY19, simplifying and strengthening the business to improve efficiency and optimise operational performance. Following the conclusion of this restructuring, I am pleased to say that I believe the business is more operationally efficient and fit for purpose than it has ever been.

By the end of the financial year, we achieved our stated objective to return the Group to monthly profitability and I am pleased to report that the reengineered business is showing resilience in the face of strengthening FX headwinds. The Group is beginning to secure enhanced credit terms from its key suppliers and capitalising on this initiative is a core element of our continued working capital management and improving debt profile.

The Group has delivered improving levels of monthly profitability since the year end. As such, we are on track to meet market expectations in FY20 and the Board is confident that the Group will exit FY20 at an accelerating monthly run rate.

Results

Revenue in the year ended 30 April 2019 was £119.1m, compared to £139.7m in the prior year, as the Group strategically exited the Away From Home market and other low margin contracts. On a like for like basis, however, FY19 revenue was broadly unchanged on the prior year. All other key earnings figures showed material improvement on the financial year ended 30 April 2018 ("FY18"). Loss at EBITDA level was reduced by £10.5m to a loss of £8.2m (FY18: loss of £18.7m) and the Group returned to profit at Adjusted EBITDA[2] level of £1.0m (FY18: loss of £5.8m). Loss Before Tax decreased by £10.1m to £14.0m (FY18: loss of £24.1m) and Adjusted Loss Before Tax[2] was £2.8m (FY18: loss of £9.1m). These significant improvements were achieved despite adverse headwinds in tissue prices and FX negatively impacting FY19 results by £10.8m.

Non-recurring costs, primarily associated with the turnaround process, 'Turnaround and operational costs', totalled £7.9m (FY18: £12.9m), due to the complex nature, speed and scale of the restructuring. Our balance sheet has stabilised, despite the significant level of expenditure on turnaround costs and investment in increased capacity, through a keen focus on working capital management, controlled investment and restored cash profitability. Net debt at 30 April 2019 was reduced by £6.7m to £27.1m (FY18: £33.8m).

This recovery would not have been possible without the support of shareholders, who funded a Placing and an Open Offer raising £9.3m (net of expenses) in the early part of the financial year. The Group's bank also remained supportive throughout this difficult period. Their combined support enabled us to accelerate the turnaround programme, maintain the confidence of other key stakeholders and minimise the overall cost of recovery.

Simplify, strengthen and grow

The scale and pace of change implemented in the business in FY19 has been extraordinary. The simplification process to deliver optimal operational efficiency, presented our highly experienced turnaround team with unprecedented challenges. Multiple issues across every area of the business needed to be addressed simultaneously, adding significant cost and complexity. Our people throughout the organisation approached this task skilfully and relentlessly and I am very proud of their achievements. Their efforts have returned Accrol to the core capabilities on which its previous growth and success were built - commitment to customer service, emphasis on lowest-cost production and investment in product innovation.

Whilst the foundations of the Group have been successfully restructured, returning Accrol to its simple roots, and the business strengthened substantially in FY19, there is still much to do. The Group's exposure to foreign exchange and fluctuating tissue prices remains a challenge. We are focused on delivering continual improvement within the business to maximise its efficiency. Our primary focus in FY20 is to consolidate the progress we have made to date, strengthen the business and its systems further and capitalise on the increased capacity the restructuring has created to ensure we can deliver sustainable profitable growth and a good return to shareholders.

Our key areas of focus in FY20 are:

- Identification of options to add productive capacity;
- Adoption of normalised continuous improvement processes;
- Management of the foreign exchange challenge presented by Brexit;
- Execute on new and existing customer growth; and
- Implementation of the new IT system (as detailed in the CEO's review).

Our people

Our aim is to simplify, strengthen and grow the business and our people are key to us achieving that goal. During the financial year, we welcomed two new independent non-executive directors to the Board: Euan Hamilton in August 2018, an experienced international financier, and Simon Allport, a senior professional services adviser, in October 2018. Both have made a valuable contribution during the turnaround process. Joanne Lake resigned from the Board as a non-executive director in October 2018 and Steve Townsley resigned as Chief Financial Officer for health reasons in January 2019.

The senior management team was also strengthened considerably during the year. John Pilkington was appointed as Group Financial Controller and subsequently promoted to Group Finance Director. During the turmoil of the turnaround, John managed cash and costs with confidence and provided insightful challenge to the plans. Mark Dewhurst, who has a wealth of experience delivering operational excellence, joined from DS Smith, as Chief Operating Officer in September 2018 and, post year end, Graham Cox also joined from DS Smith, where he was most recently running US operations with 1,200 employees and revenues of £450m. With over 20 years' experience in running manufacturing businesses and transforming good ones into great ones, he will add enormously to the Accrol executive team. I believe we now have the best possible executive team in place to achieve sustainable profit growth.

I thank all my colleagues throughout Accrol for their commitment and unremitting hard work through what have been exceptionally turbulent times. The confidence of the organisation has been restored by the strong leadership of our new senior management team and its clear focus. I very much look forward to working with the whole team on the next stage of the Group's development.

Dividend

The Board is not proposing a final dividend for FY19. It remains the Board's intention to return to the dividend list at the earliest appropriate opportunity.

FCA investigation

As previously announced (RNS 6698N on 21 January 2019 and RNS 1694U on 24 March 2019), the FCA is investigating the period from 10 June 2016 to 30 September 2018. The Group continues to co-operate fully with this investigation and anticipates further expenditure on advisory services relating to this matter in FY20.

Outlook

The Group's exposure to the thriving discount retail segment is stronger than it has ever been, and we are growing our presence amongst the major grocery retailers. The consumer shift away from more expensive established brands to best value products is accelerating and the Group remains well positioned to capitalise on this trend. Our capabilities support our strategic brand-killer ambitions in the luxury private label tissue market and beyond.

As we move towards H2 FY20, our attention is focused on helping more customers deliver the best value for price paid on tissue products. Profitable growth is our priority, as we match production capacity to significant market demand and our stakeholders' growth expectations.

The business is cash generative. Coupling this with our ability to deliver quality products which satisfy consumer demand for best-value white label products, the Board has the confidence to expand capacity by approving the acquisition of a new line. This investment is expected to be funded through lease financing but we still expect net debt at 30 April 2020 to be marginally lower than at 30 April 2019, given expected levels of cash generation. The new line is scheduled to be commissioned in early 2020.

The macro environment continues to be challenging as Brexit dominates FX movement; sterling weakness in particular. The benefits of the turnaround actions in creating a simple and more flexible and resilient business model, however, are now showing in the Group's financial performance, as the distraction and costs of that activity are removed. The management team now has the capacity to address the commercial challenges and opportunities presented, whilst continuing to deliver great customer service at the lowest cost. The strength of the customer relationships presents the best protection against the macro-economic headwinds for the business in the short to mid-term.

With the bulk of the turnaround completed, the Board is also able to explore opportunities to de-risk the Group's exposure to FX and volatility in tissue prices further, through diversification and a focus on securing long-term and committed supply sources.

Our confidence and ability to invest in new capacity reflects how far the business has progressed over the last 18 months, despite extremely challenging input cost headwinds. Although these headwinds are ongoing, the Group remains on track to meet market expectations in FY20 and the Board looks to the future with confidence.

Dan Wright
Executive Chairman
3 September 2019

CHIEF EXECUTIVE OFFICER'S REVIEW

The restructuring we have undertaken at Accrol over the past 18 months has been intense and challenging. I have led many turnaround situations but not one has been as complex or required such comprehensive action across all elements simultaneously, as this one. It is satisfying to report that the Group is on stronger footings than it has ever been, and we now have solid base on which to create sustainable growth.

