NWF GROUP PLC

NWF Group plc
Half Year Report 2019/20

DELIVERING
PERFORMANCE AND STRATEGY

HIGHLIGHTS FROM H1 2019/20

WE HAVE A STRONG RECORD OF

DELIVERING INCREASED SHAREHOLDER RETURNS

NWF Group is a specialist distributor of fuel, food and feed across the UK.

FUELS

NWF Fuels is a leading distributor of fuel oil and fuel cards delivering over 600 million litres across the UK to 90,000 customers.

FOOD

Boughey Distribution is a leading consolidator of ambient grocery products to UK supermarkets with over 1 million ft^2 of warehousing and significant distribution assets.

FEEDS

NWF Agriculture has grown to be a leading national supplier of ruminant animal feed to 4,750 customers in the UK, feeding one in six dairy cows in Britain.

GROUP HIGHLIGHTS

- Revenue growth with increased activity levels in all divisions.
- Two Fuels acquisitions completed during the period in line with our strategy, with one further acquisition completed post period end, adding 115 million litres per annum in aggregate.
- New 240,000 ft^2 warehouse secured which will significantly expand the Food division, to support continued organic growth and a new five year contract with a major Food customer.
- Board's full year trading expectations remain unchanged.

DIVISIONAL HIGHLIGHTS

- **FUELS**
  – headline operating profit of £1.4 million (H1 2018: £0.9 million). Increased underlying sales of gas oil and heating oil together with a positive contribution from acquisitions.
- **FOOD**
  – headline operating profit of £1.4 million (H1 2018: £1.0 million). Continued profit improvement from operational efficiencies. Post period end, a new five year contract has been signed with a major customer and a new warehouse to support anticipated growth.
- **FEEDS**
  – headline operating profit of £0.7 million (H1 2018: £0.7 million). Gained market share with volume growth against a backdrop of lower market volumes. Profit has been maintained despite lower commodity prices.

FINANCIAL HIGHLIGHTS

Revenue

£348.9m +5.6%

2019 £348.9m

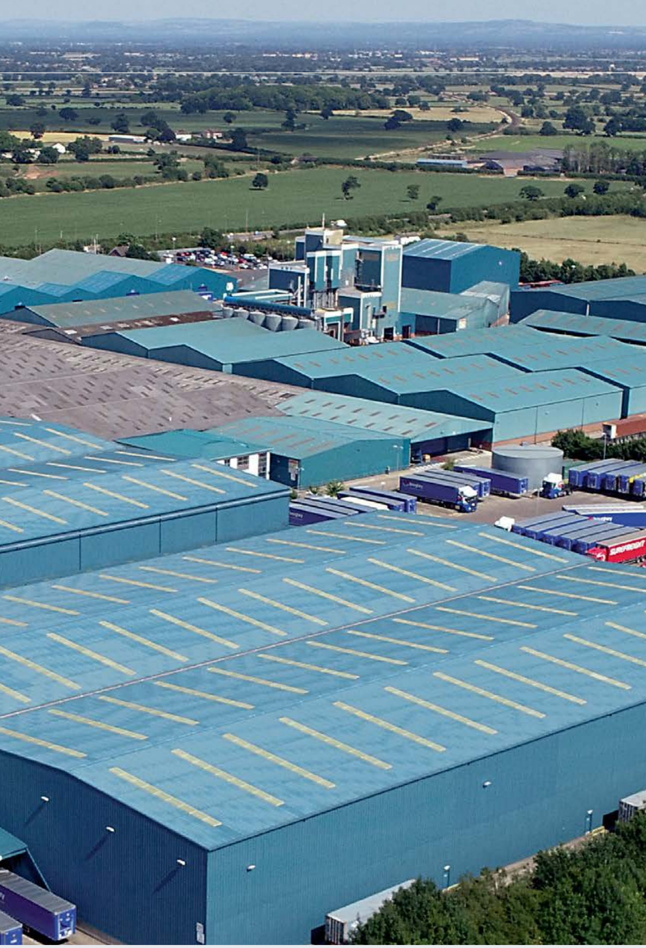
2018 £330.5m

Headline profit before tax[1,2]

£3.0m +25.0%

2019 £3.0m

2018 £2.4m



CONTENTS

Headline operating profit[1,2]

£3.5m +34.6%

2019 £3.5m
2018 £2.6m

Interim dividend per share

1.0p

2019 1.0p
2018 1.0p

Fully diluted headline EPS[1]

5.1p +34.2%

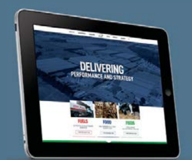
2019 5.1p
2018 3.8p

Net debt to EBITDA (excl. IFRS 16 lease liabilities)

1.0x

2019 1.0x
2018 1.0x

Statutory results	**H1 2019**	H1 2018	%
Net debt	**£14.9m**	£14.8m	+0.7%
Operating profit[2]	**£3.1m**	£2.3m	+34.8%
Profit before taxation[2]	**£2.4m**	£1.9m	+26.3%
Fully diluted EPS	**4.0p**	2.8p	+42.9%



VIEW OUR WEBSITE AND DOWNLOAD THE LATEST INVESTOR PRESENTATION AND FACTSHEET AT:

WWW.NWF.CO.UK

1 Headline operating profit excludes exceptional items (see note 4) and amortisation of acquired intangibles. Headline profit before taxation excludes exceptional items, amortisation of acquired intangibles and the net finance cost in respect of the Group's defined benefit pension scheme. Diluted headline earnings per share also takes into account the taxation effect thereon.

2 Results for H1 2019 are presented following the adoption of IFRS 16 'Leases', the impact of which is to increase operating profit and headline operating profit by £0.1 million. Profit before taxation and headline profit before taxation are reduced by £0.1 million with the inclusion of £0.2 million of finance costs under the new standard. The Group has elected to apply the simplified transition approach and as such comparative periods have not been restated.

