RNS Number : 4606C
Accrol Group Holdings PLC
22 January 2018

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

22 January 2018

Accrol Group Holdings plc
("Accrol", the "Group" or the "Company")

Unaudited interim results for the six months ended 31 October 2017
and
restructuring update

Accrol Group Holdings plc (AIM: ACRL), an independent tissue converter and supplier to a number of the UKs largest wholesalers and retailers, announces its interim results for the six months ended 31 October 2017. In the six month period, the Group incurred an operating loss of £5.7 million compared to a reported operating profit of £3.9 million in the prior year first half.

Following the appointment of Gareth Jenkins as CEO in September 2017 and the identification of a number of significant issues affecting the Group's performance and financial liquidity, the Company requested a suspension of its shares on 5 October 2017. After engagement with shareholders and development of a series of business recovery action plans, Accrol's shares were relisted on 20 November 2017 in conjunction with a planned share placement of £18 million (gross of expenses) which was approved by shareholders on 8 December 2017. At the same time, the Company renegotiated its banking facilities with revised financial covenants which took account of the projected operating performance of the Group.

As previously announced, this has been a difficult period for the Group and its shareholders and a range of business challenges are now being addressed by a new executive leadership team. These will take some time to resolve but progress is being made.

H1 FY18 financials:

- Revenue increased by 13.1% to £72.3m (H1 FY17: £63.9m)
- Gross profit declined by 34.7% to £11.9m (H1 FY17: £18.2m)
- Adjusted gross margin(1) 10.7% lower at 17.7% (H1 FY17: 28.4%)
- Adjusted EBITDA(2) reduced by £8.7m to a loss of £1.6m (H1 FY17: profit £7.1m)
- Net debt rose by £9.4m to £29.3m (H1 FY17: £19.9m)

December 2017 Placing

Post the half year end, the Company successfully raised £16.8m (net of expenses) by way of a placing.

Statement from Gareth Jenkins, Chief Executive Officer of Accrol

It is with disappointment that, in my first communication to shareholders, I have to address the fact that the performance of and short-term outlook for the Group have been so contrary to prior expectations. I do believe, however, that the capabilities of this business are significant and, if well managed, it can deliver a considerably improved performance in the medium term.

The Group's recent problems have arisen from the combination of adverse factors, including:

- rising input costs - tissue cost growth following upstream pulp cost growth;
- adverse FX - forward hedging of USD for paper purchases protected results immediately after the Brexit inspired Sterling devaluation. Significant ongoing, fixed period USD financial hedges, however, were taken out at rates which have become adverse to current market spot rates. These hedges are negatively impacting the Group's financial performance in the short term; and
- internal cost growth - increases in the fixed cost base as a consequence of the new logistics arrangements at Skelmersdale, the new Leyland plant and changes to shift patterns in mid-2017, at a time when the business was managing an overly complex product portfolio.

As these problems came to light in early in October 2017, action was taken to manage liquidity issues by extending credit from suppliers and reducing inventory levels. Whilst this was necessary under the circumstances, it put additional pressure on supplier relations and on customer service levels.

I am pleased to report that significant progress is being made on tackling these issues:

- the leadership team has been strengthened with Don Coates joining as COO. He has extensive experience in business turn around and operational improvement;
- price increases being negotiated and agreed with customers are starting to impact results positively;
- the product range is being rationalised, the benefits of which should flow through progressively during 2018;
- a number of cost savings initiatives are being pursued, including the previously announced reduction in headcount;
- an increased focus on investing the necessary funds to maintain equipment efficiency; and
- current cash flow projections reflect the improved operating outlook but will also be subject, in the short term, to the adverse FX contracts and the payment for a new operating line, which will be installed at the Leyland plant in the summer of 2018. The combined effect of which is expected to increase net debt modestly until mid 2018 before declining thereafter.

In addition to the foregoing actions, I have met personally the Group's major customers and am encouraged by the positive attitude they have to developing further business opportunities with Accrol, despite the recent service challenges. I have also met the Group's major suppliers. They remain supportive of doing business with Accrol and of working with us on our ongoing product reformulation plans.

Outlook

The Board expects that recent and planned actions will drive Accrol forward. Whilst the Board continues to expect a small loss at the adjusted EBITDA level for the financial year ending 30 April 2018, the Board is comfortable that the Group will continue to operate within its borrowing covenants while work on the turnaround continues and the directors look forward to the longer-term future of Accrol with confidence.

The directors are confident the 12-month restructuring programme being implemented by the Company's new management team, combined with an invigorated focus on the right customers, products, markets and people, will create a much stronger base on which Accrol can rebuild its profitability and, ultimately, shareholder value.

The Board expects the Company to return to profit at adjusted EBITDA level in the year to 30 April 2019. It remains the Board's intention to return to the dividend list at the earliest appropriate opportunity.

Gareth Jenkins, Chief Executive Officer of Accrol, said:

"I believe that actions we are taking and plan to take to effect the turnaround at Accrol will put the business back on track towards its goal of becoming a market leader in the supply of innovative, high quality, tissue based products to the UK's largest retailers and ultimately the consumer. I continue to believe Accrol can achieve this by investing and leading in operational excellence, to ensure that our customers get the best value product with market leading quality and service."

Note 1: Adjusted gross margin is a non-GAAP measure that excludes the impact of unrealised gains and losses on outstanding forward foreign currency contracts valued at the Balance sheet date.

