ANNUAL REPORT

AND ACCOUNTS

2016

GRAFENIA plc

CONTENTS

IN SUMMARY

Grafenia creates software and systems which power the graphic arts industry. We license our brands and know-how in the UK and internationally. We operate complex logistics, a SaaS platform and brands which sell print and web to business customers. Our sales channels are illustrated on pages 2 and 3.

The summary below shows our continuing operations and excludes Grafenia BV, which we sold in October 2015.

CONTINUING OPERATIONS

	Year ended 31 March 2016	*Year ended 31 March 2015*
	£000	*£000*
Brand Partners	**5,780**	7,310
Trade Partners	**3,610**	2,290
Other Channels	**1,380**	1,420
Total Revenue	**10,770**	11,020
Gross Profit	**7,135**	7,805
EBITDA	**1,521**	2,099
Operating Profit Before Retructuring Costs	**59**	523
Restructuring Costs	**(308)**	-
Tax Income	**270**	71
Profit from Discontinued Operations	**54**	245
Profit for the Year	**64**	848
EPS – Continuing Operations	**0.02p**	1.28p
EPS – Discontinued Operations	**0.12p**	0.52p
EPS – Total	**0.14p**	1.80p
Total Dividend per share	**0.25p**	1.50p
Capital Expenditure	**£1.82m**	£1.26m
Net Funds	**£0.36m**	£1.28m

OUR BUSINESS

GRAFENIA plc

BRAND PARTNERS

DIRECT CHANNEL

printing.com

Print Studios

Partners use our W3P software and the printing.com brand to sell printing locally in their exclusive territory. New simpler subscription model launched in February 2016.

Revenue Generated:

- License fees
- Website and hosting revenue
- Print revenue

Locations:

- UK
- France
- Ireland
- New Zealand under license
- USA under license

nettl

Web+Print Studios

Our neighbour web studio bolt-on formula for designers and printers. Partners use Nettl marketing collateral and our W3P crossmedia platform to help them sell more web.

Revenue Generated:

- License fees
- Website and hosting revenue
- Print revenue

Locations:

- UK
- Ireland
- New Zealand under license

FLYERZONE™

B2C Ecommerce

SMEs and micro businesses order print online at **Flyerzone.co.uk** – they can choose from our range of designer templates or upload a print ready file.

Revenue Generated:

- Print revenue

Locations:

- UK
- France
- Ireland

END CLIENTS

SAAS PARTNERS

w3p w3SHOP w3Client Brambl

Software Solutions

Our Software-as-a-Service solutions are licensed domestically and internationally to printers and resellers to help manage their businesses, under 'white label' subscriptions.

Revenue Generated:

- License fees
- Website and hosting revenue
- Print revenue

Locations:

Company	Under license
• UK	• Australia
• France	• Poland
• Ireland	• New Zealand
	• USA

TRADE PARTNERS

marqetspace

Upload+Print Website

Ecommerce website for graphic professionals, selling our print and display range at trade prices. Also an example of our biggest w3shop site.

Revenue Generated:

- Print revenue

Location:

- UK

RESELLERS

END CLIENTS

Refreshed printing.com marketing collateral

CHAIRMAN'S STATEMENT

Les Wheatley
Chairman

In order to focus on the development of the Group's new and existing channels in the UK and Ireland, our Dutch subsidiary Grafenia BV was sold in October 2015. During the second half of the financial year, the renewed focus of the Group has helped to increase the number of graphic professional partners we have trading relationships with in the UK and Ireland and provided these partners with tools which help them sell more of our product range to their clients. Our aim is to expand the range of products we sell to each customer and, where appropriate, license our intellectual property, systems and brands to help our partners grow their businesses.

Opportunities to license our intellectual property overseas continue to be investigated and we are in discussions with certain parties.

The strengthening of Sterling against the Euro during the financial year made the ongoing supply of print to the Eurozone less rewarding.

RESULTS FROM CONTINUING OPERATIONS

Group Turnover decreased by 2.30% to £10.77m *(2015: £11.02m)*. EBITDA contracted by 27.6% to £1.52m *(2015: £2.10m)*. Operating profit before restructuring costs decreased to £0.06m *(2015: £0.52m)*. Costs relating to restructuring of £0.31m resulted in an Operating loss of £0.25m and a loss before tax of £0.26m *(2015: profit of £0.53m)*.