CHAIRMAN'S STATEMENT

NWF HAS PERFORMED STRONGLY WITH GROWTH IN THE THREE DIVISIONS

NWF has performed strongly in the first half with growth in each of the three divisions, further acquisitions completed in line with our strategy within Fuels and the announcement of a major customer contract supporting a significant expansion of the Food division. Fuels delivered ahead of expectations with increased sales of gas oil and heating oil supported by the acquisitions which performed as planned. The acquisition in December 2019 of Darch in the South West, our fifth in the last twelve months, cumulatively increases our annualised fuel volumes by almost 30% in line with our strategy to expand our geographic footprint and grow market share. Food has increased profits through the delivery of further operational efficiencies and effective management of the increased activity levels experienced across the market prior to 31 October in anticipation of Brexit. Feeds has gained market share and increased volumes in a weaker market, delivering more volume direct to farms, to merchants and to other compounders in the first half.

Results

Revenue for the half year ended 30 November 2019 was 5.6% higher at £348.9 million (H1 2018: £330.5 million) as a result of increased activity levels in all three divisions offsetting lower commodity prices in Fuels and Feeds. Headline operating profit[1] was higher at £3.5 million (H1 2018: £2.6 million), benefiting from increases in Fuels and Food. Headline profit before taxation[1] was up 25.0% to £3.0 million (H1 2018: £2.4 million).

The results for the half year ended 30 November 2019 are presented following the adoption of IFRS 16 'Leases' on 1 June 2019. This results in an incremental benefit of £0.1 million on headline operating profit and gives rise to an additional finance cost of £0.2 million arising from application of the new standard. The net impact for the Group on headline profit before tax is therefore an additional cost of £0.1 million.

Headline basic earnings per share[1] was 5.1p (H1 2018: 3.8p) and headline diluted earnings per share[1] was 5.1p (H1 2018: 3.8p).

Net cash generated by operations for the period amounted to £8.6 million (H1 2018: net cash absorbed of £4.9 million). Cash generation was strong with lower commodity prices in particular delivering working capital benefits in Feeds.

Net capital expenditure in the period was £2.3 million (H1 2018: £1.3 million) in line with our plans. Net consideration on acquisitions in the period was £3.2 million (H1 2018: £Nil).

Net debt at the period end, excluding the impact of IFRS 16, was £14.9 million (H1 2018: £14.8 million) and net debt to EBITDA remained the same at 1.0x (H1 2018: 1.0x). The Group's banking facilities of £65.0 million are committed to October 2023 and NWF continues to operate with substantial headroom. Net debt including the impact of IFRS 16 was £33.5 million.

Net assets at 30 November 2019 increased to £48.8 million (30 November 2018: £46.9 million). The IAS 19R defined benefits pension scheme valuation deficit has reduced from £17.3 million, as at 31 May 2019, to £17.0 million at the half year.

Dividend

The Board has approved an interim dividend per share of 1.0p (H1 2018: 1.0p). This will be paid on 6 May 2020 to shareholders on the register as at 20 March 2020. The shares will trade ex-dividend on 19 March 2020. The Group has a progressive dividend policy and has increased the annual dividend by approximately 5% in each of the last five years.

Operations

Fuels

Revenue increased by 10.6% to £245.9 million (H1 2018: £222.4 million) as a result of increased volumes both in the underlying business and as a result of acquisitions, which more than offset a lower oil price in the period. Headline operating profit was £1.4 million (H1 2018: £0.9 million) benefiting from improved product mix and volume growth.

Volumes increased by 19.4% to 314 million litres (H1 2018: 263 million litres) with increased sales of gas oil and heating oil, both on an underlying basis and as a consequence of acquisition activity, partly owing to more mixed weather conditions and as a result of targeted sales activity. Brent Crude fell during the first half to an average of $61.87 per barrel (H1 2018: $75.11 per barrel) and ended the reporting period at $62.43 per barrel.

1 Headline operating profit excludes exceptional items (see note 4) and amortisation of acquired intangibles. Headline profit before taxation excludes exceptional items, amortisation of acquired intangibles and the net finance cost in respect of the Group's defined benefit pension scheme. Diluted headline earnings per share also takes into account the taxation effect thereon.

In line with our strategy we have completed three acquisitions since the start of our new financial year. Ribble (completed July 2019) and Caldo (completed October 2019) in the North West and Darch (completed December 2019) in the South West, announced after the period end. Five acquisitions have now been completed in the last twelve months adding almost 30% to the annualised volumes of the Fuels division. Investment is continuing in systems and people to improve efficiencies and provide a strong platform for continued growth.

Food

Revenue increased by 2.5% to £24.4 million (H1 2018: £23.8 million). Headline operating profit was £1.4 million (H1 2018: £1.0 million).

Storage volumes increased to an average of 106,000 pallet spaces (H1 2018: 96,000). This significant increase was driven by new customer wins and an increase in stock holding prior to 31 October as a number of customers held stock in advance of a potential Brexit date. Whilst this extra stock then shipped during November and December, the business continues to utilise its overflow warehousing. Activity measured by pallets despatched was 4% higher than during the prior year comparative period.

The Palletline operation performed as planned and we have expanded our e-fulfilment operations with seven customers now utilising this added value facility.

A significant expansion of the Food division is planned on the back of a new five-year contract with a major Food customer. To support this contract and the continued organic growth from a number of other customers, the Group has signed a lease to operate an additional, newly constructed 240,000 ft^2 warehouse in Crewe conveniently located close to the M6 and to its main Wardle site. This warehouse will increase the capacity of the Food division from 100,000 pallets to 137,000 pallets. The Board anticipates this new site will be fully operational within six months.