Note 2: Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, breakage gains / (losses) on early termination of derivative financial instruments and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure. Management use this measure to assess business performance and provide additional useful information to shareholders about the underlying performance of the Group.

For further information, please contact:

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Notes to Editors

Accrol Group Holdings plc, based in Lancashire, is a leading tissue converter and supplier of toilet rolls, kitchen rolls and facial tissues as well as other tissue products to the UK's largest wholesalers and retailers.

Accrol operates from three sites:

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

In addition, the business has a storage and distribution facility in Skelmersdale, Lancashire.

CHIEF EXECUTIVE'S REVIEW

Overview of the six months ended 31 October 2017

We are disappointed to report that profitability for the six months ended 31 October 2017 was significantly below prior year levels. Whilst revenues grew by 13.1% to £72.3 million (H1 FY17: £63.9 million), gross profit declined by 34.7% to £11.9 million (H1 FY17: £18.2 million) with adjusted EBITDA reducing by £8.7 million to a loss of £1.6 million

(H1 FY17: profit £7.1 million).

The following factors contributed to this decline.

Pulp Paper Market Dynamics and Parent Reel Costs
Accrol, together with the industry in general, experienced rapid and significant growth in parent reel costs in the period under review. A key contributory factor to this was increasing upstream pulp costs, which was due, in large part, to a global supply /demand squeeze exacerbated by the closure of certain pulp production facilities.

Adverse FX
Following the June 2016 decision in the UK to exit the European Union, the value of Sterling depreciated significantly against the US dollar which is the benchmark currency for pulp pricing. Accrol's results did not suffer initially due to pre-existing currency hedges but the benefit of this currency hedging had substantially expired by the end of FY17. Foreign exchange rates applicable to paper purchases during the six months ended 31 October 2017 were broadly in line with market spot rates. As a consequence of the fact that Sterling has progressively strengthened in value against the US dollar since October 2016, currency hedges which were taken out in late 2016/early 2017 and which were in place at 31 October 2017 were at rates which are now adverse to current market rates. If foreign exchange rates remain as is or Sterling strengthens further, these hedges will act as a drag on Company results until Autumn 2018, particularly for the second half of the current financial year.

The results for the period under review include a charge of £891,000, which reflects losses incurred on foreign exchange hedging contracts which are no longer effective hedges as of 31 October 2017.

Lack of Price Rises to Customers
The Group did not achieve any notable price increases in the period under review, which meant that the impact of the cost inflation issues referred to above and below were not mitigated. However, since October 2017, the new management team has been in extensive discussions with customers and has increased prices across its product portfolio. These increases are being phased in during the third quarter of FY18.

Cost increases and inefficiencies
In light of historic top line growth performance, certain decisions were taken to build the Group's scale and capability in anticipation of continuing growth. The key changes were:

1. the creation of a new production site at Leyland, Lancashire;
2. the transition to a new logistics structure and the outsourcing of certain related management activities; and
3. the restructuring of operating shift patterns at Blackburn.

The cumulative scale of change, created by these decisions, proved to be significantly more challenging than envisaged resulting in them having an adverse impact on the Group's performance in terms of cost and efficiency.

Following a review of the Group's operations, the new management team has begun implementing a comprehensive restructuring to improve operational efficiencies. The following actions, which will be taken over the next 12 months, are expected to result in significant cost savings:

- the head count reduction, as announced on the 21 November 2017;
- an ongoing focus on reduction in waste levels;
- a rationalisation of the Group's product portfolio;
- investment in systems and people to deliver efficiencies in purchasing, logistics, storage and manufacturing; and
- streamlining and rationalising of supply lines.

Health and safety
In November 2017, the Company appointed an ex Health and Safety Executive (HSE) senior inspector to help support its drive of continued improvement in Health and Safety across the business. We are investing an additional £0.4 million, as previously announced, to increase the pace of change and we continue to see an improvement in our key statistics in this area.

Further to the Update on Health & Safety Incident announcement made on 12 October 2017, the Company announced on 17 January 2018 that Accrol Papers Limited (a directly owned subsidiary of the Company) was fined £120,000 (after discount) for a single health and safety regulatory offence.

The sentencing court commented that the fine had been reduced by one third in light of the guilty plea entered at the earliest opportunity and the Company's full co-operation with the HSE investigation. The Company was given 12 months to pay the fine.

As previously reported, the HSE had previously indicated to the Company that it was seeking a fine in the range of £550,000 to £2.9m for this incident.

The Group takes the Health and Safety of its employees very seriously and the Board believes this was recognised in the level of fine imposed.

Placing of £18 million

In December 2017, the Company raised £18 million, before expenses of £1.2 million, by way of a Placing of 36,000,000 new ordinary shares of nominal value of £0.001 each in the capital of the Company (the "Placing Shares") at an issue price of 50 pence per Placing Share, to support the management in its objective of returning the business to profitability.

The net proceeds of the Placing have been and are being used to:

- support future working capital requirements of the Group;
- implement restructuring to improve operational aspects of the business; and
- implement plans to review and improve the Group's Health & Safety procedures.

In conjunction with the Placing, the Group renegotiated its banking debt covenants and revised the terms of its banking facilities.

Financial Review

Revenues
Revenues for the six months grew by 13.1% to £72.3 million (H1 FY16: £63.9 million) with the majority of the growth coming from the Discounter retailers. The increase was mainly organic growth with toilet tissue revenues showing the highest growth over the six months at 13.2% or £4.2 million.

