

NWF Group plc

NWF Group plc: Final results for the year ended 31 May 2020

NWF Group plc ('NWF' or 'the Group'), the specialist distributor of fuel, food and feed across the UK, today announces its audited final results for the year ended 31 May 2020.

	2020	2019	%
Financial highlights			
Revenue	£687.5m	£671.3m	+2.4%
Headline operating profit ^{1 2}	£14.3m	£10.2m	+40.2%
Headline profit before taxation ^{1 2}	£13.2m	£9.7m	+36.1%
Fully diluted headline earnings per share ¹	20.3p	15.8p	+28.5%
Total dividend per share	6.9p	6.6p	+4.5%
Net debt (excluding IFRS 16 lease liabilities)	£12.3m	£10.4m	+18.3%
Net debt to headline EBITDA (excluding IFRS 16 lease liabilities) ³	0.7x	0.7x	-
Statutory results			
Operating profit ²	£13.5m	£9.6m	+40.6%
Profit before taxation ²	£12.0m	£8.7m	+37.9%
Fully diluted earnings per share	18.1p	13.9p	+30.2%
Net debt (including IFRS 16 lease liabilities)	£38.6m		

¹ Headline operating profit excludes exceptional items (see note 5) 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 take into account the taxation effect thereon.

² Results for the year ended 31 May 2020 are presented following the adoption of IFRS 16 'Leases', the impact of which is to increase operating profit and headline operating profit by £0.2 million. Profit before taxation and headline profit before taxation are reduced by £0.2 million with the inclusion of £0.4 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.

³ Net debt to headline EBITDA is calculated based on net debt excluding IFRS 16 lease liabilities. The headline EBITDA calculation excludes the impact of IFRS 16 depreciation.

Highlights:

- Sustained delivery throughout the year, revenue growth with increased activity levels in all divisions.
- Market share gains in Fuels and Feeds and solid operational performance in Food.
- Three Fuels acquisitions completed and successfully integrated during the year in line with our strategy, increasing the scale of the business by over 20%.
- Food's new 240,000ft² warehouse now fully racked increasing our total storage capacity by 35% to 135,000 pallets, underpinned by long-term customer contracts.
- Significant outperformance in Fuels as a result of an unprecedented fall in the oil price, and a significant increase in domestic demand during lockdown delivered one-off gains.
- Swift and effective response to Covid-19:
- All divisions have remained open and operational, providing essential services.
- Effective safe working practices implemented, enabling an efficient response to increased demand.
- High service levels maintained.

- No Government support utilised and no staff furloughed.
- Balance sheet remains in a strong position with leverage at 0.7x, after having invested £7.9m in acquisitions and expansion.
- Proposed 4.5% increase to the total dividend to 6.9p per share, reflecting the Board's confidence in the resilience and prospects of the business.

Divisional highlights:

Fuels - headline operating profit of £11.0 million (2019: £5.6 million), ahead of previous expectations. Significant growth attributable to an increase in volume and expansion of geographic coverage from acquisitions. A dramatic fall in the oil price and an increase in demand for heating oil from domestic customers during lockdown delivered substantial one-off gains.

Food - headline operating profit of £1.4 million (2019: £1.8 million). The underlying performance from the business was in line with expectations. The business incurred one-off start-up costs of £0.5 million as planned for the significant warehouse expansion in Crewe, which is backed by customer contracts. Operationally the business successfully managed the increase in supermarket demand during lockdown.

Feeds - headline operating profit of £1.9 million (2019: £2.8 million). Strong volume and market share growth in a smaller ruminant market. However, these volume benefits were offset by higher energy costs and margin pressure in the second half following commodity cost increases. Investment in the future with the launch of the NWF Academy training our future nutritionists to support continued growth.

Richard Whiting, Chief Executive, NWF Group plc, commented:

"NWF has delivered a very strong set of results, ahead of previous expectations, demonstrating both resilience and growth. Three acquisitions have been completed in Fuels and we have added significant additional warehouse capacity to support long-term customer contracts in Food. Feeds gained share with volume growth in a contracting market. The fundamental resilience of the Group has been highlighted with the response to the Covid-19 crisis. Huge thanks must go to all our employees for their outstanding efforts in very challenging times. All our employees were designated as key workers, demand increased, deliveries to customers were completed and safe working and home working where possible were implemented in early March and remain effective today."

A virtual meeting is being held today for analysts at 9.30 a.m. For login details please contact Alice McLaren at MHP Communications alice.mclaren@mhpc.com.

Information for investors, including analyst consensus forecasts, can be found on the Group's website at www.nwf.co.uk.

Richard Whiting, Chief Executive Reg Hoare / James Bavister / Mike Bell / Ed Allsopp
Chris Belsham, Group Finance
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Chair's statement

Overview

I am pleased to report a year of significant growth for the Group with all three divisions making progress. I am proud of the response of all our employees to the Covid-19 pandemic and would like to thank them for their ongoing efforts during this difficult time. NWF is a resilient business and plays a key role in providing food, feed and fuel to the country. We continued to operate at full capacity and satisfied the increased demand from our customers during the lockdown period. Employees are designated key workers, their safety is paramount and we swiftly introduced safe ways of working across the Group and moved all employees to home working where practical. I am also pleased to report that NWF has not utilised any form of Government support, furloughed any employees or delayed payments through this critical time.

As a consequence of the good progress achieved, the Group's cash generation, and confidence in the Group's resilience and future prospects, the Board is recommending a final dividend of 5.9p per share, to be paid to shareholders on 8 December 2020 (2019: 5.6p) giving a total dividend of 6.9p per share (2019: 6.6p), a 4.5% increase on the prior year.

Our business

NWF Group is a specialist distributor delivering fuel, food and feed across the UK. Each of our trading divisions has scale and good market position, and is profitable and cash generative. Each division trades under different brands with their own brand architecture as follows:

Fuels NWF Fuels (including a number of local sub-brands)

Food Boughey

Feeds NWF Agriculture, SC Feeds, New Breed and Jim Peet

Key areas of focus for the Board in 2020 were:

Responding proactively to market conditions

The Group has responded well to market conditions experienced during the year. The demand for fuel was robust through the summer and into the winter. As lockdown commenced there was a significant increase in demand for heating oil across the country which we delivered effectively from our 25 depots. This increased demand, coupled with the sharp fall in the oil price, enabled lower prices to be passed on to customers whilst improving margins. In Food we successfully managed the volatility of demand during the period of Brexit uncertainty in the autumn when stocks were built up in the supply chain. From February 2020 as the impact of the Covid-19 pandemic was apparent, demand for ambient groceries from supermarkets increased dramatically. We were able to respond and meet this increased demand, whilst implementing safe ways of working. Against a backdrop of lower feed market volumes, NWF increased its volumes by focusing on the nutritional needs of our farming customers.

Delivering on strategy

The Group completed the acquisition of three Fuels businesses during the year in line with our strategic plan. Our geographic reach was broadened through these acquisitions. Ribble Fuel Oils and Caldo operate in the North West extending our presence north and into Yorkshire. Darch in Somerset and Devon expands our presence in the South West. All these businesses have been successfully integrated into Fuels. The Covid-19 pandemic has caused us to put a temporary pause on our Fuels acquisition strategy. In Food we have significantly expanded our warehousing capability by leasing and operating a new 240,000ft² warehouse backed by customer contracts. This increases our storage capacity by 35%. The fit out of this warehouse was completed during the lockdown period and it is now fully operational. The NWF Academy in Feeds has been launched, which trains future nutritionists over a structured 18-month programme.