Feeds

Revenue decreased by 6.8% to £78.6 million (H1 2018: £84.3 million) as a result of lower commodity prices more than offsetting the increased feed volumes in the period. A basket of tracked commodities was over 16% lower in the first half compared to the same period last year. Headline operating profit was stable at £0.7 million (H1 2018: £0.7 million).

Volumes were 6.5% higher at 297,000 tonnes (H1 2018: 279,000 tonnes) as market share gains were made across the country. Additional business was delivered in direct sales to farmers, to feed merchants and with supplies to other UK compounders. The feed market was 10.8% lower than the first half last year when additional feed was utilised by farmers to offset the long dry summer and lack of forage.

The market experienced deflationary pressures during the period with lower commodity prices being passed through to farmers. Whilst average milk prices across the period were consistent at just under 29p per litre, the latest November milk price is almost 2p per litre lower than prior year which is causing farmers some concerns. Average milk prices at the end of November were 29.7p per litre (November 2018: 31.6p per litre).

Our operational platform, with key mills close to customers in the North, Central and Southern regions, delivered the expected efficiencies and provides an effective base for future development. NWF's training academy has been launched as planned to train our future nutritionists.

Financial impact of recent growth initiatives:

- The acquisitions of Caldo and Darch are expected to add around £0.5 million to Fuels profitability in the current financial year.
- The take-on of the new Food contract and warehouse is expected to be enhancing to divisional profitability in the Group's next financial year ending May 2021, with initial start-up costs impacting the current financial year by around £0.5 million.
- These investments will result in an increase to net debt (excluding IFRS 16 lease liabilities) of approximately £7.0 million.

Board

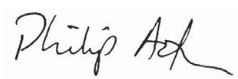
Yvonne Monaghan, currently Non-Executive Director of NWF and Chair of the Audit Committee, has informed the Board of her wish to step down at this year's AGM to be held in September 2020 after seven years' service. Yvonne has been a highly valued member of the Board and has been of great support to me as Chairman. A replacement will be sought in due course.

Outlook and future prospects

Following the strong first half, the Group has continued to perform as planned since the period end. In Fuels, demand for heating oil increased as expected, with post-acquisition integration commencing at Darch in the South West. In Food, activity levels were a little lower in December as the last Brexit stock was delivered and planning is underway to optimise the utilisation of the new 240,000 ft^2 warehouse in Crewe. In Feeds, volumes have remained very strong and there have been increases in commodity prices since the period end.

Our financial position is strong and we continue to focus on growth initiatives, both organic and through targeted acquisitions.

Overall the Group continues to trade in line with the Board's expectations for the full financial year and I look forward to updating shareholders later this year.



Philip Acton
Chairman
28 January 2020

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

	Note	**Half year ended 30 November 2019 £m**	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Revenue	3	**348.9**	330.5	671.3
Cost of sales and administrative expenses		**(345.8)**	(328.2)	(661.7)
Headline operating profit[1]		**3.5**	2.6	10.2
Exceptional items	4	**(0.3)**	(0.3)	(0.5)
Amortisation of acquired intangibles		**(0.1)**	–	(0.1)
Operating profit[3]	3	**3.1**	2.3	9.6
Finance costs	5	**(0.7)**	(0.4)	(0.9)
Headline profit before taxation[1]		**3.0**	2.4	9.7
Exceptional items	4	**(0.3)**	(0.3)	(0.5)
Amortisation of acquired intangibles		**(0.1)**	–	(0.1)
Net finance cost in respect of the defined benefit pension scheme		**(0.2)**	(0.2)	(0.4)
Profit before taxation[3]		**2.4**	1.9	8.7
Income tax expense[2]	6	**(0.5)**	(0.5)	(1.9)
Profit for the period attributable to equity shareholders		**1.9**	1.4	6.8
Earnings per share (pence)				
Basic	7	**4.0**	2.8	13.9
Diluted	7	**4.0**	2.8	13.9
Headline earnings per share (pence)[1]				
Basic	7	**5.1**	3.8	15.8
Diluted	7	**5.1**	3.8	15.8

1 Headline operating profit is statutory operating profit of £3.1 million (H1 2018: £2.3 million) before exceptional items of £0.3 million (H1 2018: £0.3 million) and amortisation of acquired intangibles of £0.1 million (H1 2018: £Nil). Headline profit before taxation is statutory profit before taxation of £2.4 million (H1 2018: £1.9 million), after adding back the net finance cost in respect of the Group's defined benefit pension scheme of £0.2 million (H1 2018: £0.2 million), the exceptional items and the amortisation of acquired intangibles. Headline earnings per share also takes into account the taxation effect thereon.

2 Taxation on exceptional items in the current period has reduced the charge by £Nil (H1 2018: £Nil).

3 During the half year to 30 November 2019, the application of IFRS 16 resulted in an increase in operating profit in the consolidated income statement of £0.1 million in comparison to treatment under IAS 17, as operating lease payments under IAS 17 were replaced by a depreciation charge on right of use assets. Profit before taxation reduced by £0.1 million with the inclusion of £0.2 million of finance costs under the new standard.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Profit for the period attributable to equity shareholders	**1.9**	1.4	6.8
Items that will never be reclassified to profit or loss:			
Re-measurement (loss)/gain on the defined benefit pension scheme	**(0.3)**	1.5	(1.2)
Tax on items that will never be reclassified to profit or loss	**0.1**	(0.3)	0.2
Total comprehensive income for the period	**1.7**	2.6	5.8

The notes form an integral part of this condensed consolidated Half Year Report.