Gross profit
Adjusted gross profit decreased 29.8% from £18.2 million in H1 FY17 to £12.8 million in H1 FY18. Adjusted gross profit excludes the impact of unrealised gains and losses on outstanding forward foreign currency contracts, valued at the Balance Sheet date. The majority of this decrease is due to adverse pricing on parent reels, as outlined above, coupled with investment into Leyland, production heads, and warehousing costs for Skelmersdale.

Administration costs
Administration costs for the six months increased by £2.3 million to £10.9 million, mainly due to costs associated with Leyland and Skelmersdale, net of savings arising from the closure of the Shadsworth warehouse.

Exceptional costs of £0.9 million relate to set up costs of the new warehouse at Skelmersdale (£0.2 million) with the balance of £0.7 million being one off costs and losses in relation to redundancy, restructuring, disposals of parent reel inventories and the HSE fine.

Distribution costs
Distribution costs as a percentage of sales increased marginally from 8.8% in H1 FY17 to 9.1% in the current year.

Working capital

	H1 FY18	H1 FY17	**Variance**
	£'m	£'m	**£'m**
Inventories	**17.7**	13.3	**4.4**
Trade and other receivables	**30.1**	22.9	**7.2**
Trade and other payables	**(24.9)**	(16.6)	**(8.3)**
	22.9	19.6	**3.3**

Inventories increased in the period, mainly due to higher levels of finished goods to support customer fulfilment requirements and higher levels of parent reels purchased in anticipation of higher sales. Trade debtors increased c. £7.2 million year on year with around half of the increase due to one major customer paying early in the prior year with the remainder of the increase due to sales growth. Trade payables have increased as the Group stretched payment terms to support cashflow in the short term.

Borrowings and cashflow

	H1 FY18	H1 FY17	**Variance**
	£'m	£'m	**£'m**
Revolving credit facility	**14.8**	12.8	**2.0**
Invoice discounting facility	**15.4**	6.7	**8.7**
Finance leases	**0.5**	0.4	**0.1**
Total debt	**30.7**	19.9	**10.8**
Cash and cash equivalents	**(1.4)**	-	**(1.4)**
Net debt	**29.3**	19.9	**9.4**

Net debt increased by £9.4 million in the period, mainly due to the losses during the period under review coupled with the growth in working capital. This was substantially funded by an increase in the invoice discounting facility.

Strategy

Despite recent problems, the Group remains well placed to benefit from its strong position as a major UK supplier of non-discretionary tissue products into the consumer value sector. The Group continues to focus on the delivery of organic growth in the Discounter and Private Label sectors, as these remain the fastest growing areas of the market. Growth in these sectors is being driven primarily by increasing Private Label product sales, which continue to take market share from well-known brands.

The immediate challenge for the Group is to overcome the issues which crystallised in the period under review. Significant progress has already been made but there is much more to do and it will take time for the benefits of our actions to be evident in our results. In the meantime, the Group remains exposed to continuing volatility in input costs and, as with any business turnaround plan, there are execution risks in dealing with current issues. That said, we are now in a stronger financial position to deal with the business challenges following the recent placement. Absent the short term funding costs of the adverse FX contracts and the committed funding of the new line which will be installed in the Leyland plant, we expect the Group to return to positive cash generation and to see a sustained downward trend in Net Debt after summer 2018.

The key areas of our strategic focus are:

- strengthening long term relationships with key customers and suppliers;
- strengthening and developing key roles within the Group;
- simplifying the business;
- delivering operational efficiencies;
- managing input cost volatility; and
- improving information systems capabilities.

Outlook

I am pleased to report that significant progress is being made on tackling the issues which have been identified within the business over recent months. Turning the business performance around from its recent deterioration is on track although it is important to appreciate that the full benefits of any business turnaround take some time to come through.

A key challenge faced by the business is the continued escalation in US dollar denominated parent reel costs and whilst sterling's improvement against the US dollar will help to mitigate this cost burden in the medium term, the short term impact of increased parent reel costs has been exacerbated by financial hedges which are now at rates which are adverse to the financial markets. The majority of these financial hedges expire prior to the end of the current financial year, with the balance extending until Autumn 2018. Excluding this transitory exchange exposure, the continuing strengthening of Sterling against the US Dollar bodes well for the forward cost environment.

A number of initiatives are now being pursued to offset the recent growth in the fixed cost base, including the previous announced head count reduction. In addition, the Group has increased its prices across its product portfolio to mitigate the recent rise in paper reel costs.

As outlined above, the Board expects that recent and planned actions will drive Accrol forward. Whilst the Board continues to expect a small loss at the adjusted EBITDA level for the financial year ending 30 April 2018, the Board is comfortable that the Group will continue to operate within its borrowing covenants while work on the turnaround continues and the directors look forward to the longer-term future of Accrol with confidence. As previously announced the Board will not be proposing a final dividend for FY18.

The directors are confident the 12-month restructuring programme being implemented by the Company's new management team, combined with an invigorated focus on the right customers, products, markets and people, will create a much stronger base on which Accrol can rebuild its profitability and, ultimately, shareholder value.

As previously stated, the Board expects the Company to return to profit at adjusted EBITDA level in the year to 30 April 2019. It remains the Board's intention to return to the dividend list at the earliest appropriate opportunity.