Cash generation

Cash generation remains a focus for the Group and net debt has been maintained at less than 0.7x EBITDA having completed three acquisitions in the year and with the investment in a significant warehouse expansion.

Rewarding good service

The consistent focus on excellence in customer service across the Group has been critical to our continued development and has enabled gains to be achieved in each of the three divisions in the year.

Commodity volatility

Volatility in oil and feed commodity prices was significant and the businesses managed this effectively. In Fuels, the price of oil (which is purchased on the spot market) moved dramatically with a high point of \$69 per barrel and a record low of \$19 per barrel for Brent Crude. In line with market practice, Feeds buys most of its raw materials under forward purchase contracts. Significant changes in feed input commodities were managed through feed prices during the year.

ESG framework

The Board recognises the importance of good corporate governance and continues to adopt the Quoted Companies Alliance Corporate Governance Code ('the QCA Code') which we believe has been constructed in a simple, practical and effective style and that meaningful compliance with its ten main principles should provide shareholders with confidence in how the Group operates. Our ESG framework has been expanded with the development of our sustainability policy which is now on our website and is detailed in the Annual Report.

Employees

The Group now employs in excess of 1,200 people across the three divisions and Head Office. I would like to offer my personal thanks to all of our employees for their outstanding efforts and commitment to the Group during these challenging times.

Board of Directors

I would like to personally thank Yvonne Monaghan, who steps down from the Board in September 2020, for her contribution as a highly valued member of the Board in her role as Senior Independent Non-Executive Director and Chair of the Audit Committee. We are pleased to welcome Richard Armitage, who joined the Board on 1 July 2020, and will succeed Yvonne as Chair of the Audit Committee in September 2020. I am also pleased to report that David Downie will succeed Yvonne in the role of Senior Independent Non-Executive Director.

I look forward to updating shareholders on the Group's continuing progress at the time of the Annual General Meeting on 24 September 2020.

Business and financial review

NWF has delivered a very strong set of results demonstrating both resilience and growth. Three acquisitions have been completed in Fuels and we have added significant additional warehouse capacity to support long-term customer contracts in Food. Feeds gained share with volume growth in a contracting market. The fundamental resilience of the Group has been highlighted with the response to the Covid-19 crisis. Huge thanks must go to all our employees for their outstanding efforts in very challenging times. All our employees were designated as key workers, demand increased, deliveries to customers were completed and safe working and home working where possible were implemented in early March and remain effective today.

A strong focus on cash has continued and the record profit performance has been converted into cash ensuring the Group has significant headroom under its banking facilities and against its covenants during this period of uncertain economic outlook. We are proposing an increased dividend, demonstrating the Board's confidence in the resilience of the Group, and have a number of strategic development opportunities which we continue to review.

Fuels has delivered an outstanding result in the year, completing and successfully integrating three acquisitions and trading ahead of expectations throughout the year. The business successfully delivered the significant increase in demand for heating oil during lockdown. The Food division's underlying performance was solid and the business expanded significantly with the addition of a new 240,000ft² warehouse backed by customer contracts. The demand for Food increased dramatically as lockdown commenced and the business satisfied this additional demand and completed the fit out of the new warehouse by the year end as planned. Feeds grew volume in a smaller market, gaining share with demand remaining reasonably robust during lockdown. We also launched the NWF Academy, which will train our future nutritionists over a structured 18-month programme, to support further business development.

The Group delivered headline operating profit of £14.3 million (2019: £10.2 million) and headline profit before tax was 36.1% higher at £13.2 million (2019: £9.7 million). Operating profit increased by 40.6% to £13.5 million (2019: £9.6 million). Diluted headline earnings per share were 28.5% higher at 20.3p (2019: 15.8p).

Cash management remains strong with net debt of £12.3 million (2019: £10.4 million) excluding lease liabilities, representing 0.7x EBITDA, after £7.9 million of development expenditure and £3.8 million of normal net capital expenditure. Development expenditure was £6.0 million on Fuels acquisitions and £1.9 million capital investment in the new Food Crewe warehouse.

Fuels

Fuels' outstanding performance was a consequence of solid trading throughout the year with an improved product mix, the benefit of three acquisitions in 2020 and the full year impact of acquisitions completed in the prior year. In addition, there was a significant demand increase throughout lockdown which resulted in over 37% more deliveries than the prior year on a like-for-like basis. Leveraging the benefits of a newer, modern fleet the business was able to prioritise domestic customers as commercial demand fell during lockdown. At the same time the price of oil fell dramatically throughout March and April, enabling the business to pass on lower prices whilst strengthening margins.

Volumes rose 20.5% to 665 million litres (2019: 552 million litres), and revenue increased by 6.1% to £470.2 million (2019: £443.0 million) as a result of higher volumes more than offsetting lower oil prices. On a like-for-like basis (excluding acquisitions in the year) volumes were stable, but with a significantly increased proportion of heating oil. The average Brent Crude oil price in the year was \$54 per barrel compared to \$70 per barrel in the prior year. Oil hit a record low of \$19 per barrel in April 2020.

Headline operating profit was £11.0 million (2019: £5.6 million) as a consequence of increased volumes, both organic and from acquisitions, positive product mix and improved margins across the year. Net profits of 1.6 pence per litre highlight the one-off gain of approximately 0.6 pence per litre in the year as a result of the unprecedented fall in the oil price and the dramatic increase in demand for heating oil.

Good strategic progress has been made with three acquisitions successfully completed and integrated, Ribble Fuel Oils and Caldo (North West) and Darch (South West), expanding the depot network with six additional locations and adding 120 million litres to the volume of the division, an increase of over 20%.

The Fuels division operates on a de-centralised model with depot management teams focused on optimising performance for the specific conditions of their local market. This model supported our ability to respond swiftly and effectively to the increased consumer demand and significant commodity price volatility experienced during lockdown. We continue to believe that our model is the most effective way to maximise performance, given the industry structure, but we also believe there are opportunities to leverage benefits from the breadth of our growing network. As such we continue to invest in enhancing systems and capabilities for the Fuels division which we believe will improve efficiencies and provide a strong platform for continued growth.

With over 116,000 customers (2019: 63,000) being supplied across 25 fuel depots in the year (2019: 19), Fuels operates in large and robust markets and as a business it has consistently proved it can effectively manage the impact of volatility in oil prices. The industry remains highly fragmented, with many small operators, which provides NWF with further opportunities to consolidate the market and increase share.

Food

This has been a year of significant development with the planning and investment in a new 240,000ft² warehouse in Crewe backed by long-term customer contracts, which increases the storage capacity of the business by 35% to 135,000 pallet spaces. The underlying performance has been in line with expectations and the business managed the huge demand peak in ambient groceries from the supermarkets in February and March.

Revenue increased by 0.8% to £48.3 million (2019: £47.9 million). Storage overall was at an average of 103,000 pallets (2019: 100,000 pallets), with external warehousing being utilised until April. Significantly, pallets despatched increased by 4% on the prior year, reflecting the increased activity of new customer contracts and the additional demand experienced before and during lockdown.

Headline operating profit was £1.4 million (2019: £1.8 million), reflecting the solid underlying business performance offset by £0.5 million of one-off start-up costs incurred at Crewe. Demand continued to increase for e-fulfilment business with additional customers now utilising the facility, and the packing room and Palletline were in line with expectations.

In February 2020 the Group commenced operations in an additional leased 240,000ft² warehouse in Crewe conveniently located close to the M6 and to its main Wardle site. This newly constructed, state-of-the-art facility is backed by long-term customer contracts. The facility was fully racked out and completed on time and in line with budget in spite of lockdown and is fully operational with stock build underway.