Most importantly, throughout this difficult and distracting period, we managed to maintain and develop the Group's strong position with all the major discounter retailers, whilst also attracting new relationships with some major grocery retailers ("multiples") for the supply of private label toilet roll, kitchen towel and facial tissues. The return to an acceptable level of profit on a monthly basis by year end and the improving margins thereafter reflect the outstanding achievements of our team in managing out unnecessary complexities and layers of cost in the business, without losing focus on our customers.

During this year of phenomenal remedial activity, in which no area of the Group was left untouched, we incurred £7.9m of turnaround and operational costs. These related to waste, wages, consultancy and legal costs. This level of spend was necessary to effect change in all areas in a concentrated period, whilst protecting customer service and cash. Adjusting for this at EBITDA, a key performance measure for the Group, is necessary to gain a true understanding of the Group's underlying trading performance in FY19. In addition, we have seen a pleasing progression in gross margin and EBITDA over the period.

Strategy

Following the strategic review announced in October 2017, we have endeavoured to return the Group to its core strengths - a simple business with low operational costs and great customer service. This has required considerable re-engineering; *the turnaround plan*. I am pleased to say that this plan has gone extremely well, despite tissue price and foreign exchange headwinds of 10.8m. All the remedial projects we have undertaken have been completed, other than a new IT system, which is on budget and scheduled to go live later in the calendar year. Our customer service and output remain strong. With a much-reduced and simplified cost base and free of the distractions of turnaround, we are well positioned to capitalise on the profitable opportunities arising from the accelerating consumer shift towards value and away from major, well-known tissue brands.

As a business, Accrol is dedicated to being the lowest cost tissue converter and an innovator, employing the best people, that delivers market leading value for consumers. Our challenge, as we move into the next phase of the Group's development, is to ensure that manufacturing capacity is in place to support our aim to be the leading supplier of tissue-based products.

Market overview

The decline of branded toilet roll share through the major multiples and discount market continues. Over the last 12 months, the leading branded player has reported increase in sales of 3.5% year on year mainly due to aggressive promotional activity (source IRI 24th February 2019), however the branded sector overall remains in decline. Discount and own branded products, however, have enjoyed a continuing increase in sales of 8.6% in toilet tissue. Own label sales now make up 50% of the toilet roll/tissue market, compared to 48% in February 2018. This trend represents a massive opportunity for the Group. I am pleased to report that our own sales in toilet tissue in the same period outperformed the market, growing by 12%, on top of 12% in FY18.

Customers

Despite the immense operational upheaval, we managed to grow sales of toilet tissue, our core product, and produced strong growth amongst our top customers. This is testament to our absolute commitment to provide consistent top-quality service, operate flexibly and innovate as customers demand. Whilst we lost customers with the closure of our Away From Home business, the Group retains a broad base of customers with reach across the whole consumer base. This gives us valuable market insight across all consumer buying channels and ensures our products always meet the consumer's, and therefore the customers', needs.

Despite the turnaround activity, we set ambitious revenue targets and I am pleased to say that our exit run rate was in line with the management's expectations, supported by several key wins, including:

- Core toilet roll range for a major, top four, grocery retailer from October 2018
- Two new regions and the introduction of a luxury range to a major leading discounter; and
- Three new regions for another major leading discounter.

The Group continues to develop longer-term supply agreements with appropriate commercial terms to underpin investment in machinery and people to deliver capacity growth.

Pricing remains a sensitive issue with our customers and, whilst we strive to be the lowest cost producer, FX headwinds continue to be significant. In line with many other suppliers in our sector, we will need to address pricing if the pound settles at its current level.

Suppliers

Ensuring the appropriate supply of paper for Accrol was a key project in FY19 and remains a key area of focus as we seek to strengthen the business further. Sourcing quality product at a competitive price on a just in time basis allows us to improve operational efficiency and working capital. Maximising reel size helps us manage set up times and waste. Increasing our tissue choices will ensure that our customers are the first to benefit from the latest paper technologies and specifications give us flexibility to maintain our competitive advantage. Each element needs careful consideration along with reliability of supplier manufacture and delivery.

Over the last 18 months, we have developed a much stronger paper supply base and our suppliers have been supportive throughout. We continue to explore all opportunities to optimise this critical part of our business model.

Across the general supply base, we continue to review our needs and rationalise the number of supply partners we use. Credit facilities have already improved but remain a challenge for the Group. We anticipate further progress towards more normal terms, as the Group's financial results improve; though none is built into our budgets.

Operations

Fundamental to the turnaround was the complete overhaul of the whole operation - putting simplification at its heart. This has been delivered across all elements during the year. These vital changes have come at a significant one off cost, but we now have a business that can operate profitably as the lowest cost provider of tissue products in the UK, as well as a strong platform for delivering other products as the market demands.

Our challenge now is to reinforce what has already been achieved so far by the excellent teams of high performing individuals throughout the organisation. We have invested significantly in training and machinery in FY19. Whilst new working practices have been successfully embedded, we will continue to invest to achieve further cost savings and capacity increases; both necessary for the future success of the business.

We are looking forward to the opportunities created by the implementation of a new IT system at the end of 2019. The access to new data, which this system will provide, will allow us to make continual day-to-day improvements to efficiency throughout the business. We will seek to improve the level of management information systems as the business grows.

The business continues to grow across all its major customers, and the Board has approved, in principle, investment in a further tissue line, which is expected to be operational by early 2020. Not only will this line provide much needed additional capacity, it is the latest proven technology and will enable further operational costs savings for the business as we strive to make Accrol the lowest cost producer in the UK. This investment will be supported by further simple automation across all major lines.

People and culture

The goodwill, initiative and resilience of our people has been extraordinary throughout the whole restructuring process. No role was unaffected by the scale and breadth of the changes and many of our people were asked to perform dual or multiple roles during the year. We required short-term expert advice at certain stages and asked consultants to work alongside our own team, as processes were developed or adjusted. As the structure evolved, new roles were created; sometimes these were filled internally but, where necessary, we sourced talented people externally who have been welcomed into the Group. Despite the changes, our positive culture has prevailed, as evidenced by an encouraging first engagement survey, achieving a 75% overall positive response rate.

Health and safety

Accrol takes the health and safety of its employees very seriously; from employee induction through to the reporting and discussion each month at the Board meeting. Our audit feedback from the HSE and customers has been excellent throughout the year and we continue to look for improvements.

During the year under review, we had five Lost Time Accidents, a reduction of 30% on the prior year. The All Accidents rate was 48% lower and near miss incidents were reduced by 15% year on year.

Outlook

The heavy lifting of the turnaround is now behind us and the ongoing challenge of maintaining consistent delivery of low cost, quality product to our customers remains. We are now able to instil continuous improvement disciplines into an operation that is fit for purpose.

As the new financial year progresses, we will continue to be innovative in our approach to winning new business and take steps to bring our low cost, high service brand-killer approach to different products and markets.

We keep a watchful eye on the strength of the pound and will take the steps necessary to mitigate the risks of continued currency weakness, but that should not distract us from profitably meeting our customers' needs. The business has now been reset. There is a huge opportunity for the Group in the rapidly growing personal hygiene value market and, whilst there is more to do, the Board has real confidence that the foundations have been laid for a successful future.