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 NOVEMBER 2019 (UNAUDITED)

	Note	**30 November 2019 £m**	30 November 2018 £m	31 May 2019 £m
Non-current assets				
Property, plant and equipment		**45.9**	44.8	45.5
Right of use assets	2	**19.5**	–	–
Intangible assets		**28.3**	22.1	24.7
Deferred income tax assets		**2.9**	2.8	3.1
		96.6	69.7	73.3
Current assets				
Inventories		**5.7**	5.3	5.6
Trade and other receivables		**79.4**	80.0	67.2
Current income tax asset		**0.2**	–	–
Cash and cash equivalents		**1.8**	1.0	2.8
Derivative financial instruments	8	**0.2**	0.2	0.2
		87.3	86.5	75.8
Total assets		**183.9**	156.2	149.1
Current liabilities				
Trade and other payables		**(79.2)**	(74.1)	(66.7)
Current income tax liabilities		**–**	(0.4)	(1.1)
Borrowings	8	**–**	–	(0.2)
Lease liabilities	2,8	**(3.0)**	–	–
		(82.2)	(74.5)	(68.0)
Non-current liabilities				
Borrowings	8	**(16.2)**	(15.8)	(13.0)
Lease liabilities	2,8	**(16.1)**	–	–
Deferred income tax liabilities		**(3.6)**	(3.5)	(3.7)
Retirement benefit obligations		**(17.0)**	(15.4)	(17.3)
Provisions		**–**	(0.1)	–
		(52.9)	(34.8)	(34.0)
Total liabilities		**(135.1)**	(109.3)	(102.0)
Net assets		**48.8**	46.9	47.1
Equity				
Share capital	9	**12.2**	12.2	12.2
Share premium		**0.9**	0.9	0.9
Retained earnings		**35.7**	33.8	34.0
Total equity		**48.8**	46.9	47.1

The notes form an integral part of this condensed consolidated Half Year Report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 June 2018	12.2	0.9	31.3	44.4
Profit for the period	–	–	1.4	1.4
Items that will never be reclassified to profit or loss:				
Re-measurement gain on the defined benefit pension scheme	–	–	1.5	1.5
Tax on items that will never be reclassified to profit or loss	–	–	(0.3)	(0.3)
Total comprehensive income for the period	–	–	2.6	2.6
Transactions with owners:				
Issue of shares	–	–	–	–
Value of employee services	–	–	(0.1)	(0.1)
	–	–	(0.1)	(0.1)
Balance at 30 November 2018	12.2	0.9	33.8	46.9
Profit for the period	–	–	5.4	5.4
Items that will never be reclassified to profit or loss:				
Re-measurement loss on the defined benefit pension scheme	–	–	(2.7)	(2.7)
Tax on items that will never be reclassified to profit or loss	–	–	0.5	0.5
Total comprehensive income for the period	–	–	3.2	3.2
Transactions with owners:				
Dividend paid	–	–	(3.1)	(3.1)
Issue of shares	–	–	–	–
Value of employee services	–	–	0.1	0.1
	–	–	(3.0)	(3.0)
Balance at 31 May 2019	12.2	0.9	34.0	47.1
Profit for the period	**–**	**–**	**1.9**	**1.9**
Items that will never be reclassified to profit or loss:				
Re-measurement loss on the defined benefit pension scheme	**–**	**–**	**(0.3)**	**(0.3)**
Tax on items that will never be reclassified to profit or loss	**–**	**–**	**0.1**	**0.1**
Total comprehensive income for the period	**–**	**–**	**1.7**	**1.7**
Transactions with owners:				
Issue of shares	**–**	**–**	**–**	**–**
Value of employee services	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
Balance at 30 November 2019	**12.2**	**0.9**	**35.7**	**48.8**

The notes form an integral part of this condensed consolidated Half Year Report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Cash flows from operating activities			
Operating profit	**3.1**	2.6	9.6
Adjustments for:			
Depreciation and amortisation	**4.6**	2.3	4.7
Contributions to pension scheme not recognised in income statement	**(0.8)**	(0.8)	(1.4)
Other	**–**	(0.1)	(0.1)
Operating cash flows before movements in working capital	**6.9**	4.0	12.8
Movements in working capital:			
Decrease in inventories	**0.3**	0.4	0.3
Increase in receivables	**(4.8)**	(15.9)	(0.9)
Increase/(decrease) in payables	**6.2**	6.6	(3.3)
Utilisation of provision	**–**	–	(0.1)
Net cash generated from/(absorbed by) operations	**8.6**	(4.9)	8.8
Interest paid	**(0.5)**	(0.2)	(0.5)
Income tax paid	**(1.7)**	(1.1)	(1.9)
Net cash generated from/(absorbed by) operating activities	**6.4**	(6.2)	6.4
Cash flows from investing activities			
Purchase of intangible assets	**(0.2)**	(0.1)	(0.2)
Purchase of property, plant and equipment	**(2.3)**	(1.3)	(2.8)
Acquisition of subsidiaries – cash paid (net of cash acquired)	**(3.2)**	–	(3.5)
Payment of contingent consideration	**–**	(0.8)	(0.8)
Proceeds on sale of property, plant and equipment	**0.2**	–	0.2
Net cash absorbed by investing activities	**(5.5)**	(2.2)	(7.1)
Cash flows from financing activities			
Increase in bank borrowings	**0.6**	9.0	6.2
Capital element of leases	**(2.5)**	(0.1)	(0.1)
Dividends paid	**–**	–	(3.1)
Net cash (absorbed by)/generated from financing activities	**(1.9)**	8.9	3.0
Net movement in cash and cash equivalents	**(1.0)**	0.5	2.3
Cash and cash equivalents at beginning of period	**2.8**	0.5	0.5
Cash and cash equivalents at end of period	**1.8**	1.0	2.8

The notes form an integral part of this condensed consolidated Half Year Report.

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

1. General information

NWF Group plc ('the Company') is a public limited company incorporated and domiciled in England, United Kingdom, under the Companies Act 2006. The address of its registered office is NWF Group plc, Wardle, Nantwich, Cheshire CW5 6BP.

The Company has its primary listing on AIM, part of the London Stock Exchange.

These condensed consolidated interim financial statements ('interim financial statements') were approved by the Board for issue on 28 January 2020.