As in the prior year the Group gained Research & Development Relief which generating a Tax income of £0.27m *(2015: £0.1m)*.

CASH

The Group had a net cash position of £0.69m *(2015: £1.28m)* at the year end, despite capital investment totalling £1.82m *(2015: £1.26m)* which included £0.37m of assets financed. This principally reflected investment in the Group's SaaS platform and new plant to produce our Ink-on-Fabric range.

PEOPLE AT GRAFENIA AND BOARD CHANGES

The effort of the workforce is key to our organisation's success and for this, as ever, I am thankful for the dedication and hard work of our Staff across the Group.

Following the disposal of Grafenia BV and the resultant scaling down of the Group's operations, Tony Rafferty chose to step down as Chief Executive and left the Group. The Board wishes to thank Tony for his years of unstinting service and drive developing the Group into a leading print supply provider in the United Kingdom.

Marqetspace sells print and display to graphic professionals

Peter Gunning was confirmed as Chief Executive and the Board has been strengthened through the appointment of Conrad Bona, as a Non-executive Director in October 2015, and with the appointment of Jan Mohr, as a Non-executive Director in March 2016.

It is important to note that the Chief Executive's remuneration package has been tightly aligned with creating shareholder value. His bonus is based on incremental growth in the underlying free cash flow of the business over the long-term, therefore he only benefits if there is an increase in shareholder value.

BOARD – STRATEGIC REVIEW

The Board has undertaken an extensive business review and has concluded that it will pursue potential acquisition opportunities to enhance shareholder value.

The Board sees substantial potential value creation in combining several undersized, but high-quality businesses, in order to realise economies of scale. The Board is keenly aware of the fact that high-quality businesses are only value-accretive provided they are purchased at sensible prices. Transactions will only be pursued if both the quality and the price are right.

We are mindful that any fundraising should be structured in a way that best protects the economic interests of all existing shareholders but simultaneously, allows the Company to meet its fundraising objectives. The Board welcomes input from all shareholders on our capital allocation strategy.

DIVIDEND

Given the strategy of pursuing acquisition opportunities, the Board has decided not to release further funds in the form of dividends for the foreseeable future. Therefore, no final dividend will be paid *(2015: 1.00p)*. The total dividend for the year therefore comprises the interim dividend of 0.25p *(2015: 1.50p)*. However, the Directors will continue to assess market conditions and may opportunistically purchase Company shares when the gap between price and value is deemed large enough.

OUTLOOK

Following the disposal of our Dutch business, we have scaled back our cost base to reflect the different shape of our business. The benefit of these cost reductions has begun to be realised in the current financial year.

Last year we launched two new initiatives, Marqetspace and Nettl, both of which were embryonic. This year, both of these channels have been proven and exhibited strong growth.

In Marqetspace, we have a scalable method of attracting new trade buyers, which contribute to our production volume and increase efficiency. We expect Marqetspace sales to continue to grow this year.

With Nettl, we have established the largest retail network of web design studios in the UK and our focus remains on growing the network to over 200 partners. Our first international partner has launched Nettl studios in New Zealand and we continue to pursue other licensing opportunities.

The printing.com model has been updated to be more relevant and we have attracted new partners. We expect to grow the network in the current year.

Les Wheatley
Chairman
8 June 2016

Nettl marketing collateral to help our partners sell our print and display

STRATEGIC REPORT CHIEF EXECUTIVE'S STATEMENT

Peter Gunning
Chief Executive

OVERVIEW

Grafenia operates a vertically integrated business model.

We manufacture printed marketing, stationery and display graphics in our Manchester-based production hub. Each month we make and ship over 12,000 individual orders.

We sell to business clients through a mixture of channels which include; directly owned Nettl web studios, Nettl and printing.com studios operated under license by our partners, white label trade partners, and ecommerce sites such as Marqetspace and Flyerzone.

Orders are placed and managed using W3P, our proprietary cloud-based platform. W3P hosts over 150 public 'w3shops', where end clients (typically SOHO/SME) can place print orders online. These could be 'upload and print' jobs or, where the customer doesn't have a print-ready design, by editing an online template from our extensive library.