Gareth Jenkins
Chief Executive Officer
3 September 2019

GROUP FINANCIAL REVIEW

Summary

I am pleased to report that, in this very challenging year, we were able to reduce operating losses by £10.6m; return to profit at adjusted EBITDA level; reduce net debt by £6.7m; and increase our market share in our core toilet tissue market with revenues in this segment rising by 12%. All this was achieved despite the significant disruption experienced as the turnaround gathered momentum and following a 15% reduction in overall revenues resulting from the Group's exit from the Away from Home ("AFH") sector and other low margin contracts.

Operating loss narrowed from £23.4m to £12.7m, as the Group began to benefit from the remedial action taken over the prior 18 months.

During the financial year, we raised £9.3m in a Placing and Open Offer, re-negotiated our bank covenants and met the scheduled bank loan repayments of £3.0m.

Income statement

	2019 £'000	2018 £'000
Revenue	**119,111**	139,738
Cost of sales	**(101,559)**	(115,232)
Gross profit	**17,552**	24,506
Administration expenses	**(19,228)**	(33,177)
Distribution costs	**(11,066)**	(14,685)
Operating loss	**(12,742)**	(23,356)
Finance costs	**(1,276)**	(713)
Loss before tax	**(14,018)**	(24,069)
Tax credit	**2,270**	4,106
Loss for the year attributable to equity shareholders	**(11,748)**	(19,963)
Loss per share		
Basic	**(6.2)p**	(18.7)p
Diluted	**(6.2)p**	(18.7)p
Operating loss	**(12,742)**	(23,356)
Adjusted for:		
Depreciation	**2,488**	2,612
Amortisation	**2,040**	2,041
Share based payment	**1,316**	-
Turnaround and operational costs	**7,906**	12,879
Adjusted EBITDA[2]	**1,008**	(5,824)

Revenue

Group revenue reduced by £20.6m (15%), compared with FY18, mainly due to the exit from the AFH business and other low margin contracts. Sales of our core toilet tissue products increased by 12% to £84.8m from £75.8m in FY18, driven by the continued market share growth of the discount retailers, introduction of Accrol product into a greater store footprint and the introduction of product to a major retailer. The private label market continues to grow at over 8% per year.

Revenue by product	**FY19**	**FY18**	**Variance**	**Variance**
	£m	**£m**	**£m**	**%**
Toilet tissue	**84.8**	75.8	9.0	12%
Kitchen towel	**22.0**	28.2	(6.2)	(22%)
Facial tissue	**9.9**	11.3	(1.4)	(12%)
Core revenue	**116.7**	115.3	1.4	1%
AFH	**1.5**	22.8	(21.3)	(93%)
Other	**0.9**	1.6	(0.7)	(44%)
Total Revenue	**119.1**	139.7	(20.6)	(15%)

Gross margin

Gross margin reduced to 14.7% from 17.5% as the Group was impacted by higher parent reel prices, the weaker pound and the incremental cost of materials waste resulting from multiple turnaround projects.

Waste levels started to return to a more acceptable level by the end of the year, as the workforce stabilised and improved training and simplified and standardised operating procedures began to have a positive impact. Parent reel prices also stabilised during FY19 and the exit rate prices present an encouraging outlook. The weakening pound, however, remains a concern.

Administration costs

Administration costs were reduced by £14.0m to £19.2m in FY19 (FY18: £33.2m). Much of the decrease is explained by a reduction in charges relating to turnaround and operational costs; this explains £8.6m of which the reduction of FX losses is the biggest single contributor at £4.4m. At an underlying level the Group benefits from the exit of Skelmersdale, a reduction in salary costs, and the level of machine repairs following the accelerated machine upgrade programme. Further improvement in administration costs will come from the implementation of the new IT system.

Distribution costs

Distribution costs were reduced by £3.6m (FY18: £14.7m) a drop of 25% YoY. This reduction is greater than the 15% fall reported in revenue, as the closure of our Skelmersdale distribution facility removed shunting costs and the Group benefitted from operational efficiencies created by its exit from AFH.

Turnaround and operational costs

The turnaround process in FY19 touched all parts of the Group and many projects were run in parallel to effect change at the fastest possible pace to protect trading losses and cash consumption. These costs were all directly associated with the turnaround process and not reflective of the level of costs incurred under normal trading circumstances. In the view of the Board, the Adjusted EBITDA figure is more representative of the underlying return from business traded in FY19. Full details are disclosed in Note 5.

The turnaround activity is now largely concluded and turnaround and operational costs are expected to be c.£0.5m in FY20. We do anticipate that further exceptional costs will be incurred in FY20 to support the ongoing FCA investigation. Total exceptional costs in FY20, including costs associated with FCA investigation, are expected to reduce to c.£1.0m (FY19: £7.9m), c.£0.5m of which will relate to final turnaround activities.

Finance costs

Finance costs increased by £0.6m to £1.3m in the year under review, reflecting the borrowings to finance the new production line, with a further £0.2m of the increase related to non-cash items, principally the amortisation of finance fees.

Taxation

The Group recorded a deferred tax credit of £2.3m in the year. We also received a corporation tax refund of £2.0m in the year relating to a prior year tax payment.

Balance sheet

Property, plant and equipment
During the year, a third production line was commissioned at Leyland at a cost of £5.0m, funded in part by finance lease. Further investments made in the year include a major machine upgrade programme, to improve capacity and long-term performance, the addition of racking to the warehouse, ahead of the move out of Skelmersdale, and infrastructure improvements to the Accrol estate.

The AFH lines impaired in the prior year were sold, incurring a loss of £0.1m. There were no further asset impairments with all remaining lines contributing to output. Whilst we have created additional production capacity in the year under review through efficiencies and investment in a new line at Leyland, a further new line has been approved by the Board to support anticipated growth. This is expected to be operational in early 2020.

Intangibles
Intangibles comprised mainly goodwill and customer relationships. Under IFRS, goodwill is not amortised but is subject to an impairment review on at least an annual basis. The Directors performed a review during the period, which involved making assumptions about the future performance of the business. After carefully considering various scenarios that could occur and after looking at sensitivities on these scenarios, the Directors concluded that no impairment was required, however the position will be monitored on a regular basis. It is worth noting, however, that the profitability of the Group remains sensitive to foreign exchange rates and parent reel prices.

Working capital

	2019	2018	Change
	£m	£m	£m
Inventories	**11.2**	14.1	(2.9)
Trade and other receivables	**23.1**	30.0	(6.9)
Trade and other payables	**(16.0)**	(13.9)	(2.1)
	18.3	30.2	(11.9)

Both raw material stocks and finished goods stock reduced over the year as new planning and procurement processes were adopted. In addition, there was a one-off benefit from selling through the remaining AFH stock. There remains some opportunity to reduce stock further, as the new IT system is expected to bring improved levels of management information, but future gains in this area are expected to be marginal.

The decrease in receivables reflects the rationalised customer base following the AFH exit. Our customers have paid promptly throughout the year and we have experienced very low levels of default.

The increase in the trade payables figure is due to a growing level of confidence amongst our supplier base, which is leading to improvements in credit terms offered.

Borrowings and cash flow

	2019	2018	Change
	£m	£m	£m
Bank loan facility	**12.0**	15.0	(3.0)
Finance leases	**3.6**	0.5	3.1
Factoring facility	**13.7**	18.7	(5.0)
Borrowings	**29.3**	34.2	(4.9)
Cash and cash equivalents	**(2.2)**	(0.4)	(1.8)
Net debt	**27.1**	33.8	(6.7)

The Group achieved a substantial improvement in net debt over the year. The new funds from shareholders supported the turnaround project, whilst tight working capital management and a return to cash generative trading had a positive impact.