Gareth Jenkins, CEO
22 January 2018

Consolidated Income Statement
For six months ended 31 October 2017

Continuing operations	Note	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Revenue	4	**72,265**	63,914	135,053
- Cost of sales before loss on derivative financial instruments		**(59,504)**	(45,742)	(97,374)
- Loss on derivative financial instruments		**(891)**	-	-
Cost of sales		**(60,395)**	(45,742)	(97,374)
Gross profit		**11,870**	**18,172**	**37,679**
Administration expenses		**(10,915)**	(8,653)	(15,698)
Distribution costs		**(6,610)**	(5,597)	(11,453)
Operating (loss) / profit		**(5,655)**	**3,922**	**10,528**
Analysed as:				
- Adjusted EBITDA(2)		**(1,583)**	7,136	16,061
- Depreciation		**(1,218)**	(938)	(1,910)
- Amortisation	9	**(1,021)**	(1,039)	(2,042)
- Loss on derivative financial instruments		**(891)**	-	-
- Exceptional items	5	**(942)**	(1,237)	(1,581)
Operating (loss) / profit		**(5,655)**	**3,922**	**10,528**

Finance costs		**(338)**	(801)	(1,129)
Analysed as:				
- Finance costs on pre-IPO debt structure	7	**-**	(478)	(478)
- Finance costs on post-IPO debt structure	7	**(338)**	(323)	(651)
Finance costs		**(338)**	**(801)**	**(1,129)**
(Loss) / profit before tax		**(5,993)**	**3,121**	**9,399**
Tax credit / (charge)	8	**932**	(740)	(2,023)
(Loss) / profit for the period attributable to equity shareholders		**(5,061)**	**2,381**	7,376

Consolidated Statement of Comprehensive Income

		(Unaudited) Six months ended 31 October 2017	(Unaudited) Six months ended 31 October 2016	(Audited) Year ended 30 April 2017
(Loss) / profit for the period attributable to equity shareholders		**(5,061)**	2,381	7,376
Other comprehensive (expense) / income for the period				
Revaluation of derivative financial instruments		**(54)**	5,092	(2,868)
Tax relating to components of other comprehensive income		**118**	-	545
Total comprehensive (expense) / income attributable to equity shareholders		**(4,997)**	**7,473**	**5,053**

Earnings per share

		£	**£**	**£**
Basic and Diluted	6	(0.05)	0.03	0.09
Adjusted and Adjusted Diluted	17	(0.03)	0.05	0.12

Note 2: Adjusted EBITDA, which is defined as profit before finance costs, tax, depreciation, amortisation, breakage gains / (losses) on early termination of derivative financial instruments and exceptional items, is a non-GAAP metric used by management and is not an IFRS disclosure. Management use this measure to assess business performance and provide additional useful information to shareholders about the underlying performance of the Group.

Consolidated Statement of Financial Position
For six months ended 31 October 2017

	Note	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		25,908	24,161	26,914
Intangible assets	9	28,721	30,745	29,742
Deferred tax asset	8	1,437	-	545
Total non-current assets		**56,066**	**54,906**	**57,201**
Current assets				
Inventories		17,672	13,280	14,358
Trade and other receivables		30,123	22,884	24,670
Derivative financial instruments	12	243	4,902	841
Cash and cash equivalents	10	1,355	33	3,867
Total current assets		**49,393**	**41,099**	**43,736**
Total assets		**105,459**	**96,005**	**100,937**
Non-current liabilities				
Borrowings	11	14,102	12,751	13,146
Derivative financial instruments	12	-	-	474
Deferred tax liabilities	8	4,178	4,352	4,336
Total non-current liabilities		**18,280**	**17,103**	**17,956**
Current liabilities				
Borrowings	11	16,597	7,072	9,709
Trade and other payables		24,880	16,588	18,840
Income taxes payable		108	792	920
Derivative financial instruments	12	3,927	-	3,235
Total current liabilities		**45,512**	**24,452**	**32,704**
Total liabilities		**63,792**	**41,555**	**50,660**
Net assets		**41,667**	**54,450**	**50,277**
Capital and reserves				
Share capital	14	93	93	93
Share premium		41,597	41,597	41,597
Hedging reserve		(2,259)	5,092	(2,323)
Capital redemption reserve		27	27	27
Retained earnings		2,209	7,641	10,883
Total equity shareholders' funds		**41,667**	**54,450**	**50,277**

The financial statements were approved by the Board of Directors on 22 January 2018

Signed on behalf of the Board of Directors

Gareth Jenkins | **James Flude**

Chief Executive Officer | Chief Financial Officer

Company Registration Number 09019496

Consolidated Statement of Changes in Equity
For six months ended 31 October 2017

	Note	Share capital £'000	Share premium £'000	Hedging reserve £'000	Capital redemption reserve £'000	Retained earnings/ (deficit) £'000	Total £'000
Balance at 30 April 2017 (audited)		**93**	**41,597**	**(2,323)**	**27**	**10,883**	**50,277**
Comprehensive income							
Loss for the period		-	-	-	-	(5,061)	(5,061)
Revaluation of derivative financial instruments		-	-	(54)	-	-	(54)
Tax relating to components of other comprehensive income		-	-	118	-	-	118
Total comprehensive income		-	-	64	-	(5,061)	(4,997)
Transactions with owners recognised directly in equity							
Dividend paid to ordinary shareholders	15	-	-	-	-	(3,720)	(3,720)
Share-based payments		-	-	-	-	107	107
Total transactions recognised directly in equity		-	-	-	-	(3,613)	(3,613)
Balance at 31 October 2017 (unaudited)		**93**	**41,597**	**(2,259)**	**27**	**2,209**	**41,667**