Our partners also operate over 500 private web-to-print portals for larger corporate and franchise-based businesses. We call these 'w3client' sites. They make it easy for larger businesses to control their marketing and maintain brand integrity. The client's own users place orders via w3client and our partners either route jobs automatically to our production hub, or make them on their own equipment.

As well as print, we sell ecommerce and websites to SME clients directly and via our partners. These partners use cross-media components of our W3P platform, as well as marketing collateral and sales tools supplied by us.

A FOCUS ON OUR CORE COMPETENCIES

We believe Grafenia has three core competencies: the management of complex logistics required to manufacture thousands of print orders each month; the operation of sophisticated Software-as-a-Service ("SaaS") platforms, and the development of brands.

The markets we operate in have become more competitive and margins on printing continue to erode. To mitigate this erosion, we are pursuing a strategy of licensing our software, systems, IP and brands both domestically and internationally.

Nettl of Stirling

BRAND PARTNER CHANNELS

Nettl is our network of neighbourhood web studios. Over recent years we have witnessed a change in client behaviour. SME and SOHO clients are increasingly prioritising web, ecommerce and digital ahead of printing. Whilst printing is still a big part of a client's marketing mix, websites are increasingly viewed as essential and provide significant sales opportunities for us, and our partners.

In September 2014 we converted our Company-owned printing.com studios to the Nettl format. Nettl puts web first, replicating what clients are increasingly doing. However, whilst we lead with web to develop client relationships, sales of print and display remain the largest part of a Nettl studio's revenues.

In the first half of the year, we invited printing.com partners to become Nettl partners. These early adopters helped us refine the systems and processes.

Like printing.com, Nettl is a bolt-on formula for established graphics businesses. It's a whole business system, which helps partners do more web using our marketing collateral, sales tools and methodologies. Nettl partners use W3P to deploy websites, ecommerce web shops, complex EPOS integrations and inventory management systems. W3P manages all aspects of the order cycle, from sales pitch and proposal, to project delivery, hosting, domain renewals, billing and subscriptions.

In the second half, we introduced a new Nettl subscription package whereby partners pay an initial license fee in return for classroom training and a marketing starter pack. They then pay a monthly subscription to use W3P, the Nettl brand and for access to marketing collateral. In addition, they pay deployment and ongoing monthly hosting fees for each website launched at wholesale prices.

The majority of Nettl partners promote printing.com's product range and are listed on the printing.com website. Nettl partners pay for print and display at wholesale prices and place their orders through W3P. Since many partners are both Nettl and printing.com, for the purposes of reporting we combine the revenues and refer to them as our 'brand partners'.

Today we have over 60 Nettl web studios in the UK and Ireland. Whilst we expect further printing.com partners to convert to Nettl, we anticipate that future Nettl partners will be sourced from our trade partner client base.

During the first half of the year, the printing.com network continued to contract, as partners became white label partners or upgraded to Nettl studios.

In February 2016, we launched a new simpler printing.com subscription model. Over a third of existing partners have now converted to this subscription. Partners remaining on legacy agreements will decide this year whether to switch to a new partner subscription, upgrade to Nettl or become white label and release their territory.

The new printing.com subscription provides partners with local geographic exclusivity over use of the brand, access to our technology and a suite of marketing collateral to help sell more printing and display. Since launch, we have added over 10 new printing.com studios. Like Nettl, new partners pay an initial license fee, a monthly subscription fee and buy print at wholesale prices.

New partners have been a mix of Marqetspace clients, W3P partners and businesses we previously had no relationship with. We anticipate more Marqetspace clients will see value in the new proposition and during this year there will potentially be a net gain of printing.com partners.

Sales of printing via Nettl and printing.com brand partners were £5.18m *(2015: £6.88m)*. License fee income from our brand partners was £0.60m *(2015: £0.43m)*.

We specialise in urgent, awkward print

TRADE PARTNER CHANNELS

We launched Marqetspace in 2014 as an online trade service for graphic professionals who outsource printing. The channel has continued to grow this year and we have sold print and display products to over 2,000 resellers, printers and designers.