These interim financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The interim financial statements for the half years ended 30 November 2019 and 30 November 2018 are neither audited nor reviewed by the Company's auditors. Statutory accounts for the year ended 31 May 2019 were approved by the Board of Directors on 30 July 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation and accounting policies

Except as described below, these interim financial statements have been prepared in accordance with the principal accounting policies used in the Group's consolidated financial statements for the year ended 31 May 2019. These interim financial statements should be read in conjunction with those consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union.

These interim financial statements do not fully comply with IAS 34 'Interim Financial Reporting', as is currently permissible under the rules of AIM.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The triennial actuarial valuation of the Group's defined benefit pension scheme was completed in the half year ended 30 November 2017, with a deficit of £19.1 million at the valuation date of 31 December 2016. In these interim financial statements, this liability has been updated in order to derive the IAS 19R valuation as of 30 November 2019. The triennial valuation resulted in Group contributions of £2.1 million per annum, including recovery plan payments of £1.8 million per annum for 11 years from 1 January 2018.

The Directors consider that headline operating profit, headline profit before taxation and headline earnings per share measures, referred to in these interim financial statements, provide useful information for shareholders on underlying trends and performance. Headline profit before taxation is reported profit before taxation, after adding back the net finance cost in respect of the Group's defined benefit pension scheme, amortisation of acquired intangibles, exceptional items and the taxation effect thereon where relevant. The calculations of basic and diluted headline earnings per share are shown in note 7 of these interim financial statements.

Certain statements in these interim financial statements are forward looking. The terms 'expect', 'anticipate', 'should be', 'will be' and similar expressions identify forward looking statements. Although the Board of Directors believes that the expectations reflected in these forward looking statements are reasonable, such statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those expressed or implied by these forward looking statements.

As at 1 June 2019 the Group adopted IFRS 16 'Leases' for the first time. IFRS 16 replaces IAS 17 'Leases'. Under IFRS 16 a right of use asset and lease liability are recognised for all leases except 'low-value' and 'short-term' leases where lease payments are recognised on a straight-line basis over the lease term. For the Group, transition results in the recognition of almost all leases on the balance sheet as a right of use asset, with a corresponding lease liability.

The Group has elected to apply the simplified transition approach. The comparative information for the periods ending 30 November 2018 and 31 May 2019 has not been restated and is presented as previously reported, under IAS 17.

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

2. Basis of preparation and accounting policies continued

The Group currently leases both properties and vehicles under a series of operating lease contracts which are impacted by the new standard. These types of leases can no longer be recognised as operating leases and have been brought onto the Group's balance sheet from the date of adoption of the new standard. In applying IFRS 16 for the first time the Group has elected to apply the following recognition exemptions:

- Short-term leases (leases of shorter than 12 months and leases with fewer than 12 months remaining) as at the date of adoption of the new standard will not be within the scope of IFRS 16.
- Leases for which the asset is of low value will not be within the scope of IFRS 16.

In applying IFRS 16 for the first time the Group has also elected to apply the following practical expedients:

- In determining whether existing contracts meet the definition of a lease, the Group will not reassess those contracts previously identified as leases and will not apply the standard to those contracts not previously identified as leases.
- The use of a single discount rate applied to portfolios of leases with similar characteristics.

On adoption of IFRS 16 the Group recognised lease liabilities in relation to leases previously classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities have been measured at the present value of the remaining lease payments at 1 June 2019, discounted using the Group's incremental borrowing rate on the current facility as of 1 June 2019. The weighted average incremental borrowing rate applied to the lease liabilities was 2%.

The associated right of use assets have been measured using the approach set out in IFRS 16.C8(b)(ii), whereby right of use assets are equal to the lease liability adjusted for accrued or prepaid operating lease payments (£Nil) at 1 June 2019. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

The overall impact of the adoption of IFRS 16 on the Group's opening balance sheet is an increase in net assets of £16.2 million and an increase in net liabilities of £16.2 million.

Differences between the operating lease commitments disclosed at 31 May 2019 under IAS 17 discounted at the incremental borrowing rate at 1 June 2019 and lease liabilities recognised at 1 June 2019 are explained below:

	£m
Undiscounted future minimum lease payments under operating leases at 31 May 2019	24.2
Impact of discounting	(8.0)
Add: finance lease liabilities recognised at 31 May 2019	0.2
Lease liabilities recognised at 1 June 2019	**16.4**
Of which are:	
Current lease liabilities	2.0
Non-current lease liabilities	14.4
Lease liabilities recognised at 1 June 2019	**16.4**

2. Basis of preparation and accounting policies continued

The table below shows the split of the total right of use assets and lease liabilities following the adoption of IFRS 16:

	£m
Properties	1.0
Vehicles	15.2
NBV of assets previously held under finance leases	0.4
Total right of use assets	**16.6**
Properties	1.0
Vehicles	15.2
Leases previously held under finance leases	0.2
Total lease liabilities	**16.4**

During the half year to 30 November 2019, the application of IFRS 16 resulted in an increase in operating profit in the consolidated income statement of £0.1 million in comparison to treatment under IAS 17, as operating lease payments under IAS 17 were replaced by a depreciation charge on right of use assets. Profit before taxation reduced by £0.1 million with the inclusion of £0.2 million of finance costs under the new standard.

The table below shows a reconciliation between profit under IAS 17 and the new standard, IFRS 16.