Consolidated Cash Flow Statement
For six months ended 31 October 2017

	Note	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Cash flows from operating activities				
Operating (loss) / profit		**(5,655)**	3,922	10,528
Adjustment for:				
Depreciation		**1,218**	938	1,910
Amortisation	9	**1,021**	1,039	2,042
Gain on derivative financial instruments		**-**	-	-
Grant income		**(59)**	(35)	(212)
Exceptional items		**405**	1,014	1,016
Share based payments		**107**	-	196
Profit on disposals		**-**	-	(26)
Operating cash flows before movements in working capital		**(2,963)**	**6,878**	**15,454**
Increase in inventories		**(3,314)**	(3,919)	(4,997)
Increase in trade and other receivables		**(5,452)**	(1,410)	(3,224)
Increase in trade and other payables		**6,987**	4,313	6,431
Cash generated from operations		**(4,742)**	**5,862**	**13,664**
Tax paid		**(802)**	(979)	(2,149)
Interest paid		**(338)**	(3,858)	(4,131)
Net cash flows from operating activities		**(5,882)**	**1,025**	**7,384**
Cash flows from investing activities				
Purchase of property, plant and equipment		**(812)**	(691)	(4,417)
Proceeds from sale of property, plant and equipment		**-**	-	56
Net cash flows used in investing activities		**(812)**	**(691)**	**(4,361)**
Cash flows from financing activities				
Proceeds of issue of Ordinary shares		**-**	43,328	43,328
Cost of raising finance		**-**	(1,971)	(1,971)
Increase / (decrease) in amounts due to factors		**5,902**	(817)	2,038
Repayment of capital element of finance leases		**-**	(10,887)	(10,737)
Repayment of bank loans		**-**	(3,900)	(3,900)
Receipt of new bank loans		**2,000**	12,730	12,730
Repayment of shareholder loans / loan notes		**-**	(41,240)	(41,240)
Dividend paid to ordinary shareholders		**(3,720)**	-	(1,860)
Net cash flows used in / (from) financing activities		**4,182**	**(2,757)**	**(1,612)**
Net (decrease) / increase in cash and cash equivalents		**(2,512)**	(2,423)	1,411
Cash and cash equivalents at beginning of the period		**3,867**	2,456	2,456
Cash and cash equivalents at period end	10	**1,355**	**33**	**3,867**

Notes to the Interim Financial Statements
For six months ended 31 October 2017

1. Reporting entity
Accrol Group Holdings plc (the "Company") and its subsidiaries (together "the Group") is engaged in the business of soft paper tissue conversion. It is incorporated in the United Kingdom with company number 09019496 and is domiciled in the United Kingdom. The registered address of the Company is the Delta Building, Roman Road, Blackburn, United Kingdom, BB1 2LD.

The company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

2. Basis of preparation
The interim financial statements for the six months ended 31 October 2017, have been prepared in accordance with IAS34, 'Interim Financial Reporting' as adopted by the European Union. The interim financial statements should be read in conjunction with the group's Annual Report and Accounts for the year ended 30 April 2017, prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), IFRIC Interpretations and the Companies Act 2006.

The interim financial statements included in this report are not audited and do not constitute statutory accounts within the meaning of the Companies Act 2006. The Annual Report and accounts for the year ended 30 April 2017 have been filed with Companies House. The auditor's report on those accounts was unqualified and did not include any matters on which the auditors were required to report by exception under the Companies Act 2006.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

Standards issued not yet effective

The accounting policies applied in preparing the unaudited interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 30 April 2017 as set out in the Group's Annual Report and Accounts.

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). There are no new IFRSs or International Financial Reporting Interpretations (IFRIC) that are effective for the first time for the six months ended 31 October 2017 which have material impact upon the Group.

At the date of authorisation of this financial information, the following new standards and interpretations which have not been applied in this financial information were in issue but not yet effective (and in some cases, had not yet been adopted by the EU):

- Annual Improvements 2012-2014 Cycle (effective 1 January 2018)
- IFRS 15 - Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 Financial Instruments (effective 1 January 2018).

The impact of the adoption of these Standards and Interpretations is on the consolidated financial statements of the Group in the year of initial application is currently being reviewed. An update on the expected impact will be made in the consolidated financial statements for the year ending 30 April 2018.

IFRS 16 'Leases' is a new standard that has been published and is effective from 1 January 2019 but has not been early adopted by the Group and could have a material impact on the Group financial information. At the time of preparing this financial information, the Group continues to assess the possible impact of the adoption of this standard in future years. However, it is likely to result in an increase in leases recognised in the statement of financial position as finance leases and a reduction in the number of leases treated as operating leases and hence not recognised in the statement of financial position.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

3. Principal risks and uncertainties

The Group risk management process is used to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

The Group's Annual Report and Accounts for the year ended 30 April 2017 (a copy of which is available on the Group's website www.accrol.co.uk) set out details of the principal risks and uncertainties that were identified during the risk management process:

- Loss of a major customer
- Parent reel and pulp capacity and pricing
- New entrant into market
- Winning a large customer contract
- Installation of new converting capacity
- Volatility of foreign exchange rates
- Dependence on information technology
- Key person dependency
- Adherence to regulatory requirements

The Board considers the principal risks and uncertainties that could impact upon the Group over the second half of the financial year to 30 April 2018, to be significantly unchanged from those set out above. However, the events of recent months are an indicator that the understanding of the scale and nature of the risks and the adequacy of the mitigating controls within the business have proven to be insufficient to adequately address the crystallisation of certain of these risks. Steps are now being taken to strengthen the mitigating controls to limit the potential future consequences of these risks and uncertainties.