The refinancing activity in the first half of the financial year raised £9.3m (net of expenses) through a Placing and Open Offer. This was supported by the re-setting of bank covenants that maintained the revolving credit facility and the invoice discounting facility.

There was a £3.7m cash inflow from operations in the year (FY18: cash outflow of £23.1m), due largely to the improved trading performance and management of working capital. At the year end, cash balances were £2.2m (FY18: £0.4m) with a further £1.2m available through the invoice discounting line. The Board remains committed to generating cash from operations and reducing net debt.

Accounting Standards

The Group had adopted new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts from Customers* during the year, the impact of which was not material. IFRS 16 *Leases* will be adopted from May 2019.

John Pilkington
Group Finance Director
3 September 2019

CONSOLIDATED INCOME STATEMENT

For year ended 30 April 2019

	Note	**2019 £'000**	2018 £'000
Revenue	4	**119,111**	139,738
Cost of sales		**(101,559)**	(115,232)
Gross profit		**17,552**	24,506
Administration expenses		**(19,228)**	(33,177)
Distribution costs		**(11,066)**	(14,685)
Operating loss		**(12,742)**	(23,356)
Analysed as:			
– Adjusted EBITDA[1]		**1,008**	(5,824)
– Depreciation		**(2,488)**	(2,612)
– Amortisation of intangible assets	9	**(2,040)**	(2,041)
– Share based payment		**(1,316)**	-
– Turnaround and operational costs	5	**(7,906)**	(12,879)
Operating loss		**(12,742)**	(23,356)
Finance costs	7	**(1,276)**	(713)
Loss before tax		**(14,018)**	(24,069)
Tax credit	8	**2,270**	4,106
Loss for the year attributable to equity shareholders		**(11,748)**	(19,963)

Earnings per share			
Basic loss per share	6	(6.2)p	(18.7)p
Diluted loss per share	6	(6.2p)	(18.7)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 30 April 2019

	2019 £'000	2018 £'000
Loss for the year attributable to equity shareholders	**(11,748)**	(19,963)
Other comprehensive income for the year		
Revaluation of derivative financial instruments[2]	**50**	2,868
Tax relating to components of other comprehensive income	**(9)**	(545)
Total comprehensive loss attributable to equity shareholders	**(11,707)**	(17,640)

The notes are an integral part of these consolidated financial statements.

(1) Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, share based payment and turnaround and operational costs, is a non-GAAP metric used by management and is not an IFRS disclosure (see note 13).

(2) Items that could potentially be reclassified subsequently to profit and loss.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 April 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		**29,302**	24,723
Intangible assets	9	**25,661**	27,701
Total non-current assets		**54,963**	52,424
Current assets			
Inventories		**11,162**	14,057
Trade and other receivables		**23,057**	29,987
Current tax asset		**191**	2,198
Cash and cash equivalents		**2,176**	431
Derivative financial instruments		**50**	–
Total current assets		**36,636**	46,673
Total assets		**91,599**	99,097
Current liabilities			
Borrowings	10	**(16,709)**	(21,670)
Trade and other payables		**(15,986)**	(13,858)
Provisions		**(571)**	(492)
Derivative financial instruments		**–**	(668)
Total current liabilities		**(33,266)**	(36,688)
Total assets less current liabilities		**58,333**	62,409
Non-current liabilities			
Borrowings	10	**(11,838)**	(11,759)
Deferred tax liabilities	8	**(33)**	(2,352)
Provisions		**(2,140)**	(2,672)
Total non-current liabilities		**(14,011)**	(16,783)
Total liabilities		**(47,277)**	(53,471)
Net assets		**44,322**	45,626
Capital and reserves			
Share capital	11	**195**	129
Share premium		**68,015**	58,832
Hedging reserve		**41**	–
Capital redemption reserve		**27**	27
Retained earnings		**(23,956)**	(13,362)
Total equity shareholders' funds		**44,322**	45,626

The financial statements were approved by the Board of Directors on 3 September 2019.

Signed on behalf of the Board of Directors

Gareth Jenkins
Chief Executive Officer

Company Registration Number 09019496

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 30 April 2019

	Note	Share capital £’000	Share premium £’000	Hedging reserve £’000	Capital redemption reserve £’000	Retained earnings/ (accumulated losses) £’000	Total equity £’000
Balance at 30 April 2017 and at 1 May 2017		93	41,597	(2,323)	27	10,517	49,911
Comprehensive (expense)/income							
Loss for the year		–	–	–	–	(19,963)	(19,963)
Revaluation of derivative financial instruments		–	–	2,868	–	–	2,868
Tax relating to components of other comprehensive income		–	–	(545)	–	–	(545)
Total comprehensive income		–	–	2,323	–	(19,963)	(17,640)
Transactions with owners recognised directly in equity							
Proceeds from shares issued		36	17,964	–	–	–	18,000
Transaction costs		–	(729)	–	–	–	(729)
Dividends		–	–	–	–	(3,720)	(3,720)
Share based payments		–	–	–	–	(196)	(196)
Total transactions recognised directly in equity		36	17,235	–	–	(3,916)	13,355
Balance at 30 April 2018		129	58,832	–	27	(13,362)	45,626
Comprehensive (expense)/income							
Loss for the year		–	–	–	–	(11,748)	(11,748)
Revaluation of derivative financial instruments		–	–	50	–	–	50
Tax relating to components of other comprehensive income		–	–	(9)	–	–	(9)
Total comprehensive income		–	–	41	–	(11,748)	(11,707)
Transactions with owners recognised directly in equity							
Proceeds from shares issued	11	66	9,869	–	–	–	9,935
Transaction costs		–	(686)	–	–	–	(686)
Share based payments (net of tax)		–	–	–	–	1,154	1,154
Total transactions recognised directly in equity		66	9,183	–	–	1,154	10,403
Balance at 30 April 2019		**195**	**68,015**	**41**	**27**	**(23,956)**	**44,322**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 April 2019

	Notes	**2019 £'000**	2018 £'000
Cash flows from operating activities			
Operating loss		**(12,742)**	(23,356)
Adjustment for:			
Depreciation of property, plant and equipment		**2,488**	2,612
Impairment of property, plant and equipment		**–**	2,502
Loss on disposal of property, plant and equipment		**117**	–
Amortisation of intangible assets	9	**2,040**	2,041
Grant income		**(118)**	(118)
Turnaround and operational costs		**340**	4,564
Impairment of trade receivables		**–**	380
Share based payments		**1,316**	(196)
Operating cash flows before movements in working capital		**(6,559)**	(11,571)
Decrease in inventories		**2,554**	924
Decrease/(increase) in trade and other receivables		**6,929**	(6,937)
Increase/(decrease) in trade and other payables		**1,971**	(5,511)
Decrease in provisions		**(501)**	–
Decrease in derivatives		**(668)**	–
Cash generated from/(used in) operations		**3,726**	(23,095)
Tax received/(paid)		**2,006**	(830)
Net cash flows generated from/(used in) operating activities		**5,732**	(23,925)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3,581)**	(2,923)
Proceeds from sale of property, plant and equipment		**358**	–
Net cash flows used in investing activities		**(3,223)**	(2,923)
Cash flows from financing activities			
Proceeds of issue of ordinary shares		**9,935**	18,000
Cost of raising finance		**(686)**	(729)
Amounts received from factors		**141,352**	163,826
Amounts paid to factors		**(146,339)**	(154,672)
New finance leases		**142**	200
Repayment of capital element of finance leases		**(1,011)**	(227)
Repayment of bank loans		**(3,000)**	–
Receipt of new bank loans		**–**	2,000
Transaction costs of bank facility		**(284)**	(689)
Interest paid		**(873)**	(577)
Dividend paid to ordinary shareholders		**–**	(3,720)
Net cash flows (used in)/generated from financing activities		**(764)**	23,412
Net increase/(decrease) in cash and cash equivalents		**1,745**	(3,436)
Cash and cash equivalents at beginning of the year		**431**	3,867
Cash and cash equivalents at year end		**2,176**	431

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

For the year ended 30 April 2019

1. General information

Accrol Group Holdings plc (the "Company") was incorporated with Company number 09019496. It is a public company limited by shares and is domiciled in the United Kingdom. The registered address of the Company is the Delta Building, Roman Road, Blackburn, Lancashire, BB1 2LD.