	£m
Operating lease costs under IAS 17	2.5
Less: depreciation on right of use assets recognised under IFRS 16	(2.4)
Impact on operating profit for the half year to 30 November 2019	**0.1**
Less: finance costs associated with lease liabilities under IFRS 16	(0.2)
Impact on profit before taxation for the half year to 30 November 2019	**(0.1)**

During the half year to 30 November 2019, the movement on the right of use asset and lease liabilities was as follows:

	£m
Right of use assets	
Opening net book value	16.2
NBV of assets held under finance leases at 31 May 2019	0.4
New leases recognised	5.3
Depreciation	(2.4)
Closing net book value	**19.5**

	£m
Lease liabilities	
Opening liabilities	16.2
Finance lease liabilities recognised at 31 May 2019	0.2
New leases recognised	5.2
Lease payments	(2.7)
Finance cost	0.2
Closing net book value	**19.1**

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

3. Segment information

The chief operating decision-maker has been identified as the Board of Directors ('the Board'). The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined that the operating segments, based on these reports, are Fuels, Food and Feeds.

The Board considers the business from a product/services perspective. In the Board's opinion, all of the Group's operations are carried out in the same geographical segment, namely the UK.

The nature of the products/services provided by the operating segments are summarised below:

Fuels – sale and distribution of domestic heating, industrial and road fuels

Food – warehousing and distribution of clients' ambient grocery and other products to supermarket and other retail distribution centres

Feeds – manufacture and sale of animal feeds and other agricultural products

Segment information about the above businesses is presented below.

The Board assesses the performance of the operating segments based on a measure of headline operating profit. Finance income and costs are not included in the segment results which are assessed by the Board. Other information provided to the Board is measured in a manner consistent with that in the financial statements.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets exclude deferred income tax assets and cash and cash equivalents. Segment liabilities exclude taxation, contingent deferred consideration, borrowings and retirement benefit obligations. Excluded items are part of the reconciliation to consolidated total assets and liabilities.

Half year ended 30 November 2019	Note	Fuels £m	Food £m	Feeds £m	Group £m
Revenue					
Total revenue		248.8	24.6	82.2	355.6
Inter-segment revenue		(2.9)	(0.2)	(3.6)	(6.7)
Revenue		245.9	24.4	78.6	348.9
Result					
Headline operating profit		1.4	1.4	0.7	3.5
Segment exceptional item	4	(0.3)	–	–	(0.3)
Amortisation of acquired intangibles		(0.1)	–	–	(0.1)
Operating profit as reported					3.1
Finance costs	5				(0.7)
Profit before taxation					2.4
Income tax expense	6				(0.5)
Profit for the period					1.9
Other information					
Depreciation and amortisation		1.3	1.9	1.4	4.6
Fixed asset additions		0.4	0.9	1.0	2.3

3. Segment information continued

As at 30 November 2019	Fuels £m	Food £m	Feeds £m	Group £m
Balance sheet				
Assets				
Segment assets	**83.4**	**39.6**	**56.0**	**179.0**
Deferred income tax assets				**2.9**
Current income tax assets				**0.2**
Cash and cash equivalents				**1.8**
Consolidated total assets				**183.9**
Liabilities				
Segment liabilities	**(65.9)**	**(13.4)**	**(18.5)**	**(97.8)**
Current income tax liabilities				**–**
Deferred income tax liabilities				**(3.6)**
Borrowings				**(16.7)**
Retirement benefit obligations				**(17.0)**
Consolidated total liabilities				**(135.1)**

Half year ended 30 November 2018	Note	Fuels £m	Food £m	Feeds £m	Group £m
Revenue					
Total revenue		225.5	24.2	84.3	334.0
Inter-segment revenue		(3.1)	(0.4)	–	(3.5)
Revenue		222.4	23.8	84.3	330.5
Result					
Headline operating profit		0.9	1.0	0.7	2.6
Group exceptional item	4				(0.3)
Operating profit as reported					2.3
Finance costs	5				(0.4)
Profit before taxation					1.9
Income tax expense	6				(0.5)
Profit for the period					1.4
Other information					
Depreciation and amortisation		0.7	0.8	0.8	2.3
Fixed asset additions		0.1	0.3	0.7	1.3

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED

FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

3. Segment information continued

As at 30 November 2018	Fuels £m	Food £m	Feeds £m	Group £m
Balance sheet				
Assets				
Segment assets	64.6	32.4	55.4	152.4
Deferred income tax assets				2.8
Cash and cash equivalents				1.0
Consolidated total assets				156.2
Liabilities				
Segment liabilities	(53.2)	(5.3)	(15.7)	(74.2)
Current income tax liabilities				(0.4)
Deferred income tax liabilities				(3.5)
Borrowings				(15.8)
Retirement benefit obligations				(15.4)
Consolidated total liabilities				(109.3)

Year ended 31 May 2019	Note	Fuels £m	Food £m	Feeds £m	Group £m
Revenue					
Total revenue		449.5	48.4	180.4	678.3
Inter-segment revenue		(6.5)	(0.5)	–	(7.0)
Revenue		443.0	47.9	180.4	671.3
Result					
Headline operating profit		5.6	1.8	2.8	10.2
Segment exceptional item	4	(0.2)	–	–	(0.2)
Group exceptional item	4				(0.3)
Amortisation of acquired intangibles		(0.1)	–	–	(0.1)
Operating profit as reported					9.6
Finance costs	5				(0.9)
Profit before taxation					8.7
Income tax expense	6				(1.9)
Profit for the year					6.8
Other information					
Depreciation and amortisation		1.4	1.6	1.7	4.7
Fixed asset additions		0.5	0.6	1.7	2.8

3. Segment information continued

As at 31 May 2019	Fuels £m	Food £m	Feeds £m	Group £m
Balance sheet				
Assets				
Segment assets	61.2	30.3	51.7	143.2
Deferred income tax assets				3.1
Cash at bank and in hand				2.8
Consolidated total assets				149.1
Liabilities				
Segment liabilities	(46.4)	(5.3)	(15.0)	(66.7)
Current income tax liabilities				(1.1)
Deferred income tax liabilities				(3.7)
Borrowings				(13.2)
Retirement benefit obligations				(17.3)
Consolidated total liabilities				(102.0)

4. Profit before taxation – exceptional items

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Acquisition-related costs	**0.3**	–	0.2
GMP equalisation	**–**	0.3	0.3
Exceptional costs	**0.3**	0.3	0.5

Acquisition-related costs – The acquisition-related costs comprise professional fees and other costs in relation to the two acquisitions made during the period. Of the total cost, £0.3 million impacted cash in the period.