Some trade clients order directly from marqetspace.com (one of our largest w3shop websites). These clients pay no license fees and we establish a simple online trading relationship with them, backed up by our customer support team. Our field-based account managers provide additional support and demonstrate our product range.

Others partners place orders via our W3P platform and use our back-office to manage their business. They typically pay monthly subscription fees to use W3P and transactional fees for jobs they produce themselves.

We call both of these white label 'trade partners', since they use their own business name and their end client is not exposed to any of Grafenia's brands.

Using our 'w3shop' module, trade partners can set up public ecommerce stores instantly merchandised with the entire Marqestpace product range and TemplateCloud's designer template library. They choose their desired retail margin and start selling.

Using our 'w3client' module, trade partners who have key accounts with corporate customers, franchise networks or multi-site enterprises can set up private branded stores. These password controlled websites host the client's branded templates for their marketing collateral and their digital asset store.

Marqetspace is an important part of our sales funnel. Our goal is to attract more clients and to help them to sell more of our print and display products.

Once we have established a trading relationship, our aim is to develop deeper partnerships. This involves converting trade partners into brand partners, licensing our printing.com and Nettl brands and other intellectual property and systems to them. Marqetspace provides us with a pool of talent to begin these conversations.

Sales of printing to trade partners were £3.21m *(2015: £1.88m)*. License fee income from white label partners using W3P, w3shop and w3client was £0.40m *(2015: £0.41m)*.

Around 500 graphic professionals came to our Expoganza events

OTHER CHANNELS

We license our W3P platform and brands to partners through Master Licenses in other countries.

Each of our Master License partners is different whilst some use our platform on a white label basis to offer systems to their own reseller network, others utilise the printing.com or Nettl brand to attract local partners. However, there are some who simply use our APIs to sell designer templates on their web-to-print websites.

Each Master License partner pays us license fees, typically linked to the scale and success of their local operation. Income from Master Licenses and APIs was £0.61m *(2015: £0.71m)*. The previous year benefited from setup fees from two new partners.

During the second half of the year, our existing printing.com Master Licensee in New Zealand acquired the Nettl Master License. They have since opened three Nettl web studios and have begun marketing Nettl to their network. Grafenia receives a royalty based on local license fees and print revenues.

We are actively seeking partners in other countries to exploit the Nettl formula.

Print sales via Flyerzone in the UK and Ireland were £0.49m *(2015: £0.66m)*. Print sales in France via Flyerzone and printing.com were £0.34m *(2015: £0.41m)*. All these channels make a contribution to our print volumes.

NEW PRODUCT DEVELOPMENT

In the second half we installed direct-to-fabric printing machinery and finishing equipment to widen the gamut of product we sell through our network.

This enabled us to enter the fast growing digital textiles market. Our range includes flags, expo displays, tension graphic systems, soft signage and fabric furniture.

Displays are typically composed of two parts – an aluminum frame, which clips together to form the skeleton, and a fabric display graphic. To achieve economies of scale we buy frames in bulk and currently have to prepay. This is represented by a decrease in cash and increase in our stock position from previous years.

We held three 'Expoganza' gallery events in February 2016 to launch the fabric range. Around 500 partners and trade clients attended in Manchester, London and Bristol. For many of our partners, this was the first time they'd seen displays of this type.

We believe it's important for end clients to see fabric displays in person and have invested in getting them into as many locations as possible. Over 250 partners have demo stands on their premises.

Ink on fabric is sold across all our channels and is included within the figures for sales of printing. We anticipate growth in the current year.

Brambl is our SaaS web design application for graphic designers. Brambl was created as part of our Nettl initiative and is being used by over 200 partners in the UK and internationally to easily build websites for their clients. Whilst revenues are modest, so are ongoing development costs and Brambl is a feeder stream for future Nettl partners.

Marketing to attract new Nettl partners

CURRENT TRADING AND OUTLOOK

Trading conditions remain challenging. Since the start of this year, sales across all channels have been softer than budgeted, albeit ahead of the same period last year. Our markets are intensely competitive and it is unlikely that margins on the sale of traditional printing will improve in the near future.