The Company's subsidiaries are Accrol Holdings Limited, Accrol UK Limited and Accrol Papers Limited, which together with the Company form the Accrol Group Holdings plc Group (the "Group").

2. Summary of significant accounting policies

A summary of the significant accounting policies is set out below. These have been applied consistently in the financial statements.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU, IFRS Interpretation Committee ('IFR IC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by financial liabilities (including derivative instruments) at fair value through profit or loss. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

Standards, amendments and interpretations to existing standards that are not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 April 2019 reporting period and have not been early adopted by the Group. The Group will undertake an assessment of the impact of the following new standards and interpretations in due course, although they are not expected to have a material impact on the consolidated financial statements in the year of application when the relevant standards come into effect.

- Amendments to IFRS 1 'First-time adoption of IFRS' regarding short term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 (effective 1 January 2019)
- Amendments to IAS 19 'Employee benefits' Plan amendment, curtailment or settlement (effective 1 January 2019)
- IFRIC 23 'Uncertainty over Income Tax' (effective 1 January 2019)
- Annual Improvements 2015-2017 (effective 1 January 2019)

Assessment of new standards – current year

The impact of standards that are effective for this financial year, *IFRS 9 'Financial Instruments'* and *IFRS 15 'Revenue from Contracts with Customers'* is as described below.

IFRS 9 'Financial Instruments'

This standard replaces IAS 39 '*Financial Instruments: Recognition and Measurement'* (IAS 39) and addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It impacted the Group as follows:

The Group applied the expected credit loss model when calculating impairment losses on its financial assets measured at amortised costs (such as trade and other receivables), resulting in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables on initial recognition of those assets. Under the existing incurred loss model, the historical loss rate has been c0.1% of revenue over the past four years. Under the new model, applied to all trade and other receivables at 30 April 2019, these provision amounts remain broadly unchanged. The Group has applied the simplified model to recognise expected lifetime losses on its trade receivables and have applied a hold to collect business model.

The Group also applied the expected credit loss model to calculate impairment losses on intercompany loans. This applies to the Company financial statements only and relates to a loan of c£21m with an intermediate holding company that does not have means of repayment on a standalone basis. In this scenario, the loan is classed as stage 3 and the lifetime expected credit losses are calculated that result from all possible default events over the expected life of the loan. The Group has considered cashflow forecasts over the expected life of the loan, including those from other group companies, and has concluded that no impairment is required.

In the prior year, the Group did not designate any hedging relationships as qualifying hedge relationships under IAS 39. In the current year, the Group has adopted the hedge accounting provisions in IFRS 9 to enable it to apply hedge accounting to foreign exchange forward contracts. This adoption has been applied prospectively from 1 May 2018.

IFRS 15 'Revenue from Contracts with Customers'
This standard establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. In particular, it requires the entity to identify distinct performance obligations within a contract with a customer and attribute values accordingly.

In transitioning to IFRS 15, the Group has applied the modified retrospective method, in which any differences at the date of adoption between IAS 18 (the previous accounting standard) and IFRS 15 are posted through retained earnings at the date of transition (30 April 2018) and prior year comparatives are not restated.

Under the previous accounting standard revenue was recognised when the risks and rewards of ownership were transferred, determined as when the product was delivered to the customer. Under the new accounting standard, the revenue is recognised when control passes, again determined as the point in time when the product is delivered. Therefore, the impact of the change in standard on the timing of revenue recognition is insignificant.

The Group also considered variable consideration (customer rebates) when determining the transaction price. These are generally fixed percentages of gross revenue and are recognised at the same time as the revenue relating to the delivery of the product. These items are usually settled shortly after the product has been delivered. The treatment of customer rebates is consistent between IAS 18 and IFRS 15, therefore the impact of the change in standard on the value of revenue recognised is insignificant.

Assessment of new standards – following year
IFRS 16 'Leases' (effective 1 January 2019)
IFRS 16 introduces a single lessee accounting model, removing the distinction between operating and finance leases. This will result in almost all leases being recognised on the Statement of Financial Position as an asset (to recognise the right to use a leased item) and a financial liability (requirement to make lease payments).

The Group intends to apply the modified retrospective transition approach and to take exemptions for low value and short-term leases (those less than 12 months) when adopting IFRS 16 from 1 May 2019.

As at the reporting date the Group has non-cancellable operating lease commitments of £22.4m, which relate to property leases. The Group is yet to finalise the assessment but the effect of accounting for those commitments under IFRS 16 is anticipated to result in right of use assets of c£10m, lease receivables of c£6.5m and lease liabilities of c£18m. Net debt is expected to increase by c£18m. Instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and depreciation on its right of use assets. It will also recognise interest income from its lease receivables. This is estimated to increase reported EBITDA for the year ended 30 April 2020 by c£2.5m, increase net interest by c£0.7m and depreciation costs by c£1.5m.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Going concern
The Chairman's review and the Chief Executive's review outline the business activities of the Group along with the factors which may affect its future development and performance. The financial review discusses the Group's financial position, along with details of cash flow and liquidity. Further details of the borrowing facilities are set out in note 10.

The Group has now completed the turnaround plan, at a cost of c£7.9m this year. £9.3m was received from shareholders in June 2018 by way of Placing and Open offer, bank covenants have been reset and scheduled bank loan repayments of £3m were also made. Net debt was reduced by £6.7m in the year, closing at £27.1m.

As in previous years, The Group's performance is dependent on a number of market and macroeconomic factors particularly the sensitivity to the price of parent reels and the sterling/USD exchange rate which are inherently difficult to predict. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months including the delivery of operational savings, maintenance of newly agreed parent reel prices and successful management of any foreign exchange downside through price increases or further cost reductions. Brexit clearly determines the scale of any FX risk and the Group is already highlighting to customers the impact that it might have on prices as a result of changing input costs. Operational risk is limited as most purchases are made from outside Europe, however there is a small risk arising from administrative complexity at the docks. The Group is re-assured that the principal docks used have sufficient capacity to handle any issues.

Downside sensitivity analysis was performed on the assumptions around parent reel prices and foreign exchange rate movements. Trading in the first quarter is in line with expectations and does not indicate a change to the underlying assumptions.

The Directors confirm that, after due consideration, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3. Significant accounting judgements, estimates and assumptions
The preparation of the financial information in accordance with IFRS requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the year. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by the Group's management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions.

The estimates and assumptions for which there is a significant risk of a material adjustment to the financial information within the next financial year are set out below.