GMP equalisation – On 26 October 2018, the High Court issued a judgement involving the Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension ('GMP') benefits. The judgement has implications for many defined benefit schemes, including the NWF Group Benefits Scheme.

We have worked with our actuarial advisors to understand the implications of the High Court judgement for the NWF Group Benefits Scheme and, as a result, recorded a non-cash £0.3 million pre-tax exceptional expense in the year ended 31 May 2019 to reflect our best estimate of the effect on our reported pension liabilities.

The change in pension liabilities recognised in relation to GMP equalisation involves estimation uncertainty. Whilst the financial statements reflect the best estimate of the impact on pension liabilities reflecting the information currently available, that estimate reflects several assumptions. The Directors will continue to monitor any further clarifications and consider the impact on pension liabilities accordingly.

The Directors have made the judgement that the estimated effect of GMP equalisation on the Group's pension liabilities is a past service cost that should be reflected through the consolidated income statement and that any subsequent change in the estimate of that should be recognised in other comprehensive income. The judgement is based on the fact that the reported pension liabilities for the NWF Group Benefits Scheme did not previously include any amount in respect of GMP equalisation.

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

5. Finance costs

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Interest on bank loans and overdrafts	**0.3**	0.2	0.5
Finance costs on lease liabilities relating to IFRS 16	**0.2**	–	–
Net finance cost in respect of the defined benefit pension scheme	**0.2**	0.2	0.4
Total finance costs	**0.7**	0.4	0.9

6. Income tax expense
The income tax expense for the half year ended 30 November 2019 is based upon management's best estimate of the weighted average annual tax rate expected for the full financial year ending 31 May 2020 of 21.0% (H1 2018: 20.8%).

7. Earnings per share
The calculation of basic and diluted earnings per share is based on the following data:

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Earnings			
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to equity shareholders	**1.9**	1.4	6.8

	Half year ended 30 November 2019 000s	Half year ended 30 November 2018 000s	Year ended 31 May 2019 000s
Number of shares			
Weighted average number of shares for the purposes of basic earnings per share	**48,750**	48,720	48,735
Weighted average dilutive effect of conditional share awards (note 9)	**–**	30	15
Weighted average number of shares for the purposes of diluted earnings per share	**48,750**	48,750	48,750

The calculation of basic and diluted headline earnings per share is based on the following data:

	Half year ended 30 November 2019 £m	Half year ended 30 November 2018 £m	Year ended 31 May 2019 £m
Profit for the period attributable to equity shareholders	**1.9**	1.4	6.8
Add back:			
Net finance cost in respect of the defined benefit pension scheme	**0.2**	0.2	0.4
Exceptional items	**0.3**	0.3	0.5
Amortisation of acquired intangibles	**0.1**	–	0.1
Tax effect of the above	**–**	–	(0.1)
Headline earnings	**2.5**	1.9	7.7

8. Financial instruments

The Group's financial instruments comprise cash, bank overdrafts, invoice discounting advances, obligations under hire purchase agreements, commodity derivatives and various items such as receivables and payables, which arise from its operations. All financial instruments in 2019 and 2018 were denominated in Sterling. There is no significant foreign exchange risk in respect of these instruments.

The carrying amounts of all of the Group's financial instruments are measured at amortised cost in the financial statements, with the exception of derivative financial instruments being forward supply contracts. Derivative financial instruments are measured at fair value subsequent to initial recognition.

IFRS 13 (amended) 'Financial Instruments: Disclosures' requires disclosure of financial instruments measured at fair value, grouped into Levels 1 to 3 below, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1 above, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of the Group's derivative financial instruments were classified as Level 2 in the current and prior periods. There were no transfers between levels in both the current and prior periods.

The book and fair values of financial assets at 30 November 2019 are as follows:

Total book and fair value	**30 November 2019 £m**	30 November 2018 £m	31 May 2019 £m
Trade and other receivables	**74.3**	74.5	64.7
Financial assets carried at amortised cost: cash and cash equivalents	**1.8**	1.0	2.8
Financial assets carried at fair value: derivatives	**0.2**	0.2	0.2
Financial assets	**76.3**	75.7	67.7

The book and fair values of financial liabilities at 30 November 2019 are as follows:

Total book and fair value	**30 November 2019 £m**	30 November 2018 £m	31 May 2019 £m
Trade and other payables	**79.2**	74.1	66.7
Lease liabilities repayable within one year	**3.0**	–	–
Financial liabilities carried at amortised cost:			
Hire purchase obligations repayable within one year	**–**	–	0.2
	82.2	74.1	66.9
Floating rate invoice discounting advances	**13.2**	11.8	10.0
Revolving credit facility	**3.0**	4.0	3.0
Lease liabilities repayable after one year	**16.1**	–	–
	32.3	15.8	13.0
Financial liabilities	**114.5**	89.9	79.9

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

9. Share capital

	Number of shares 000s	Total £m
Allotted and fully paid: ordinary shares of 25p each		
Balance at 31 May 2018	48,660	12.2
Issue of shares (see below)	90	–
Balance at 30 November 2018	48,750	12.2
Issue of shares	–	–
Balance at 31 May 2019	48,750	12.2
Issue of shares (see below)	–	–
Balance at 30 November 2019	**48,750**	**12.2**

During the half year ended 30 November 2019, no shares (H1 2018: 89,920) with an aggregate nominal value of £Nil (H1 2018: £22,480) were issued under the Company's conditional Performance Share Plan.