4. Revenue

The Group has one type of revenue and class of business.

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

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
United Kingdom	69,584	63,702	132,184
Europe	2,681	212	2,869
Total	**72,265**	**63,914**	**135,053**

5. Exceptional items

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Exceptional items			
One off costs relating to improvements in working capital	254	-	-
Set up costs relating to new warehouse at Skelmersdale	225	-	-
Professional fees relating to the AIM flotation	-	208	208
Early settlement charges on finance leases	-	454	454
Acquisition deal costs	-	352	352
Consultancy fees	-	223	567
Health and Safety Executive fine	120	-	-
Redundancy and restructuring	343	-	-
	942	**1,237**	**1,581**

The exceptional items are described below:

Six months ended 31 October 2017

One off costs relating to improvements in working capital of £254,000 have arisen due to commercial decisions which were taken to release the value in working capital despite the short-term cost.

Set up costs relating to the new finished goods warehouse at Skelmersdale of £225,000 have been classified as exceptional as these are additional to normal and ongoing costs relating to the warehousing of stock.

Health and Safety Executive fine relates to a fine imposed by the Health and Safety Executive on 17th January 2018. This has been treated as an adjusting post balance sheet event (see note 18).
Redundancy and restructuring costs of £343,000 relate mainly to the change in CEO in the period.

Six months ended 31 October 2016

Professional fees of £208,000 incurred as part of the IPO process were classified as exceptional as they did not directly relate to the raising of the equity for the AIM flotation. In addition, part of the funds raised in the IPO were used to reduce the debt in the business with the majority of the finance leases being repaid which attracted an early redemption charge of £454,000.

Fees totalling £352,000 relating to the acquisition of the Accrol Group in July 2014 by Accrol Group Holdings Limited, were also required to be written off as part of the accounting for the IPO.

Dual running costs totalling £223,000 were incurred in the period relating mainly to the Hussain Family who provided consultancy services.

Year ended 30 April 2017

Professional fees of £208,000 incurred as part of the IPO process were classified as exceptional as they did not directly relate to the raising of the equity for the AIM flotation. In addition, part of the funds raised in the IPO were used to reduce the debt in the business with the majority of the finance leases being repaid which attracted an early redemption charge of £454,000.

Fees totalling £352,000 relating to the acquisition of the Accrol Group in July 2014 by Accrol Group Holdings Limited, were also required to be written off as part of the accounting for the IPO.

Consultancy costs totalling £567,000 were incurred as part of the restructuring. These related mainly to the Hussain Family consultancy, manufacturing consultancy and human resourcing consultancy.

6. Earnings per share

The basic 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 period.

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 shares.

The following reflects the income and share data used in the basic earnings per share calculation:

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
(Loss) / profit for the period attributable to shareholders	(5,061)	2,381	7,376
	Number	Number	Number
Basic weighted average number of shares	93,012,002	77,427,867	85,113,194
Dilutive share options	-	-	1,321,025
Basic weighted average number of shares for diluted earnings per share	93,012,002	77,427,867	86,434,219
	£	£	£
Basic earnings per share	(0.05)	0.03	0.09
Diluted earnings per share	(0.05)	0.03	0.09

The share option scheme in operation post flotation is dependent upon share price movements and could therefore result in future dilution of earnings per share.

For the period ending 31 October 2017, potential share options were anti-dilutive, as their inclusion in the diluted loss per share calculation would have reduced the loss, and hence they were excluded.

7. Finance costs

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Finance costs on pre-IPO debt structure			
Shareholder loans	**-**	478	478
	-	478	478
Finance costs on post-IPO debt structure			
Bank loans and overdrafts	**170**	174	368
Finance lease interest	**8**	71	80
Interest on factoring facility	**133**	57	160
Amortisation of finance fees	**27**	21	43
	338	323	651
Total finance costs	**338**	**801**	**1,129**

8. Income tax expense

Tax charged in the income statement	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Current income tax			
Current tax on (losses) / profits for the period	**-**	866	2,165
Total current income tax	**-**	**866**	**2,165**
Deferred tax			
Origination and reversal of temporary differences	**(939)**	(147)	(163)
Change in tax rate	**7**	21	21
Total deferred tax	**(932)**	**(126)**	**(142)**
Tax (credit) / charge in the income statement	**(932)**	**740**	**2,023**

The tax charge for the period is lower (2017: higher) than the effective rate of Corporation Tax in the UK of 19% (2017: 20%). The differences are explained below:

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
(Loss) / profit before income tax	(5,993)	3,121	9,399
Effective rate	19%	20%	19.92%

At the effective income tax rate	(1,139)	624	1,872
Expenses not deductible for tax purposes	197	95	130
Change in rate	10	21	21
	(932)	**740**	**2,023**

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

	Accelerated capital allowances £'000	Intangibles £'000	Losses £'000	Derivative financial instruments £'000	Total £'000
30 April 2017 (audited)	**1,695**	**2,641**	**-**	**(545)**	**3,791**
Charge / (credit) in year	27	(193)	(774)	-	(940)
Change in deferred tax rate	(1)	9	-	-	8
Credit to equity	-	-	-	(118)	(118)
31 October 2017 (unaudited)	**1,721**	**2,457**	**(774)**	**(663)**	**2,741**

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%.