As well as attracting more trade partners, we remain focused on mitigating margin pressure by expanding our array of value-added products and services, which help our partners succeed. We will continue to seek to license our systems and brands in the UK and overseas.

We note recent surveys, including those by the CBI and BPIF, on the uncertainty surrounding Brexit with challenges in retail sales and the print industry. Our customers are principally small businesses and their confidence may be impacted by the outcome of the referendum. However, the trade print market is expected to grow as more printers choose to outsource their production and we anticipate growth, despite these potential headwinds.

Peter Gunning
Chief Executive
8 June 2016

Nettl at Expoganza, using our ink-on-fabric display range

STRATEGIC REPORT
FINANCIAL REVIEW

Alan Q Roberts
Finance Director

REVENUE

Group revenues from continuing operations decreased by 2.30% to £10.77m *(2015: £11.02m)*. Revenues from the Eurozone were 5.02% of the total *(2015: 5.35%)*, as disclosed in the Segmental Analysis note.

GROSS PROFIT

The Group's definition of Gross Profit is revenue less direct materials (including the cost of distribution when made direct to customers). Gross Profit decreased as a percentage from 70.8% to 66.3%, reducing in monetary terms to £7.13m *(2015: £7.81m)* as margins on the sale of printing were eroded.

EBITDA / OPERATING PROFIT

The year showed a decrease in EBITDA, which is operating profit before interest, tax, depreciation and amortisation, to £1.52m representing a margin of 14.1% *(2015: £2.10m, 19.1%)* of turnover.

The Operating Profit for the year before restructuring costs decreased to £0.06m *(2015: £0.52m)*.

RESTRUCTURING COSTS

Costs of £0.31m *(2015: nil)* were incurred primarily being severance payments to employees leaving the business. This resulted in an operating loss of £0.25m and a loss before tax of £0.26m *(2015: profit of £0.53m)*.

PRE-TAX LOSS

The Group recorded a pre-tax loss of £0.26m *(2015: £0.53m)*, being 0.5% *(2015: 4.8%)* of Group revenue.

Staff costs increased in the year to £3.78m *(2015: £3.73m)*, and rose as a percentage of revenue to 35.1% from 33.85%. The increase in staff costs as a percentage of revenue reflected the investment in the establishment and development of the new sales channels. The depreciation and amortisation charge from continuing operations for the year was £1.46m *(2015: £1.58m)*. The most significant element remains the charge for the amortisation of software development.

INTEREST RECEIVED AND CHARGED

Interest received and charged in the period were negligible.

TAXATION

As in the prior year the Group gained Research & Development Relief which generating a Tax income of £0.27m *(2015: £0.1m)*. With the Group's track record of receiving R&D Tax Relief the policy has changed to one of accruing for the current year claim.

EARNINGS PER SHARE (EPS)

There is no dilution of continuing EPS in either year 0.14p *(2015: 1.80p)*, based on a weighted average number of shares in issue of 46,639,156 *(2015: 47,071,835)*,

CASH FLOW

At the year end the Group had cash balances of £0.69m *(2015: £1.28m)*. Net Funds were £0.36m *(2015: £1.27m)*. Operational cash outflow was £0.1m *(2015 Inflow: £1.94m)*. Working Capital movement included a reduction in Trade Creditors of £0.63m and reflects the change in supply from third parties following the disposal of Grafenia BV. Other significant cash outflows included dividends paid of £0.59m *(2015: £0.76m)*.