Demand for our customers' products continues to be stable and the outlook for most product categories handled by the business is resilient. The business operates in a competitive supply chain and needs to continually demonstrate the value and service that it provides to food manufacturers and importers. The business has a leading position in consolidating ambient grocery products in the North West, with high service levels, industry leading systems and a strong operating performance being the key components of its customer proposition.

Feeds

Feeds increased market share across the country supplying more feed direct to farms, to feed merchants and to other compounders. Total feed volume increased by 5.8% to 625,000 tonnes (2019: 591,000 tonnes). Feed market volumes ended the year 6% down compared to the prior year, in part owing to good silage stocks on farm and partly as a result of a lower milk price for a number of farmers who looked to reduce feed inputs.

Commodity prices gradually declined in the first half to November 2019 and then increased steadily before a sharp peak in early April 2020 at a level 30% higher than the low point, then subsequently reducing. This resulted in price increases in the second half following the commodity cost increases.

Revenue was lower at £169.0 million (2019: £180.4 million) reflecting the lower average feed and commodity prices in 2020. Headline operating profit was £1.9 million (2019: £2.8 million). Higher energy costs and increases in commodity prices impacted margins and offset the volume benefits.

Feeds launched the NWF Academy in September 2019 in which new trainees engage on an 18-month structured training programme to become future NWF nutritionists. The Academy has recruited a second group to the programme which has been well received across the industry.

Average milk prices in Great Britain were reasonably stable, moving from 28.0p to 26.8p per litre over the period with a high of 29.9p per litre in November 2019. During lockdown, with lower levels of demand from the food service sector, milk pricing came under short-term pressure. Reflecting this environment, milk production fell marginally by 0.8% to 12.5 billion litres (2019: 12.6 billion litres).

Feeds has a very broad customer base, working with over 4,750 farmers across the country. This base, and the underlying robust demand for milk and dairy products, results in a reasonably stable overall demand for our feed in most market conditions.

Outlook

In Fuels, we have a proven depot operating model and are leveraging our capability by increasing the depot network through acquisitions. The opportunity to consolidate the market remains significant. In the new financial year Fuels will benefit from a full year contribution from the 2020 acquisitions, but does not anticipate a repeat of the exceptional conditions in the oil market.

In Food, we are focused on continuing to fill and fully utilise our new warehouse in Crewe, having incurred significant start-up costs as planned during 2020. We are also continuing to improve efficiency, working with our customers and managing the variable demand patterns that have been a consequence of Covid-19 and the end of the Brexit transitional arrangements.

In Feeds, current margins and volumes are in line with our expectations for this time of the year. Our mills in the North, Cheshire and the South West are aligned to the needs of our farming customers in these key areas of the country.

The Group has clearly demonstrated its resilience and capability to deliver growth, and has strong cash flows and flexible

banking facilities to fund growth alongside a strong asset base. We will therefore continue to consider acquisition opportunities, building on our successful track record of acquiring and integrating businesses, as well as investment in organic development.

Performance to date in the current financial year has been in line with the Board's expectations. Overall, the Board continues to remain confident about the Group's future prospects.

Group results

For the year ended 31 May

	2020	2019
	£m	£m
Revenue	687.5	671.3
Cost of sales and administrative expenses	(674.0)	(661.7)
Headline operating profit ¹	14.3	10.2
Exceptional items	(0.5)	(0.5)
Amortisation of acquired intangibles	(0.3)	(0.1)
Operating profit³	13.5	9.6
Financing costs	(1.5)	(0.9)
Headline profit before tax ¹	13.2	9.7
Exceptional items	(0.5)	(0.5)
Amortisation of acquired intangibles	(0.3)	(0.1)
Net finance cost in respect of defined benefit pension scheme	(0.4)	(0.4)
Profit before taxation³	12.0	8.7
Income tax expense ²	(3.1)	(1.9)
Profit for the year	8.9	6.8
Headline EPS¹	20.5p	15.8p
Diluted headline EPS¹	20.3p	15.8p
Dividend per share	6.9p	6.6p
Headline dividend cover¹	2.9	2.4
Headline interest cover	20.4	20.4

¹ Headline operating profit is statutory operating profit of £13.5 million (2019: £9.6 million) before exceptional items of £0.5 million (2019: £0.5 million) and amortisation of acquired intangibles of £0.3 million (2019: £0.1 million). Headline profit before taxation is statutory profit before taxation of £12.0 million (2019: £8.7 million) after adding back the net finance cost in respect of the Group's defined benefit pension scheme of £0.4 million (2019: £0.4 million), the exceptional items and amortisation of acquired intangibles. Headline EPS also takes into account the taxation effect thereon. Headline dividend cover is calculated using diluted headline EPS.

² Taxation on exceptional items in the current period has reduced the charge by £Nil (2019: £0.1 million).

³ During the year ended 31 May 2020, the application of IFRS 16 resulted in an increase in operating profit in the consolidated income statement of £0.2 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 £0.2 million with the inclusion of £0.4 million of finance costs under the new standard.

Group revenue increased by 2.4% to £687.5 million (2019: £671.3 million) with higher activity levels and revenue from acquisitions largely offset by the impact of the lower oil price in the final quarter and lower feed revenues. Headline operating profit was £14.3 million, an increase of 40.2% (2019: £10.2 million). Operating profit increased 40.6% to £13.5 million (2019: £9.6 million).

Financing costs (excluding those in respect of the defined benefit pension scheme) increased by £0.6 million to £1.1 million, with the addition of £0.4 million of interest on IFRS 16 lease liabilities. The interest on bank debt was £0.7 million (2019: £0.5 million) and headline interest cover was 20.4x (excluding IAS 19 net pension finance costs and IFRS 16 lease interest) (2019: 20.4x).

Headline profit before taxation increased by 36.1% to £13.2 million (2019: £9.7 million). Profit before taxation increased by £3.3 million to £12.0 million (2019: £8.7 million). There were exceptional items in the year of £0.5 million relating to acquisition costs (2019: £0.5 million).

The tax charge for the year was £3.1 million (2019: £1.9 million) which included an increase in the deferred tax liability of

the Group following the Government's decision to maintain the corporation tax rate at 19% rather than reduce it to 17% from 1 April 2020. This resulted in a one-off tax charge of £0.5 million. Excluding the impact of deferred tax, the effective underlying tax rate for the year was 21.7% (2019: 20.8%). The post-tax profit for the year was £8.9 million (2019: £6.8 million).

The headline earnings per share of 20.5p represented an increase of 29.7% (2019: 15.8p), diluted headline earnings per share increased by 28.5% to 20.3p (2019: 15.8p). The proposed full year dividend per share increased by 4.5% to 6.9p which reflects the Board's confidence in the Group, its strong underlying cash generation and its future prospects. The proposed dividend equates to a dividend cover ratio of 2.9x.

The finance costs in respect of the defined benefit pension scheme were in line with the prior year at £0.4 million (2019: £0.4 million).

Balance sheet summary

As at 31 May

	2020	2019
	£m	£m
Tangible and intangible fixed assets	79.9	70.2
Right of use assets	27.3	-
Net working capital	4.8	6.1
Derivative financial instruments	0.1	0.2
Net debt (excluding IFRS 16 lease liabilities)	(12.3)	(10.4)
Lease liabilities	(26.3)	-
Current tax liabilities	(0.9)	(1.1)
Deferred tax liabilities (net)	(0.5)	(0.6)
Retirement benefit obligations	(21.0)	(17.3)
Net assets	51.1	47.1

The Group increased net assets by £4.0 million to £51.1 million (31 May 2019: £47.1 million). This reflects the robust trading performance during the year with a retained profit for the year of £5.7 million (2019: £3.7 million) partially offset by an increase in the accounting valuation of the pension deficit.