9. Intangible assets

	Goodwill £'000	Customer lists £'000	Other £'000	Total £'000
Cost				
At 30 April 2017 (audited)	**14,982**	**20,427**	**40**	**35,449**
Additions	-	-	-	-
At 31 October 2017 (unaudited)	**14,982**	**20,427**	**40**	**35,449**
Amortisation				
At 30 April 2017 (audited)	**-**	**5,707**	**-**	**5,707**
Charge	-	1,021	-	1,021
At 31 October 2017 (unaudited)	**-**	**6,728**	**-**	**6,728**
Net book value				
At 30 April 2017 (audited)	14,982	14,720	40	29,742
At 31 October 2017 (unaudited)	**14,982**	**13,699**	**40**	**28,721**

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

The other intangible asset class relates to a Management Services Agreement between Accrol Papers Limited and Accrol Group Holdings Plc which provides a mechanism for a recharge of salary costs between the two entities.

10. Cash and cash equivalents

	(Unaudited) As at 31 October 2017 £'000	(Unaudited) As at 31 October 2016 £'000	(Audited) As at 30 April 2017 £'000
Cash and cash equivalents	1,355	33	3,867

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

11. Borrowings

	(Unaudited) As at 31 October 2017 £'000	(Unaudited) As at 31 October 2016 £'000	(Audited) As at 30 April 2017 £'000
Non-current			
Bank facility	**13,818**	12,751	12,778
Finance leases	**284**	-	368
	14,102	**12,751**	**13,146**
Current			
Bank facility	**987**	-	-
Factoring facility	**15,425**	6,668	9,523
Finance leases	**185**	404	186
	16,597	**7,072**	**9,709**

Loan maturity analysis:			
Within one year	16,609	6,923	9,709
Between one and two years	2,285	119	185
Between two and five years	12,000	13,030	13,183
After five years	-	-	-
	30,894	**20,072**	**23,077**

The following amounts remain undrawn and available

	(Unaudited) As at 31 October 2017 £'000	(Unaudited) As at 31 October 2016 £'000	(Audited) As at 30 April 2017 £'000
Revolving credit facility	3,000	5,000	3,000
Factoring facility	7,088	11,391	13,043
	10,088	**16,391**	**16,043**

Finance fees

Finance fees are not included in the Loan Maturity Analysis table. As at 31 October 2017, finance fees relating to the arrangement of the Revolving Credit Facility have been capitalised and are being amortised.

The finance fees after amortisation are as follows:

	(Unaudited) As at 31 October 2017 £'000	(Unaudited) As at 31 October 2016 £'000	(Audited) As at 30 April 2017 £'000
Finance fees	195	249	222

12. Financial instruments

Derivative financial instruments

Derivative financial instruments represent the Group's forward foreign exchange contracts. The assets / (liabilities) representing the valuations of the forward foreign exchange contracts at the period end are:

Foreign currency contracts	(Unaudited) As at 31 October 2017 £'000	(Unaudited) As at 31 October 2016 £'000	(Audited) As at 30 April 2017 £'000
Current assets	243	4,902	841
Current liabilities	(3,927)	-	(3,235)
Non-current liabilities	-	-	(474)
(Liability) / asset	(3,684)	4,902	(2,868)

The fair value of a derivative financial instrument is split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows. The foreign currency contracts are designated as hedged accounted at initial recognition. The fair value of the Group's foreign currency derivatives is calculated as the difference between the contract rates and the mark to market rates which are current at the balance sheet date. This valuation is obtained from the counterparty bank and at each period end is categorised as a Level 2 valuation. The maximum exposure to credit risk is the fair value of the derivative as a financial asset.

Losses on derivative financial instruments arose in the period due to two factors. Firstly, sales growth was slower than anticipated and resulting paper purchase volume requirements were reduced. Secondly, raw material purchases were reduced in order to improve working capital. This impacted upon the effectivity of derivative financial instruments, crystallising a loss of £129,000 in the half year. Prospective testing on the effectiveness of hedges indicated that several derivative instruments had become ineffective at the 31 October 2017 resulting in an additional loss of £762,000.

13. Seasonality of operations

There is no significant seasonality impacting upon Accrol Group Holdings plc. Revenues and operating profits are mainly impacted by the timings of new business wins and losses.

14. Share capital and reserves

Called up, allotted and fully paid:

	(Unaudited) As at 31 October 2017 £	(Unaudited) As at 31 October 2016 £	(Audited) As at 30 April 2017 £
Ordinary shares of £0.001 each	93,012	93,012	93,012
	93,012	**93,012**	**93,012**

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

	Number	Number	Number
Ordinary shares of £0.001 each	93,012,002	93,012,002	93,012,002

Each holder of the £0.001 Ordinary Shares is entitled to vote at general meetings of the Company. Every holder of an Ordinary Share shall have one vote for each Ordinary Share held.