Critical accounting judgements in applying the entity's accounting policies
Turnaround and operational turnaround items
During the course of the year the Group incurred expenditure that is not linked directly to the normal trading of the business. This is particularly the case when undergoing significant structural change. In order to better explain the underlying performance of the business, management makes a judgement as to which costs should be included in turnaround and operational items and disclosed separately.

Significant items within this category and associated judgements were as follows:
- Waste – The Group used judgement in determining the appropriate benchmark from which to measure incremental waste.
- Management/operational restructure – judgement was required to identify the appropriate level of incremental dual resource ascribed to the turnaround project.
- Skelmersdale – judgement was required to identify the appropriate baseline from which to measure incremental costs of running the site and operation.

Critical accounting estimates in applying the entity's accounting policies

Goodwill and intangible asset impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its sole CGU. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of a number of key variables in order to calculate the present value of the cash flows, including:

- future underlying cash flows;
- the determination of a pre-tax discount rate; and
- Long term growth rates.

The future underlying cash flows remain sensitive to a number of key variables, including the sterling/US$ exchange rate and parent reel pricing, both of which are inherently difficult to predict, and which could have a significant effect (positive or negative) on the Group's cashflows.

More information including carrying values is included in note 9.

Deferred taxation

The Group has recognised deferred tax assets in respect of losses incurred in the current and prior year. This requires the estimation of future profitability in determining the recoverability of these assets. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months including the delivery of operational savings, maintenance of newly agreed parent reel prices, the successful management of any foreign exchange downside through price increases or further cost reductions and the maintenance of the current strong customer relations. As described above, the Group's trading performance remains sensitive to a number of key variables which could have a significant effect (positive or negative) on the Group's cashflows.

4. Revenue

The analysis of geographical area of destination of the Group's revenue is set out below:

	2019	2018
	£'000	£'000
United Kingdom	**113,736**	133,132
Europe	**5,375**	6,606
Total	**119,111**	139,738

5. Turnaround and operational items

	2019	2018
	£'000	£'000
Setting up and subsequent exit from Skelmersdale site	**3,174**	3,961
Management reorganisation and restructure	**724**	1,116
Impairment of property, plant and equipment	**130**	2,502
Loss on derivative financial instruments	**–**	4,377
Operational reorganisation and restructure	**872**	–
Raw materials waste	**2,308**	–
Other	**698**	923
	7,906	12,879

These items for the current year are included within cost of sales and administration expenses. For the prior year they are included in administrative expenses only.

A summary of the turnaround and operational items for the current year are as follows.

Setting up and subsequent exit from Skelmersdale site

	2019 £'000	2018 £'000
Incremental labour costs	**1,229**	–
Incremental transport costs	**437**	–
Incremental facility costs	**645**	–
Incremental cost to create space	**185**	–
Project management support	**246**	–
Exit agreement consultancy and legal costs	**176**	132
Building repairs and dilapidations	**256**	–
Initial site set up	**-**	315
Onerous contract costs	**-**	3,164
Impairment of trade receivables	**-**	350
	3,174	3,961

The costs of incremental labour were incurred from operating the logistics from multiple sites and under a 3rd party agreement (providing and managing the labour offsite).

Incremental transport costs are for shunting goods from production sites to the warehousing site.

Incremental facility costs are for the unrequired facility that added complexity and cost to the operations in H1 of the current year. Costs include rent, rates and utilities charges.

Incremental cost to create space was incurred as the Group downsized from four sites to three creating short-term pressures on the remaining sites. Costs included the disposal of raw materials (£119,000), production inefficiency as lines were stopped to manage the stock position (£49,000) and local offsite storage for a brief period (£17,000).

Project management support included expert advice and temporary support to ensure actions were completed as quickly as possible.

Exit agreement consultancy and legal costs was necessary due to the number and complexity of contracts that needed to be agreed prior to exit and the need for speed in execution required substantial advisory input

Building repairs and dilapidations became evident as the Skelmersdale site was cleared ready for the new tenant. Due to the length and terms of the sub lease, the facility needed to be returned to its original condition.

In 2018, Skelmersdale set up costs of £315,000 include duplicated costs relating to redundant space, additional deliveries and staffing. Charges of £3,646,000 relate to the decision to exit from the Skelmersdale facility and logistics agreements. This primarily comprises onerous contract provisions of £3,164,000 and trade receivables of £350,000 that were impaired as part of the settlement.

Management, reorganisation and restructure

	2019 £'000	2018 £'000
Hiring & exiting of senior management team	**172**	613
Implementation of new incentive plan	**110**	–
Dual resourcing of financial planning, procurement & paper ordering	**252**	247
Incremental audit fees	**30**	–
Covenant reset consultancy and legal costs	**160**	256
	724	1,116

Hiring and exiting directors includes compensation for lost bonus payments to facilitate speedy appointment, compensation for loss of office for departing directors, recruitment search fees and legal costs. This process spanned the year end hence costs in both years.

A new incentive plan was required as the previous incentive structures were only appropriate for a stable business and, with the survival of the Group at risk, external advisers were needed to construct, test, approve and document an entirely new scheme rapidly.

Dual resourcing was required throughout much of calendar 2018 to support projects, which would normally be completed sequentially, and had to be run in parallel. This included the establishment of processes for financial planning and reporting, procurement and paper ordering.

Incremental audit fees resulted from an unusually lengthy audit process, focused on the turnaround, and work relating to cash recovery associated with tax losses.

Bank covenants were re-set in conjunction with both the November 2017 and June 2018 placings to raise funding from shareholders. This required considerable support from advisors.

Impairment of property, plant and equipment

Two Away from Home lines, impaired in the prior year were sold in the current year, recognising a loss of £130,000.

In 2018, a provision of £2,056,000 was made against five redundant lines. This space was required as part of the site re-organisation to allow the absorption of stockholding from Skelmersdale, and an additional £446,000 impairment was recognised for lines associated with the AFH business which was being exited.

Loss on derivative financial instruments

In FY18, there was a charge of £4,377,000 relating to early settlement costs of unrequired foreign exchange forward contracts, plus charges relating to contracts that, when crystallised, were not used to purchase raw materials. Since then, the new management has adopted a revised approach to paper purchasing and foreign exchange, to reduce the risk of over commitment. No exceptional losses were recorded in FY19.

Organisational reorganisation and restructure

	2019 **£'000**	2018 £'000
Redundancy and associated professional fees	**338**	–
Investment in training	**444**	–
Film write off	**90**	–
	872	–

Redundancy and associated professional fees were incurred as employee headcount was reduced to the new operational blueprint and production lines for discontinued products were shut down, as the new management team's simplification plans were effected.

Extensive investment in training was required through most of H1. Instead of moving straight to blueprint numbers and costs in Q1, the operational workforce was maintained to underpin the Group's operations whilst a comprehensive "on the job" retraining effort was conducted.

Film wrapping was written off to enable a rapid shift to the Group's new rationalised product and manufacturing schedule. It was necessary to dispense with the Group's normal procedure of maintaining production of a product until all raw material stock has been consumed. The benefits of achieving fixed schedule production out-weighed the loss on the film written off.

Raw materials waste

Waste covers the paper, film and coreboard that is scrapped each month as manufacturing issues prevent optimisation of raw material usage. The turnaround required a significant change in the manufacturing approach, with considerable simplification of materials, schedules and finished goods, alongside changes to working practices and the physical layout, the scale of which could not be delivered under normal operating conditions.