Tangible and intangible fixed assets increased by £9.7 million to £79.9 million as at 31 May 2020 (31 May 2019: £70.2 million) largely as a result of the intangible assets arising on acquisitions. The depreciation (excluding IFRS 16 depreciation on right of use assets) and amortisation charges for the year to 31 May 2020 were £4.1 million and £0.6 million respectively (2019: £3.9 million and £0.8 million respectively).

Group level ROCE (based on headline operating profit) is 16.7% as at 31 May 2020 (31 May 2019: 13.4%).

Net working capital decreased by £1.3 million in the year as a result of a reduction in the value of stock at the year end reflecting the lower oil and commodity prices. The Group's inventories decreased by £0.9 million to £4.7 million (31 May 2019: £5.6 million) with trade and other receivables decreasing to £56.7 million (31 May 2019: £67.2 million) and a decrease in trade and other payables to £56.6 million (31 May 2019: £66.7 million).

Net debt increased by £1.9 million to £12.3 million (31 May 2019: £10.4 million), reflecting the combined impact of the acquisitions in the year, the investment in the Crewe warehouse and the strong trading performance. At the year end, the Group's net debt to EBITDA ratio was 0.7x (2019: 0.7x).

The deficit of the Group's defined benefit pension scheme increased by £3.7 million to £21.0 million (31 May 2019: £17.3 million). The value of pension scheme assets increased by £2.1 million to £40.1 million (31 May 2019: £38.0 million) predominantly as a result of employer contributions, and the value of the scheme liabilities increased by £5.8 million to £61.1 million (31 May 2019: £55.3 million) largely as a result of the decrease in the discount rate used to calculate the present value of the future obligations (31 May 2020: 1.65%; 31 May 2019: 2.50%).

Cash flow and banking facilities

For the year ended 31 May

	2020	2019
	£m	£m
Operating cash flows before movements in working capital and provisions	23.8	12.8
Working capital movements	1.7	(3.9)
Utilisation of provision	-	(0.1)
Interest paid		

Tax paid	(1.1)	(0.5)
	(2.7)	(1.9)
Net cash generated from operating activities	21.7	6.4
Capital expenditure (net of receipts from disposals)	(5.7)	(2.8)
Acquisition of subsidiaries - cash paid (net of cash acquired)	(6.0)	(3.5)
Capitalised legal costs associated with leases	(0.3)	-
Payment of contingent deferred consideration	-	(0.8)
Net cash absorbed by investing activities	(12.0)	(7.1)
Net increase in bank borrowings	1.6	6.2
Capital element of leases	(5.6)	(0.1)
Dividends paid	(3.2)	(3.1)
Net increase in cash and cash equivalents	2.5	2.3
Cash and cash equivalents at beginning of year	2.8	0.5
Cash and cash equivalents at end of year	5.3	2.8

The Group has completed three acquisitions in the year with a total consideration (net of cash acquired) of £6.0 million. The closing net debt (excluding IFRS 16 lease liabilities) of £12.3 million represents a net debt to EBITDA ratio of 0.7x.

The cash impact of working capital movements was £1.7 million, driven by the reduction in the value of stock at the year end, reflecting the lower oil and commodity prices. There were net non-cash movements of £0.4 million within working capital. Net cash generated from operating activities and after IFRS 16 lease payments was £16.1 million (2019: £6.4 million) representing a cash conversion ratio of 112.6% of headline operating profit (2019: 62.7%).

Net capital expenditure in the year at £5.7 million (2019: £2.8 million) exceeded the annual depreciation charge, excluding IFRS 16 depreciation, of £4.1 million (2019: £3.9 million) reflecting the investment in Crewe.

The Group's banking facilities, totalling £65.0 million, were renewed in June 2018 and are committed through to 31 October 2023 with the exception of the bank overdraft facility of £1.0 million and the £4.0 million bank guarantee facility which are renewed annually. There remains substantial facility headroom available to support the development of the Group. Within the total facility of £65.0 million, the Group has an invoice discounting facility, the availability of which depends on the level of trade receivables available for refinancing and which is subject to a maximum drawdown of £50.0 million. The banking facilities are provided subject to ongoing compliance with conventional banking covenants against which the Group has substantial levels of headroom.

Principal risks and uncertainties

As with all businesses, the Group is affected by a number of risks and uncertainties, some of which are beyond our control. The principal risks and uncertainties which could have a material adverse impact on the Group are:

- **Covid-19 pandemic** - The global pandemic, Covid-19, presents a number of different risks to the business. This is particularly the case if there is a second wave of Covid-19 which results in a further nationwide lockdown. Firstly, the pandemic poses a risk to the health and safety of employees. Secondly, the impact of the pandemic on the UK economy and therefore demand for the Group's products and services, particularly in the Fuels division, is uncertain. In addition, the response of the UK Government to the pandemic may create restrictions on the Group's ability to operate.
- **Brexit** - The uncertainty around the implications of the UK reaching the end of the transition period without having agreed a trade deal with the European Union and potential associated exchange rate volatility creates commodity price risk. There is also some uncertainty around demand in agriculture given the trading relationship with Europe and the subsidy support received by farmers.
- **Commodity prices and volatility in raw material prices** - The Group's Feeds and Fuels divisions operate in sectors which are vulnerable to volatile commodity prices both for fuel and for raw materials.
- **Impact of climate on earnings volatility** - The demand for both the Feeds and Fuels divisions is impacted by climatic conditions and the severity of winter conditions in particular, which directly affect the demand for heating oil and animal feeds. The inherent uncertainty regarding climatic conditions represents a risk of volatility in the profitability of the Fuels and Feeds divisions.
- **Pension scheme volatility** - Increases in the ongoing deficit associated with the Group's defined benefit pension scheme would adversely impact on the strength of the Group's balance sheet and could lead to an increase in cash contributions payable by the Group.
- **Recruitment, retention and development of key people** - Recruiting and retaining the right people is crucial for the success of the Group and its development.

- Infrastructure and IT systems - IT system failures or business interruption events (such as cyber-attacks) could have a material impact on the Group's ability to operate effectively.
- Non-compliance with legislation and regulations - The Group operates in diverse markets and each sector has its own regulatory and compliance frameworks which require ongoing monitoring to ensure that the Group maintains full compliance with all legislative and regulatory requirements. Any incident of major injury or fatality or which results in significant environmental damage could result in reputational or financial damage to the Group.
- Strategic growth and change management - A failure to identify, execute or integrate acquisitions, change management programmes or other growth opportunities could impact on the profitability and strategic development of the Group.

Further information on the Group's mitigating actions against risks and uncertainties will be detailed in the Annual Report.

Going concern

The Group has an agreement with The NatWest Group for credit facilities totalling £65.0 million. With the exception of the bank overdraft facility of £1.0 million and the £4.0 million bank guarantee facility, which are renewed annually, these facilities are committed through to 31 October 2023. As at 31 May 2020 the Group had available facilities of £49.5 million (based on actual invoice discounting availability and overdraft facilities), against which the Group was utilising £11.9 million.

The Board has prepared cash flow forecasts for the period to 31 May 2022. Under this base case scenario, the Group is expected to continue to have significant headroom relative to the funding available to it and to comply with its banking covenants.

The Board has also considered various other severe downside scenarios, including the possibility of a second lockdown as a result of a second wave of Covid-19. These downside scenarios excluded any mitigating actions that the Board would be able to take to reduce costs. Under these scenarios, the Group would still expect to have sufficient headroom in its financing facilities.