The maximum total number of ordinary shares that may vest in the future in respect of conditional Performance Share Plan awards outstanding at 30 November 2019 amounted to 1,441,604 (H1 2018: 1,216,945) shares. These shares will only be issued subject to satisfying certain performance criteria.

10. Business combinations

On 10 July 2019, the Group acquired 100% of the share capital of David Hermon Hodge Group Limited, a 75 million litre fuel distributor based in the North West of England. The net consideration for the acquisition was £3.0 million before acquisition costs (being gross consideration of £4.5 million adjusted for normalised working capital, and cash and debt like items).

Details of the total consideration and the provisional fair values of the assets and liabilities acquired are shown below:

	Initial fair value of assets acquired £m
Intangible assets – Goodwill	3.1
Intangible assets – Brand	0.1
Intangible assets – Customer relationships	0.1
Property, plant and equipment	1.1
Stock	0.4
Trade and other receivables	7.2
Cash	0.2
Borrowings	(2.6)
Trade and other payables	(6.0)
Lease liabilities	(0.5)
Deferred tax liability	(0.1)
	3.0

10. Business combinations continued

Provisional goodwill of £3.1 million arises from the acquisition and is attributable to the acquired business and the expected economies of scale from combining the operations of the Group and the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

As the acquisition was made in the year, the above amounts are provisional and subject to adjustment.

Net cash outflow arising on the acquisition:

	£m
Total consideration – cash paid on completion	(3.0)
Cash acquired	0.2
	(2.8)
Acquisition-related costs	(0.3)
	(3.1)

Acquisition-related costs of £0.3 million have been charged to the income statement (included within exceptional costs) in the period ended 30 November 2019.

The following amounts have been recognised within the consolidated income statement in respect of the acquisition made in the year: revenue – £21.9 million, loss – £0.1 million.

Had the acquisition taken place at the start of the financial year, the consolidated income statement would show: revenue – £26.3 million, loss – £0.1 million.

On 15 October 2019, the Group acquired the trade and specified assets of Caldo Oils Limited, a 5 million litre fuel distributor based in the North West of England. The net consideration for the acquisition was £0.4 million before acquisition costs.

Details of the total consideration and the provisional fair values of the assets and liabilities acquired are shown below:

	Initial fair value of assets acquired £m
Intangible assets – Goodwill	0.2
Intangible assets – Customer relationships	0.2
	0.4

Provisional goodwill of £0.4 million arises from the acquisition and is attributable to the acquired business and the expected economies of scale from combining the operations of the Group and the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

As the acquisition was made in the year, the above amounts are provisional and subject to adjustment.

NOTES TO THE CONDENSED CONSOLIDATED HALF YEAR REPORT CONTINUED
FOR THE HALF YEAR ENDED 30 NOVEMBER 2019 (UNAUDITED)

10. Business combinations continued

Net cash outflow arising on the acquisition:

	£m
Total consideration – cash paid on completion	(0.4)
Cash and cash equivalents acquired	–
	(0.4)

The following amounts have been recognised within the consolidated income statement in respect of the acquisition made in the year: revenue – £0.3 million, profit – £Nil.

Had the acquisition taken place at the start of the financial year, the consolidated income statement would show: revenue – £0.9 million, profit – £Nil.

11. Half year report

Copies of this Half Year Report are due to be sent to shareholders on 6 February 2020. Further copies may be obtained from the Company Secretary at NWF Group plc, Wardle, Nantwich, Cheshire CW5 6BP, or from the Company's website at www.nwf.co.uk.

12. Post balance sheet events

On 2 December 2019, in line with the Group's strategy, the Group acquired 100% of the share capital of Ron Darch & Sons Co Ltd, a 35 million litre fuel distributor based in Yeovil in Somerset, with two depots and a complementary coal distribution business. The consideration of £4.5 million was satisfied in cash. A fair value exercise is underway and will be disclosed in the year end report.

On 11 December 2019, the Group committed to enter a twelve year lease (with a six year break clause) from 1 April 2020, to operate a newly constructed 240,000 ft² warehouse in Crewe. The estimated financial impact on the balance sheet is an increase in right of use assets of £7.0 million and an increase in lease liabilities of £7.0 million. The effect on the income statement in respect of the lease is expected to be an increase of £1.2 million in depreciation and a £0.1 million increase in finance costs per annum.

2020 FINANCIAL CALENDAR

Interim dividend paid	6 May 2020
Financial year end	31 May 2020
Full year results announcement	Early August 2020
Publication of Annual Report and Accounts	Late August 2020
Annual General Meeting	24 September 2020
Final dividend paid	Early December 2020

ADVISORS

Registrars
Link Asset Services
34 Beckenham Road
Beckenham
Kent BR3 4TU

Independent auditors
PricewaterhouseCoopers LLP
No. 1, 1 Hardman Street
Manchester M3 3EB

Bankers
The Royal Bank of Scotland
Corporate Banking
2nd Floor
1 Spinningfields Square
Manchester M3 3AP

Nominated advisor and broker
Peel Hunt LLP
Moor House
120 London Wall
London EC2Y 5ET

Solicitors
Brabners LLP
Horton House
Exchange Flags
Liverpool L2 3YL

Financial PR
MHP Communications
6 Agar Street
London WC2N 4HN

Registered office
NWF Group plc
Wardle
Nantwich
Cheshire CW5 6BP

Registered number
2264971

DIVISIONAL CONTACTS

Fuels	Tel: 01829 260900 www.nwffuels.co.uk
Food	Tel: 01829 260704 www.boughey.co.uk
Feeds	Tel: 0800 262397 www.nwfagriculture.co.uk

Produced by
designportfolio

NWF GROUP PLC

NWF Group plc
Wardle
Nantwich
Cheshire
CW5 6BP

Telephone: 01829 260260
www.nwf.co.uk