Based upon experience the Board took the decision to accept incremental waste caused by the multiple turnaround projects for a period of time in order to move the project at pace and get to the optimal production schedule quickly. The Board consider the cost of £2,308,000 to be a critical element of the turnaround, without which the operational cost savings could not have been achieved in such a short timescale.

Other

	2019 **£’000**	2018 £’000
FCA investigation legal costs	**179**	–
AFH exit	**89**	91
Cash generation	**160**	277
New line temporary inefficiency	**86**	–
HSE investigation	**-**	122
Sub-standard paper write-off	**107**	–
Other	**77**	433
	698	923

Other costs of a non-recurring nature were incurred during the year. Many relate to the challenging circumstances in which the Group found itself, due to the situation created in 2017. The total amounted to £698,000 (FY18: £923,000) a description of these costs is provided below.

The FCA is investigating from 10 June 2016 to 30 September 2018 (see the RNS 6698N on 21 January 2019 and RNS 1694U on 24 March 2019). The Company has incurred significant consultancy and legal costs associated with the management of this investigation. A further amount has been assumed in FY20 forecasts, as the case continues.

The AFH exit was a strategic decision to allow Accrol to focus on its core consumer products. In addition to the impairment costs associated with AFH machinery, the Group incurred costs on corporate finance advice, redundancy and raw material sales.

Approaching a key point in the cash cycle steps were taken to support the cash position. This was before the new planning and procurement process was established and the paper stocks were running too high. These steps included selling a small amount of excess paper stock at a loss (£82,000) and holding some stock at docks incurring additional charges (£64,000).

New line temporary inefficiency relates to additional commissioning cost incurred over and above normal expectations. Ongoing focus remains on this line to ensure that industry leading output is achieved. Sub-standard paper write-offs were incurred as the Group trialled several new suppliers in search for an improved selection of paper types and suppliers to support the new turnaround requirements. Poor production quality from one delivery meant the stock did not meet the new business standards and was written off. The ongoing dispute with the supplier has not been resolved.

6. (Loss)/Earnings per share

Basic earnings per share

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2019 **£’000**	2018 £’000
Loss for the year attributable to shareholders	**(11,748)**	(19,963)

Weighted average number of shares	**Number '000**	Number '000
Issued ordinary shares at 1 May	**129,012**	93,012
Effect of shares issued in the year	**60,180**	13,808
Weighted average number of ordinary shares at 30 April	**189,192**	106,820
Basic loss per share (pence)	**(6.2)**	(18.7)

Diluted earnings per share
Diluted earnings per share is calculated by dividing the (loss)/profit after tax by the weighted average number of shares in issue during the year, adjusted for potentially dilutive share options.

	2019 £'000	2018 £'000
Loss for the year attributable to shareholders	**(11,748)**	(19,963)

	Number '000	Number '000
Weighted average number of shares (basic)	**189,192**	106,820
Effect of conversion of Accrol Group Holdings plc share options	**-**	-
Weighted average number of ordinary shares at 30 April	**189,192**	106,820
Diluted loss per share (pence)	**(6.2)**	(18.7)

No adjustment has been made in 2019 and 2018 to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

7. Finance costs

	2019 £'000	2018 £'000
Bank loans and overdrafts	**415**	277
Finance lease interest	**167**	23
Interest on factoring facility	**291**	277
Amortisation of finance fees	**297**	136
Unwind of discount on provisions	**48**	–
Other interest	**58**	–
Total finance costs	**1,276**	713

8. Income tax expense
Tax credited in the income statement

	2019 £'000	2018 £'000
Current income tax		
Current tax on losses for the year	**–**	-
Adjustment in respect of prior periods	**–**	2,182
Total current income tax credit	**–**	2,182
Deferred tax		
Origination and reversal of temporary differences	**2,606**	2,434
Adjustment in respect of prior periods	**(175)**	(436)
Change in tax rate	**(161)**	(74)
Total deferred tax credit	**2,270**	1,924
Tax credit in the income statement	**2,270**	4,106

The tax credit for the year is lower (2018 charge: is lower) than the effective rate of Corporation Tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Loss before income tax	**(14,018)**	(24,069)
Effective rate	**19%**	19%
At the effective income tax rate	**2,663**	4,573
Expenses not deductible for tax purposes	**(79)**	(118)
Tax exempt income	**22**	–
Adjustment in respect of prior periods	**(175)**	(436)
Change in rate	**(161)**	87
Total tax credit	**2,270**	4,106

During the year the Group recognised the following deferred tax assets/(liabilities):

	Accelerated capital allowances £'000	Intangible assets £'000	Derivative financial instruments £'000	Losses £'000	Share-based payment £'000	Other £'000	Total £'000
30 April 2017 – restated	(1,695)	(2,641)	545	–	–	60	(3,731)
Credit/(charge) in year	552	404	127	901	–	(60)	1,924
Charge to equity	–	–	(545)	–	–	–	(545)
30 April 2018	(1,143)	(2,237)	127	901	–	–	(2,352)
Credit/(charge) in year	(768)	391	(127)	2,524	250	–	2,270
Credit/(charge) to equity	–	–	(9)	–	58	–	49
30 April 2019	**(1,911)**	**(1,846)**	**(9)**	**3,425**	**308**	**–**	**(33)**

The following is the analysis of deferred tax balances for financial reporting purposes:

	2019 £'000	2018 £'000
Deferred tax assets	**3,733**	1,028
Deferred tax liabilities	**(3,766)**	(3,380)
	(33)	(2,352)

A deferred tax asset of £3,425,000 relating to current year losses has been recognised in the year, on the basis that, following a review of forecasts, management expect that these will be recovered against future taxable profits.

Deferred tax expected to be settled within 12 months of the reporting date is approximately £298,000 (2018: £261,000).

The Finance Act 2016 reduced the main rate of corporation tax to 19% from 1 April 2017. A future rate reduction to 17% from 1 April 2020, was substantively enacted on 15 September 2016. Therefore, the rate of 19% (2018: 19%) has been reflected in the consolidated financial statements and deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses. Deferred tax has been provided at the rate of 17% as at 30 April 2019 (2018: 17%).

9. Intangible assets

	Goodwill £'000	Customer relationships £'000	Order book £'000	Other £'000	Total £'000
Cost					
At 30 April 2017	14,982	20,427	86	40	35,535
Additions	–	–	–	–	–
At 30 April 2018	14,982	20,427	86	40	35,535
Additions	–	–	–	–	–
At 30 April 2019	**14,982**	**20,427**	**86**	**40**	**35,535**
Amortisation					
At 30 April 2017	–	5,707	86	–	5,793
Charge for the year	–	2,041	–	–	2,041
At 30 April 2018	–	7,748	86	–	7,834
Charge for the year	–	2,040	–	–	2,040
At 30 April 2019	–	9,788	86	–	9,874
Net book value					
At 30 April 2019	**14,982**	**10,639**	**–**	**40**	**25,661**
At 30 April 2018	14,982	12,679	–	40	27,701

The balance for Goodwill, Customer relationships and Order book arose on the Group's acquisition of Accrol Holdings Limited and are attributed to the sole cash-generating unit ('CGU').

The customer relationships are amortised over 10 years, with approximately five years remaining.

Goodwill

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired.

Goodwill is monitored for internal management purposes at the Group's sole CGU level. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on internal forecasts covering a five year period, reviewed by the Board. Cash flows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The estimated value in use as at 30 April 2019 exceeds the carrying value by £4.9m.