Accordingly, the Directors, having made suitable enquiries, and based on financial performance to date and forecasts along with the available banking facilities, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Share price

The market price per share of the Company's shares at 31 May 2020 was 201.0p (31 May 2019: 169.0p) and the range of market prices during the year was between 120.0p and 203.0p.

Richard Whiting	Chris Belsham
Chief Executive	Finance Director

Consolidated income statement

for the year ended 31 May 2020

		2020	2019
	Note	£m	£m
Revenue	4	687.5	671.3
Cost of sales		(646.2)	(640.4)
Gross profit		41.3	30.9
Administrative expenses		(27.8)	(21.3)
Headline operating profit ¹		14.3	10.2
Exceptional items	5	(0.5)	(0.5)
Amortisation of acquired intangibles		(0.3)	(0.1)
Operating profit³	4	13.5	9.6
Finance costs	6	(1.5)	(0.9)
Headline profit before taxation ¹			

Headline profit before taxation		13.2	9.7
Net finance cost in respect of the defined benefit pension scheme		(0.4)	(0.4)
Exceptional items	Note 5	(0.5)	(0.5)
Amortisation of acquired intangibles		(0.3)	(0.1)
Profit before taxation³	5	12.0	8.7
Income tax expense ²	7	(3.1)	(1.9)
Profit for the year attributable to equity shareholders		8.9	6.8
Earnings per share (pence)			
Basic	8	18.2	13.9
Diluted	8	18.1	13.9
Headline earnings per share (pence)¹			
Basic	8	20.5	15.8
Diluted	8	20.3	15.8

¹ Headline operating profit is statutory operating profit of £13.5 million (2019: £9.6 million) before exceptional items of £0.5 million (2019: £0.5 million) and amortisation of acquired intangibles of £0.3 million (2019: £0.1 million). Headline profit before taxation is statutory profit before taxation of £12.0 million (2019: £8.7 million) after adding back the net finance cost in respect of the Group's defined benefit pension scheme of £0.4 million (2019: £0.4 million), the exceptional items and amortisation of acquired intangibles. Headline earnings per share also take into account the taxation effect thereon.

² Taxation on exceptional items in the current year has reduced the charge by £Nil (2019: £0.1 million).

³ During the year ended 31 May 2020, the application of IFRS 16 resulted in an increase in operating profit in the consolidated income statement of £0.2 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 £0.2 million with the inclusion of £0.4 million of finance costs under the new standard.

The results relate to continuing operations.

Consolidated statement of comprehensive income

for the year ended 31 May 2020

	2020	2019
	£m	£m
Profit for the year attributable to equity shareholders	8.9	6.8
Items that will never be reclassified to profit or loss:		
Remeasurement loss on defined benefit pension scheme	(4.0)	(1.2)
Tax on items that will never be reclassified to profit or loss	1.1	0.2
Total other comprehensive expense	(2.9)	(1.0)
Total comprehensive income for the year	6.0	5.8

Consolidated balance sheet

as at 31 May 2020

	Note	2020 (Restated 11)	2019
		£m	£m
Non-current assets			
Property, plant and equipment		48.5	45.5
Right of use assets			

Intangible assets		37.3	24.7
Deferred income tax assets		4.4	3.1
		111.6	73.3
Current assets			
Inventories		4.7	5.6
Trade and other receivables		56.7	67.2
Cash and cash equivalents	12	5.3	2.8
Derivative financial instruments		0.1	0.2
		66.8	75.8
Total assets		178.4	149.1
Current liabilities			
Trade and other payables		(56.6)	(66.7)
Current income tax liabilities		(0.9)	(1.1)
Borrowings	12	(7.2)	(10.2)
Lease liabilities		(6.4)	-
		(71.1)	(78.0)
Non-current liabilities			
Borrowings	12	(10.0)	(3.0)
Lease liabilities		(20.3)	-
Deferred income tax liabilities		(4.9)	(3.7)
Retirement benefit obligations	13	(21.0)	(17.3)
		(56.2)	(24.0)
Total liabilities		(127.3)	(102.0)
Net assets		51.1	47.1
Equity			
Share capital	10	12.2	12.2
Share premium		0.9	0.9
Retained earnings		38.0	34.0
Total equity		51.1	47.1

[1] £10.0 million of invoice discounting advances, previously recognised within non-current liabilities, have been corrected and reclassified to current liabilities in the year ended 31 May 2019. This restatement arises as the Group does not have an unconditional right to defer settlement of these liabilities for at least one year after the balance sheet date. £7.2 million of invoice discounting advances have been recognised within current liabilities in the year ended 31 May 2020.

Consolidated statement of changes in equity
for the year ended 31 May 2020

	Share capital	Share premium	Retained earnings	Total equity
	£m	£m	£m	£m
Balance at 1 June 2018	12.2	0.9	31.3	44.4
Profit for the year	-	-	6.8	6.8
Items that will never be reclassified to profit or loss:				
Actuarial loss on defined benefit pension scheme	-	-	(1.2)	(1.2)
Tax on items that will never be reclassified to profit or loss	-	-	0.2	0.2

Total other comprehensive expense	-	-	(1.0)	(1.0)
Total comprehensive income for the year	-	-	5.8	5.8
Transactions with owners:				
Dividends paid (note 9)	-	-	(3.1)	(3.1)
Value of employee services	-	-	(0.1)	(0.1)
Credit to equity for equity-settled share-based payments	-	-	0.1	0.1
Total transactions with owners	-	-	(3.1)	(3.1)
Balance at 31 May 2019	12.2	0.9	34.0	47.1
Profit for the year	-	-	8.9	8.9
Items that will never be reclassified to profit or loss:				
Actuarial loss on defined benefit pension scheme	-	-	(4.0)	(4.0)
Tax on items that will never be reclassified to profit or loss	-	-	1.1	1.1
Total other comprehensive expense	-	-	(2.9)	(2.9)
Total comprehensive income for the year	-	-	6.0	6.0
Transactions with owners:				
Dividends paid (note 9)	-	-	(3.2)	(3.2)
Credit to equity for equity-settled share-based payments	-	-	1.2	1.2
Total transactions with owners	-	-	(2.0)	(2.0)
Balance at 31 May 2020	12.2	0.9	38.0	51.1

Consolidated cash flow statement

for the year ended 31 May 2020

	2020	2019
	£m	£m
Cash flows from operating activities		
Operating profit	13.5	9.6
Adjustments for:		
Depreciation and amortisation	10.5	4.7
Profit on disposal of fixed assets	(0.2)	(0.1)
Share-based payment expense	1.2	-
Fair value loss on financial derivatives	0.1	-
Contribution to pensions scheme not recognised in income statement	(1.3)	(1.4)
Operating cash flows before movements in working capital and provisions	23.8	12.8
Movements in working capital:		
Decrease in inventories	1.9	0.3
Decrease/(increase) in receivables	20.2	(0.9)
Decrease in payables	(20.4)	(3.3)
Utilisation of provision	-	(0.1)
Net cash generated from operations	25.5	8.8
Interest paid	(1.1)	(0.5)
Income tax paid	(2.7)	(1.9)

Net cash generated from operating activities	21.7	6.4
Cash flows used in investing activities		
Purchase of intangible assets	(0.4)	(0.2)
Purchase of property, plant and equipment	(5.7)	(2.8)
Acquisition of subsidiaries - cash paid (net of cash acquired)	(6.0)	(3.5)
Capitalised legal costs associated with acquired leases	(0.3)	-
Payment of contingent deferred consideration	-	(0.8)
Proceeds on sale of property, plant and equipment	0.4	0.2
Net cash used in investing activities	(12.0)	(7.1)
Cash flows from financing activities		
Increase in bank borrowings	1.6	6.2
Capital element of finance leases	(5.6)	(0.1)
Dividends paid	(3.2)	(3.1)
Net cash (used in)/generated from financing activities	(7.2)	3.0
Net increase in cash and cash equivalents	2.5	2.3
Cash and cash equivalents at beginning of year	2.8	0.5
Cash and cash equivalents at end of year	5.3	2.8

Notes to the Group financial statements

for the year ended 31 May 2020

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 principal activities of NWF Group plc and its subsidiaries (together 'the Group') are the sale and distribution of fuel oils, the warehousing and distribution of ambient groceries and the manufacture and sale of animal feeds. Further information on the nature of the Group's operations and principal activities is set out in the Group financial statements.