15. Dividends

The Board will not pay an interim dividend for the year ending 30 April 2018 (H1 FY17: 2p). The final dividend of £3,720,000 relating to the year ended 30 April 2017 was paid to shareholders in September 2017.

16. Related party disclosures

(a) Identity of related parties

The Company's significant shareholders include NorthEdge Capital LLP and members of the Hussain family. Phoenix Court Blackburn Limited is a company under the control of the Hussain family providing commercial premises for letting. Alklar Limited is an entity under the common directorship of Peter Cheung, to which payments for Peter Cheung's services as a director for Accrol UK Limited were made. Post the AIM listing, Peter Cheung is now remunerated for his services via payroll. Nisiac Limited is a company under the control of the Hussain family, to which payments for the consulting services of the Hussain family were made.

The subsidiaries of the Group are as follows:

Company	Principal activity	Country of incorporation	Holding %
Accrol UK Limited	Holding company	United Kingdom	100%
Accrol Holdings Limited	Holding company	United Kingdom	100%
Accrol Papers Limited	Paper convertor	United Kingdom	100%

(b) Transactions with related parties

The following table provides the total amounts owed to / (due from) related parties as at the end of each year:

	(Unaudited) Six months ended 31 October 2017 £'000	(Unaudited) Six months ended 31 October 2016 £'000	(Audited) Year ended 30 April 2017 £'000
Nisiac Limited	-	31	-
Owed to related parties	**-**	**31**	**-**
Opening balance	-	44,560	44,560
Interest charged	-	478	478
Purchases	870	1,121	2,003
Repayments	(870)	(46,128)	(47,041)
Owed to related parties	**-**	**31**	**-**
Trade & other payables	-	31	-
Owed to related parties	**-**	**31**	**-**

The following table provides the total amounts of purchases and interest charged from related parties for the relevant financial year:

Transactions	**Six months ended 31 October 2017 £'000**	**Six months ended 31 October 2016 £'000**	**Year ended 30 April 2017 £'000**
NorthEdge Capital LP	-	259	259
The Hussain family	-	241	241
Phoenix Court Blackburn Limited	870	871	1,744
Alklar Limited	-	62	62
Nisiac Limited	-	166	175
Total	**870**	**1,599**	**2,481**

Terms and conditions of transactions with related parties

The purchases and loans from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party payables. Payments to Phoenix Court Blackburn Limited are in respect of the provision of services. Payments to Nisiac were in respect of the provision of consultancy services.

17. Non-GAAP measures

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.

(Unaudited)	(Unaudited)	(Audited)

	Six months ended 31 October 2017	Six months ended 31 October 2016	Year ended 30 April 2017
	£'000	£'000	£'000
Earnings attributable to shareholders	(5,061)	2,381	7,376
Adjustment for:			
Amortisation	1,021	1,039	2,042
Loss on derivative financial instruments	891	-	-
Exceptional items	942	1,237	1,581
Tax effect of adjustments above	(190)	(455)	(524)
Adjusted earnings attributable to shareholders	**(2,397)**	**4,202**	**10,475**

	Number	Number	Number
Basic weighted average number of shares	93,012,002	77,427,867	85,113,941
Dilutive share options	-	-	1,321,025
Diluted weighted average number of shares	93,012,002	77,427,867	86,434,219

	£	£	£
Adjusted earnings per share	(0.03)	0.05	0.12
Diluted adjusted earnings per share	(0.03)	0.05	0.12

The share option scheme in operation post flotation is dependent upon share price movements and could therefore result in future dilution of earnings per share.

For the period ending 31 October 2017, potential share options were anti-dilutive, as their inclusion in the diluted loss per share calculation would have reduced the loss, and hence they were excluded.

18. Events after the balance sheet date

Placing of £18m

To support the business in its objective of getting back to profitability, the Company has successfully completed the placing of 36,000,000 new ordinary shares of nominal value of £0.001 each at a price of 50 pence per share raising gross proceeds of £18m.

The net proceeds of the Placing will be used to:

- support future working capital requirements of the Group;
- implement restructuring to improve operational aspects of the business; and
- implement plans to review and improve the Group's health & safety procedures.

HSE Court action

On the 17th January 2018 the Accrol Papers Limited was fined £120,000 for a crush injury to the tip of an employee's right index finger. This fine has been reported as an exceptional cost in the results for the six month period under review.

20. Date and approval of interim financial statements

The interim financial statements cover the period 1 May 2017 to 31 October 2017 and were approved by the Board on 22 January 2018.

Further copies of the interim financial statements are available from the Company's registered office, Delta Building, Roman Road, Blackburn, United Kingdom, BB1 2LD and can be accessed on the Accrol Group Holdings plc investor relations website, www.accrol.co.uk.

Responsibility Statement

The interim financial statements comply with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce a half yearly financial report. The interim report is the responsibility of, and has been approved by, the Directors. The Directors confirm that to the best of their knowledge:

- this financial information has been prepared in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union;
- this interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- this interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

The Directors of Accrol Group Holdings Plc are listed in the Accrol Group Holdings Plc Annual Report for 2017. Post this list, Steve Crossley has resigned as Chief Executive Officer and Gareth Jenkins has been appointed as his replacement. Dan Wright was also appointed as a non-executive director of the Company on 11 December 2017. Details of the Directors are available on the Accrol Group Holdings Plc website: www.accrol.co.uk.

By order of the Board

James Flude
Chief Financial Officer

22 January 2018

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