Key assumptions

The pre-tax discount rate used in the value in use calculations is 14.0% (2018: 9.5%). This is derived from the Group's weighted average cost of capital and is calculated with reference to latest market assumptions for the risk-free rate, equity market risk premium and the cost of debt. The values reflect both past experience and external sources of information. The long-term growth rate assumed is 2% (2018: 2%).

Significant capital expenditure was incurred in the current year, partly due to a major upgrade programme of the Group's machinery. However, given this is mostly completed, it is assumed that reduced levels will be incurred going forward. The Group's share-based payment charge (estimated to be £1.9m in FY20) has been added back to cash flows given they are not considered a proxy to cash expense.

Management have based these cash flows on a basis which they believe is achievable and as the Group moves out of its turnaround phase. However, the Group's trading performance remains sensitive to a number of key variables, including parent reel pricing and the sterling/US$ exchange rate, which could have a significant effect (positive or negative) on the Group's profitability. In particular, should sterling weaken significantly, profit recovery would need to be built on price increases. Without price increases a 1 cent worsening in the sterling/USD exchange rate has c£0.5m impact on operating profit.

Sensitivity to changes in assumptions
There are a range of reasonably possible changes to the assumptions, some of which may indicate a potential impairment. Specifically, detrimental changes to any of the key assumptions on the discount factor, terminal growth rate or EBIT performance could cause the carrying amount to exceed the recoverable amount.

Impairment would be caused by the following: increase in pre-tax discount rate by 1.0%, reduction in terminal growth rate by 1.5% and an average EBIT performance reduction of £1.8m per annum between FY21 and FY24. A combination of increasing the pre-tax discount rate by 0.5% and reducing the terminal growth rate by 0.8% results in an impairment.

Notwithstanding the above sensitivities, the Directors are satisfied that they have applied reasonable and supportable assumptions based on their best estimate of the range of future economic conditions that are forecast and consider that an impairment is not required in the current year, however the position will be monitored on a regular basis.

10. Borrowings

	2019	2018
	£'000	£'000
Current		
Revolving credit facility	**1,636**	2,770
Factoring facility	**13,690**	18,677
Finance leases	**1,383**	223
	16,709	21,670
Non-current		
Revolving credit facility	**9,602**	11,455
Finance leases	**2,236**	304
	11,838	11,759

Finance costs incurred to arrange the Revolving Credit Facility have been capitalised and are being amortised through interest payable. Unamortised finance costs at 30 April 2019 are £762,000 (2018: £775,000).

Finance costs are not included in the loan maturity table below.

	2019	2018
	£'000	£'000
Loan maturity analysis		
Within one year	**17,073**	21,900
Between one and two years	**11,438**	2,216
Between two and five years	**798**	10,088
After five years	**–**	–
	29,309	34,204

The following amounts remain undrawn and available:

	2019	2018
	£'000	£'000
Revolving credit facility	**–**	1,000
Factoring facility	**1,203**	2,852
	1,203	3,852

The Group's bank borrowings are secured by way of fixed and floating charge over the Group's assets. As at 30 April 2019 this comprised property, plant and equipment of £29,302,000, inventories of £11,162,000 and trade receivables of £21,113,000.

HSBC Revolving Credit Facility agreement ("Bank facility")

At 30 April 2019 the Group had drawn £12 million against a Revolving Credit Facility ("RCF"). The original £18 million facility, dated 2 June 2016, was for a period of five years. The facility was amended and restated on 7 December 2017 and further amended on 19 January 2018, principally affecting financial covenant tests. On 25 September 2018, revised covenants and amendments to the scheduled repayments were agreed. The revised facility is now as follows:

- 30 April 2019: £12 million
- 30 April 2020: £10 million

Interest charged on the facility is at LIBOR plus a margin of 2.25%. A commitment fee of 40% of applicable margin on any undrawn RCF is also payable.

The Obligors are Accrol Group Holdings plc, Accrol UK Limited, Accrol Holdings Limited and Accrol Papers Limited. Any guarantees and security each have previously granted in favour of HSBC remained in respect of all liabilities arising under the RCF agreement.

HSBC £23 million factoring credit facility ("Factoring facility")

The Group has a £23 million multi-currency revolving credit facility to provide factoring financing for general working capital requirements. Under the terms of this facility the drawdown is based upon gross debtors less a retention (typically 15%), with the remaining debt funded. Each drawing under the facility is repayable within a maximum of 90 days from date of invoice for jurisdictions within the United Kingdom and 120 days for other countries.

Covenants

The Group is subject to financial covenants in relation to the Bank Facility and the Factoring facility. The bank facility covenants are EBITDA targets and asset cover ratios, with limits set on exceptional costs and capital expenditure. The covenants in relation to the Factoring Facility cover the following: a) Debt dilution, b) Disputed debt and c) Tangible net worth. Breach of the covenants would render any outstanding borrowings subject to immediate settlement.

11. Share capital and reserves

	2019 £'000	2018 £'000
Called up, allotted and fully paid		
Ordinary shares of £0.001 each	**195**	129
	195	129

The number of ordinary shares in issue is set out below:

	2019 Number	2018 Number
Ordinary shares of £0.001 each	**195,246,536**	129,012,002

On 1 June 2019, 53,333,334 £0.001 ordinary shares were issued and on 8 June 2019 a further 12,901,200 ordinary shares of £0.001 were issued. Transaction costs of £686,000 were incurred in relation to the above share issues.

12. Events after the balance sheet date

There are no adjusting or non-adjusting events subsequent to the year end

13. Alternative performance measures

The Group uses a number of alternative performance measures to assess business performance and provide additional useful information to shareholders about the underlying performance of the Group.

Adjusted earnings per share

The adjusted earnings per share is calculated by dividing the adjusted earnings attributable to ordinary equity holder of the parent by the weighted average number of ordinary shares outstanding during the year. The following reflects the income and share data used in the adjusted earnings per share calculation.

	2019 £'000	2018 £'000
Loss attributable to shareholders	**(11,748)**	(19,963)
Adjustment for:		
Amortisation	**2,040**	2,041
Turnaround and operational items	**7,906**	12,879
Share based payment	**1,316**	-
Tax effect of adjustments above	**(2,140)**	(2,835)
Adjusted loss attributable to shareholders	**(2,626)**	(7,878)

	Number '000	Number '000
Basic weighted average number of shares	**189,192**	106,820
Dilutive share options	**–**	–
Diluted weighted average number of shares	**189,192**	106,820

	pence	pence
Basic adjusted earnings per share	**(1.4)**	(7.4)
Diluted adjusted earnings per share	**(1.4)**	(7.4)

Reconciliation from GAAP- defined reporting measures to the Group's alternative performance measures

Management use these measurements to better understand the underlying business of the Group.

Consolidated income statement

	2019 £'000	2018 £'000
Adjusted EBITDA		
Operating (loss)/profit	**(12,742)**	(23,356)
Adjusted for:		
Depreciation	**2,488**	2,612
Amortisation	**2,040**	2,041
Turnaround and operational items	**7,906**	12,879
Share based payment	**1,316**	–
Adjusted EBITDA	**1,008**	(5,824)

	2019 £'000	2018 £'000
Adjusted Gross Profit		
Gross Profit	**17,552**	24,506
Adjusted for:		
Turnaround and operational items	**4,164**	-
Adjusted Gross Profit	**21,716**	24,506
Revenue	***119,111***	*139,738*
Adjusted Gross Margin	**18.2%**	17.5%