The address of the Company's 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.

2. Significant accounting policies

The Group's principal accounting policies are set out below. IFRS 16 is effective from 1 June 2019.

Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ('IFRS'), International Financial Reporting Standards Interpretations Committee ('IFRS IC') interpretations and those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The Group financial statements have been prepared on the going concern basis and on the historical cost convention modified for the revaluation of certain financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which are outlined in note 14 below. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Going concern

Based on financial performance to date and forecasts along with the available banking facilities, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

The Board has prepared cash flow forecasts for the period to 31 May 2022. Under this base case scenario, the Group is

expected to continue to have very significant headroom relative to the funding available to it and to comply with its banking covenants.

The Board has also considered various other severe downside scenarios, including the possibility of a second lockdown as a result of a second wave of Covid-19. These downside scenarios excluded any mitigating actions that the Board would be able to take to reduce costs. Under these scenarios, the Group would still expect to have sufficient headroom in its financing facilities.

The Group therefore continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Headline operating profit, headline profit before taxation, headline EBITDA and headline earnings

The Directors consider that headline operating profit, headline profit before taxation, headline EBITDA and headline earnings per share measures, referred to in these Group financial statements, provide useful information for shareholders on underlying trends and performance.

Headline operating profit is reported operating profit after adding back exceptional items and amortisation of acquired intangibles.

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, exceptional items and amortisation of acquired intangibles, to show the underlying performance of the Group.

Headline EBITDA refers to reported operating profit after adding back exceptional items and amortisation of acquired intangibles. The headline EBITDA calculation excludes the impact of IFRS 16 depreciation.

The calculations of basic and diluted headline earnings per share are shown in note 8.

Exceptional items

The Group's income statement separately identifies exceptional items. Such items are those that, in the Directors' judgement, are one-off in nature or non-operating and need to be disclosed separately by virtue of their size or incidence and may include, but are not limited to, restructuring costs, acquisition-related costs, costs of implementing new systems and income from legal settlements. In determining whether an item should be disclosed as an exceptional item, the Directors consider quantitative as well as qualitative factors such as the frequency, predictability of occurrence and significance. This is consistent with the way financial performance is measured by management and reported to the Board. Disclosing exceptional items separately provides additional understanding of the performance of the Group.

Forward-looking statements

Certain statements in this results announcement 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 events could differ materially from those expressed or implied by these forward-looking statements.

Adoption of new and revised standards

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 June 2019.

The Group has adopted the following new standards, amendments and interpretations now applicable. Other than the adoption of IFRS 16, these standards did not have a material effect on the Group's results or net assets.

Standard or interpretation

	Content	Applicable for financial year beginning on
IFRIC 23	Uncertainty over Income Tax Treatments	1 June 2019
Amendment to IFRS 3	Business Combinations	1 June 2019
Amendment to IAS 12	Income Taxes	1 June 2019
Amendment to IAS 23	Borrowing Costs	1 June 2019
Amendment to IAS 19	Employee Benefits	1 June 2019
Amendment to IFRS 9	Financial Instruments	1 June 2019
IFRS 16	Leases	1 June 2019

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group:

Standard or interpretation

	Content	Applicable for financial year beginning on
Amendment to IFRS 3	Business Combinations	1 June 2020

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 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.

For leases previously classified as finance leases, which relate to plant and machinery and commercial vehicles, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability 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.

The table below shows the split of the total right of use assets and lease liabilities following the adoption of IFRS 16 (including the reclassification of assets previously held under finance leases):

	£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

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

During the year ended 31 May 2020, the application of IFRS 16 resulted in an increase in operating profit in the consolidated income statement of £0.2 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 £0.2 million with the inclusion of £0.4 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	6.0
Less: depreciation on right of use assets recognised under IFRS 16	(5.8)
Impact on operating profit for the year ended 31 May 2020	0.2
Less: finance costs associated with lease liabilities under IFRS 16	(0.4)
Impact on profit before taxation for the year ended 31 May 2020	(0.2)

During the year ended 31 May 2020, 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	16.5
Depreciation	(5.8)
Closing net book value	27.3
Lease liabilities	
Opening liabilities	16.2
Finance lease liabilities recognised at 31 May 2019	0.2
New leases recognised	15.9
Lease payments	(6.0)
Finance cost	0.4
Closing net book value	26.7

3. Group Annual Report and statutory accounts

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 May 2020 or 31 May 2019, but is derived from those accounts.

Statutory accounts for 2019 have been delivered to the Registrar of Companies. The auditors, PricewaterhouseCoopers LLP, have reported on the 2019 accounts; the report (i) was unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for 2020 will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors, PricewaterhouseCoopers LLP, have reported on these accounts and their report is unqualified, does not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and does not include a statement under either Section 498(2) or (3) of the Companies Act 2006.

The Annual Report and full financial statements will be posted to shareholders during the week commencing 17 August 2020. Further copies will be available to the public, free of charge, from the Company's Registered Office at NWF Group plc, Wardle, Cheshire CW5 6BP, or viewed on the Company's website: www.nwf.co.uk.

4. 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 products/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 is 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 operating profit ('headline operating profit'). Finance income and costs are not included in the segment result that is 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 at bank and in hand. Segment liabilities exclude taxation, borrowings and retirement benefit obligations. Excluded items are part of the reconciliation to consolidated total assets and liabilities.

	Fuels	Food	Feeds	Group
	£m	£m	£m	£m
2020				
Revenue				
Total revenue	476.0	48.7	169.0	693.7
Inter-segment revenue	(5.8)	(0.4)	-	(6.2)
Revenue	470.2	48.3	169.0	687.5
Result				
Headline operating profit	11.0	1.4	1.9	14.3
Segment exceptional item (note 5)	(0.5)	-	-	(0.5)
Amortisation of acquired intangibles	(0.3)	-	-	(0.3)
Operating profit as reported				13.5
Finance costs (note 6)				(1.5)
Profit before taxation				12.0
Income tax expense (note 7)				(3.1)
Profit for the year				8.9
Other information				
Depreciation and amortisation (including IFRS 16)	3.4	4.2	2.9	10.5
Fixed asset additions	0.8	3.1	1.8	5.7

	Fuels	Food	Feeds	Group
	£m	£m	£m	£m
2020				
Balance sheet				
Assets				
Segment assets	66.2	48.2	54.3	168.7
Deferred income tax assets				4.4
Cash at bank and in hand				5.3
Consolidated total assets				178.4
Liabilities				
Segment liabilities	(45.4)	(19.3)	(18.6)	(83.3)
Current income tax liabilities				

Current income tax liabilities				(0.9)
Deferred income tax liabilities	Fuels	Food	Feeds	Group
2020				(4.9)
Borrowings (note 12)	£m	£m	£m	(17.2)
Retirement benefit obligations (note 13)				
				(21.0)
Consolidated total liabilities				(127.3)

2019	Fuels	Food	Feeds	Group
	£m	£m	£m	£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 (note 5)	(0.2)	-	-	(0.2)
Group exceptional item (note 5)				(0.3)
Amortisation of acquired intangibles	(0.1)	-	-	(0.1)
Operating profit as reported				9.6
Finance costs (note 6)				(0.9)
Profit before taxation				8.7
Income tax expense (note 7)				(1.9)
Profit for the year				6.8
Other information				
Depreciation and amortisation (excluding IFRS 16)	1.4	1.6	1.7	4.7
Fixed asset additions	0.5	0.6	1.7	2.8

2019	Fuels	Food	Feeds	Group
	£m	£m	£m	£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 (note 12)				(13.2)
Retirement benefit obligations (note 13)				(17.3)
Consolidated total liabilities				(102.0)

5. Profit before taxation - exceptional items

An exceptional cost of £0.5 million (2019: £0.5 million) is included in administrative expenses. Exceptional items by type are

as follows:

	2020	2019
	£m	£m
GMP equalisation	-	0.3
Acquisition-related costs	0.5	0.2
Exceptional cost	0.5	0.5

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 based on the information currently available, that estimate includes 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.

Acquisition-related costs - The acquisition-related costs comprise professional fees and other costs in relation to the three acquisitions made during the year. Of the total cost, £0.5 million impacted cash in the year

6. Finance costs

	2020	2019
	£m	£m
Interest on bank loans and overdrafts	0.7	0.5
Finance costs on lease liabilities relating to IFRS 16	0.4	-
Total interest expense	1.1	0.5
Net finance cost in respect of defined benefit pension schemes (note 13)	0.4	0.4
Total finance costs	1.5	0.9

7. Income tax expense

	2020	2019
	£m	£m
Current tax		
UK corporation tax on profits for the year	2.6	2.0
Adjustments in respect of prior years	-	0.1
Current tax expense	2.6	2.1
Deferred tax		
Origination and reversal of temporary differences	-	(0.2)
Effect of increased tax rate on opening balances	0.5	-
Deferred tax expense/(income)	0.5	(0.2)
Total income tax expense		

During the year ended 31 May 2020, corporation tax has been calculated at 19% of estimated assessable profits for the year (2019: 19%).

A reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 was substantively enacted on 6 September 2016 in the Finance Act 2016. In the opinion of the Directors, the relevant timing differences at 31 May 2019 were expected to reverse after 1 April 2020 and therefore deferred tax was provided at a rate of 17% in the statutory accounts for that period.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17% as previously enacted). This new law was substantively enacted under the Provisional Collection of Taxes Act 1968 on 17 March 2020. Deferred tax balances have therefore been remeasured to 19%. The impact of the change in tax rate has been recognised in tax expense in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss. For the Group, such items include remeasurements of post-employment benefit liabilities and the expected tax deduction in excess of the recognised expense for equity-settled share-based payments.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2020	2019
	£m	£m
Profit before taxation	12.0	8.7
Profit before taxation multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	2.2	1.6
Effects of:		
- expenses not deductible for tax purposes	0.4	0.2
- impact of increased tax rate on opening balances	0.5	-
- adjustments in respect of prior years	-	0.1
Total income tax expense	3.1	1.9

The Directors expect that the Group will have a higher than standard tax charge in the future as a result of the level of the Group's disallowable expenses, which are largely acquisition-related costs.

8. Earnings per share

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

	2020	2019
Earnings (£m)		
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders	8.9	6.8
Number of shares ('000)		
Weighted average number of shares for the purposes of basic earnings per share	48,750	48,735
Weighted average dilutive effect of conditional share awards	478	15
Weighted average number of shares for the purposes of diluted earnings per share	49,228	48,750
Earnings per ordinary share (pence)		
Basic earnings per ordinary share	18.2	13.9
Diluted earnings per ordinary share	18.1	13.9
Headline earnings per ordinary share (pence)		
Basic headline earnings per ordinary share	20.5	15.8

Diluted headline earnings per ordinary share

20.3 15.8

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

	2020	2019
	£m	£m
Profit for the year attributable to equity shareholders	8.9	6.8
Add back/(deduct):		
Net finance cost in respect of defined benefit pension scheme	0.4	0.4
Exceptional items	0.5	0.5
Amortisation of acquired intangibles	0.3	0.1
Tax effect of the above	(0.1)	(0.1)
Headline earnings	10.0	7.7

9. Equity dividends

	2020	2019
	£m	£m
Final dividend for the year ended 31 May 2019 of 5.6p (2018: 5.3p) per share	2.7	2.6
Interim dividend for the year ended 31 May 2020 of 1.0p (2019: 1.0p) per share	0.5	0.5
Amounts recognised as distributions to equity shareholders in the year	3.2	3.1
Proposed final dividend for the year ended 31 May 2020 of 5.9p (2019: 5.6p) per share	2.9	2.7

10. Share capital

	Number of shares	Total
	'000	£m
Allotted and fully paid: ordinary shares of 25p each		
Balance at 1 June 2018	48,660	12.2
Issue of shares (see below)	90	-
Balance at 31 May 2019	48,750	12.2
Issue of shares (see below)	-	-
Balance at 31 May 2020	48,750	12.2

During the year ended 31 May 2020, no shares (2019: 89,920) with an aggregate nominal value of £Nil (2019: £22,480) were issued under the Group's conditional Performance Share Plan.

The maximum total number of ordinary shares, which may vest in the future in respect of conditional Performance Share Plan awards outstanding at 31 May 2020, amounted to 1,441,604 (31 May 2019: 1,216,945). These shares will only be issued subject to satisfying certain performance criteria.

11. Business combinations

On 10 July 2019, the Group acquired 100% of the share capital of David Hermon Hodge Group Limited, trading as Ribble Fuel Oils, 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	Adjustments £m	Fair value of assets acquired £m
Intangible assets - goodwill	3.1	(0.6)	2.5
Intangible assets - brand	0.1	-	0.1
Intangible assets - customer relationships	0.1	0.6	0.7
Property, plant and equipment	1.1	-	1.1
Right of use asset	-	0.4	0.4
Stock	0.4	-	0.4
Trade and other receivables	7.2	-	7.2
Cash	0.2	-	0.2
Borrowings	(2.6)	-	(2.6)
Trade and other payables	(6.0)	-	(6.0)
Lease liabilities	(0.5)	(0.4)	(0.9)
Deferred tax liability	(0.1)	-	(0.1)
	3.0	-	3.0

Goodwill of £2.5 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.

Following finalisation of acquisition accounting, adjustments have been made to the value attributable to customer relationships and to recognise right of use assets and lease liabilities under IFRS 16.

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 year ended 31 May 2020.

The following amounts have been recognised within the consolidated income statement in respect of the acquisition made in the year: revenue - £43.2 million, profit - £0.6 million.

Had the acquisition taken place at the start of the financial year, the consolidated income statement would show: revenue - £47.7 million, profit - £0.6 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:

	Fair value of assets acquired £m
Intangible assets - goodwill	

Intangible assets - customer relationships	0.2
	<u>0.2</u>
	<u>0.4</u>

Provisional goodwill of £0.2 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	(0.4)
Cash and cash equivalents acquired	-
	<u>(0.4)</u>

The following amounts have been recognised within the consolidated income statement in respect of the acquisition made in the year: revenue - £1.1 million, profit - £0.1 million.

Had the acquisition taken place at the start of the financial year, the consolidated income statement would show: revenue - £1.9 million, profit - £0.1 million.

On 2 December 2019, the Group acquired 100% of the share capital of Ron Darch & Sons Co Limited, a 35 million litre fuel and coal distributor based in Somerset. The net consideration for the acquisition was £8.4 million before acquisition costs (being gross consideration of £4.5 million adjusted for normalised working capital and cash acquired). Net consideration of £8.4 million comprises £7.3 million of cash paid as at 31 May 2020 and £1.1 million of cash paid following completion on 12 June 2020.

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	2.2
Intangible assets - brand	0.2
Intangible assets - customer relationships	0.8
Property, plant and equipment	1.4
Stock	0.6
Trade and other receivables	1.5
Cash	4.5
Trade and other payables	(2.6)
Corporation tax liability	(0.1)
Deferred tax liability	(0.1)
	<u>(0.1)</u>
	<u>8.4</u>

Provisional goodwill of £2.2 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	(7.3)

Cash acquired	4.5
	(2.8)
Acquisition-related costs	(0.2)
Net cash flows arising during the year ending 31 May 2020	(3.0)
Cash paid post year end	(1.1)
Net cash flows arising on the acquisition	(4.1)

Acquisition-related costs of £0.2 million have been charged to the income statement (included within exceptional costs) in the year ended 31 May 2020.

The following amounts have been recognised within the consolidated income statement in respect of the acquisition made in the year: revenue - £12.5 million, profit - £1.6 million.

Had the acquisition taken place at the start of the financial year, the consolidated income statement would show: revenue - £22.4 million, profit - £1.8 million.

12. Analysis of cash and cash equivalents and reconciliation to net debt

	1 June 2019	Cash flow	IFRS 16 conversion	Other non-cash movements	31 May 2020
	£m	£m	£m	£m	£m
Cash and cash equivalents	2.8	2.5	-	-	5.3
Borrowings	(13.0)	(1.6)	-	(2.6)	(17.2)
Hire purchase obligations ¹	(0.2)	0.4	-	(0.6)	(0.4)
Total Group (excluding lease liabilities)	(10.4)	1.3	-	(3.2)	(12.3)
Lease liabilities (excluding hire purchase obligations transferred)	-	5.2	(16.2)	(15.3)	(26.3)
Total Group (including lease liabilities)	(10.4)	6.5	(16.2)	(18.5)	(38.6)

1 Following the adoption of IFRS 16 'Leases', hire purchase obligations are now recognised within lease liabilities, shown here for comparative purposes only.

13. Retirement benefit schemes

The Group operates a defined benefit pension scheme providing benefits based on final pensionable earnings, which is closed to future accrual.

NWF Group Benefits Scheme

The scheme is administered by a fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees are responsible for the investment policy with regard to the assets of the fund.

The scheme was closed to new members during the year ended 31 May 2002 and closed to future accrual with effect from April 2016.

The latest full triennial actuarial valuation of this scheme was completed in the year ended 31 May 2018, with a deficit of £19.1 million at the valuation date of 31 December 2016. The present value of the defined benefit obligation and the related current service cost were measured using the Projected Unit Credit Method. In these financial statements this liability has been updated in order to derive the IAS 19R valuation as of 31 May 2020. The next full triennial valuation will be completed in the year ending 31 May 2021.

The amounts recognised in the balance sheet in respect of the defined benefit scheme are as follows:

2020	2019
£m	£m

Present value of defined benefit obligations	(61.1)	(55.3)
Fair value of scheme assets	40.1	38.0
Deficit in the scheme recognised as a liability in the balance sheet	(21.0)	(17.3)
Related deferred tax asset	4.0	2.9
Net pension liability	(17.0)	(14.4)

Changes in the present value of the defined benefit obligation are as follows:

	2020	2019
	£m	£m
At 1 June	55.3	53.4
Current service cost	-	0.1
Interest cost	1.3	1.4
Remeasurement losses:		
- actuarial losses arising from changes in financial assumptions	5.5	2.1
Benefits paid	(2.1)	(2.0)
Past service cost	1.1	0.3
At 31 May	61.1	55.3

Changes in the fair value of scheme assets are as follows:

	2020	2019
	£m	£m
At 1 June	38.0	36.3
Interest income	0.9	1.0
Remeasurement gains:		
- actuarial gains on plan assets	1.5	0.9
Contributions by employer	2.1	2.1
Expenses	(0.3)	(0.3)
Benefits paid	(2.1)	(2.0)
At 31 May	40.1	38.0

14. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Defined benefit pension scheme - valuation assumptions

The balance sheet carrying values of defined benefit pension scheme surpluses or deficits are calculated using independently commissioned actuarial valuations. These valuations are based on a number of assumptions, including the most appropriate mortality rates to apply to the profile of scheme members and the financial assumptions regarding discount rates and inflation. All of these are estimates of future events and are therefore uncertain.

Significant actuarial assumptions for the determination of the defined benefit liability are discount rate, price inflation and mortality. The sensitivity analyses shown below have been determined based on reasonably possible changes of the respective assumptions occurring at the balance sheet dates, while holding all other assumptions constant.

	Increase	Decrease
	£m	£m
Impact on defined benefit obligation		
0.25% change in discount rate		

0.25% change in RPI inflation	(2.7)	(2.7)
One year change in the life expectancy at age 65	2.6	(2.6)

Valuation of acquired intangibles

IFRS 3 requires separately identifiable intangible assets to be recognised on acquisitions. The principal estimates used in valuing these intangibles are generally based on the future cash flow forecast to be generated by these assets, and the selection of appropriate discount rates to apply to the cash flows.

A 1% increase in the discount rate applied to the future cash flows would reduce the value attributable to acquired intangibles by £0.1 million.

Assessment of impairment

The Group tests annually for impairment of goodwill and fixed asset balances, which involves using key judgements including estimates of future business performance and cash generation, discount rates and long-term growth rates.

The recoverable amounts of CGUs are determined using value in use calculations. The value in use calculations use post-tax cash flow projections based on the Board-approved budget for the year ending 31 May 2021 and four years of divisional strategic plans thereafter. Subsequent cash flows are extrapolated using an estimated growth rate of 2%.

These value in use calculations are subject to a series of sensitivity analyses using reasonable assumptions concerning the future performance of the CGUs and assessing the impact of a 1% increase in the discount rate. None of these reasonable downside scenarios would result in an impairment.

Carrying value of trade receivables

The Group holds material trade receivable balances, and the calculations of provisions for impairment are estimates of future events and therefore uncertain. IFRS 9 requires the Group to consider forward-looking information and the probability of default when calculating expected credit losses. The Group considers reasonable and supportable customer-specific and market information about past events, current conditions and forecasts of future economic conditions when measuring expected credit losses.

15. Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report in accordance with applicable laws and regulations and consider that the Annual Report, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company's Annual Report for the year ended 31 May 2020, which will be posted to shareholders on or before 20 August 2020, contains the following statement regarding responsibility for the Strategic Report, the Directors' Report (including the Corporate Governance Report), the Board Report on Remuneration and the financial statements included within the Annual Report:

"Each of the Directors confirms that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Group;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- there is no relevant audit information of which the Company's auditors are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information."

16. Financial calendar

Annual General Meeting	24 September 2020
Dividend:	
- Ex-dividend date	5 November 2020
- Record date	6 November 2020
- Payment date	8 December 2020
Announcement of half-year results	Early February 2021
Publication of Interim Report	Early February 2021
Interim dividend paid	May 2021
Financial year end	31 May 2021
Announcement of full-year results	Early August 2021

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