CAPITAL EXPENDITURE

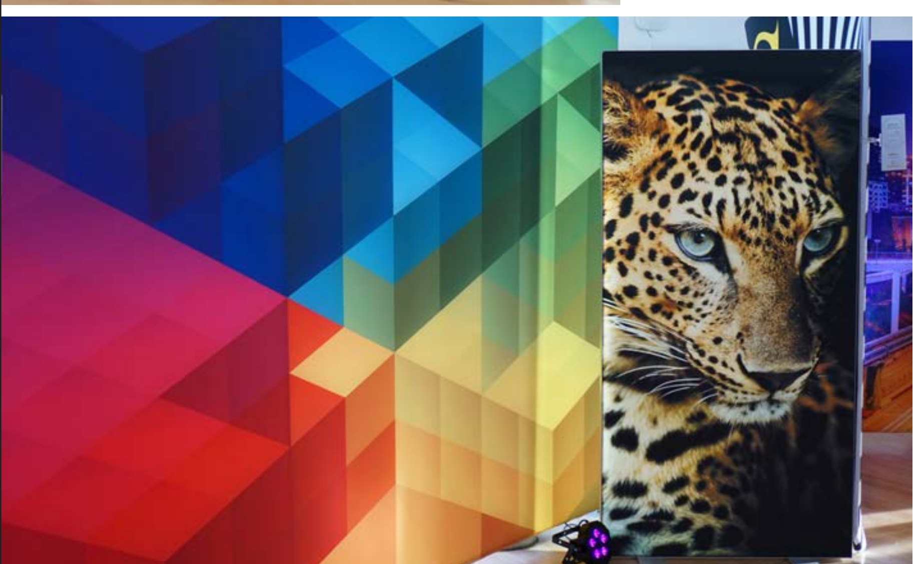
The total capital expenditure for the year was £1.82m *(2015: £1.26m)* which included £0.37m of assets financed. with the major item being Software Development for Nettl and the Group's SaaS platforms totalling £1.01m *(2015: £1.07m)*.

Manufacturing capacity at the Manchester Hub provides scope for growth however, expenditure will continue to be incurred on software development and enhancement to support our Partners and business streams.

SHARE CAPITAL AND SHARE OPTIONS

As the 2004 Employee Share Option Scheme has lapsed no employee options were exercised or granted during the year.

During the year the Company purchased 1,424,000 of its own shares at an average price of 11.78p *(2015: nil)*.



More examples of our new ink-on-fabric display range

PRINCIPAL RISKS AND UNCERTAINTIES

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

- uncertainty in the general economic environment may impact upon revenues and profitability;
- markets operated in are extremely competitive posing a threat to profitability;
- technological advances in manufacturing and or software may impact on operational effectiveness and earnings potential;
- a major catastrophe could impact the UK Production Hub. A disaster plan exists and losses are insured against but there could be a significant impact in the short and medium term;
- the Group and its Clients depend on the W3P SaaS platform and all reasonable operational contingency is embedded for resilience in the event of a catastrophe;
- the ability to retain and recruit key people, across a multitude of disciplines, is essential in maintaining and growing the business;
- Group SaaS platforms are developed in-house but use third party components, the necessary rights exist but there is no certainty that these rights will be retained indefinitely.

TREASURY POLICIES

Surplus funds are intended to support the Group's short term working capital requirements. These funds are invested through the use of short term deposits and the policy is to maximise returns as well as provide the flexibility required to fund on-going operations. The Board anticipate cash balances to rise moving forward particularly given the change in dividend policy.

The Board's option to purchase Company shares will only be exercised when the price is markedly below value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

Alan Q. Roberts
Finance Director
8 June 2016

DIRECTORS

Les Wheatley
Chairman

Les brings substantial expertise to the Board in the fields of corporate governance, finance, logistics, change management and affinity marketing gained with Newcastle United FC and Liverpool FC.

Les was Finance Director at Liverpool FC until January 2009, a position he took in 2000, moving from a similar post with Newcastle United FC.

Les gained his logistics and change management expertise with Ernst & Young before going on to lead the employee buy-out of GM Buses where he was subsequently appointed MD. A successful exit followed, via a trade sale to Stagecoach Group plc in 1996.

Les joined the Group in September 2000 and is Chairman of the Audit Committee. Age 63.

Peter Gunning MA
Chief Executive

After obtaining his Masters Degree in Accountancy and Finance from Heriot-Watt University in 1997, Peter established The Design Foundry Scotland Limited and was a client of the business. Since joining the Group in 1998, he has been responsible for developing the Nettl and Printing.com studio concepts, associated marketing and operations infrastructure.

Peter was appointed to the Board in June 2001. Age 40.

Alan Q Roberts FCMA
Finance Director

Alan qualified as a Chartered Management Accountant in 1981 whilst company accountant of Moon Brothers Engineering. He then moved to the Edward Billington Group as divisional accountant and from there he joined Dalgety as group accountant for the Merseyside production facilities. Moving to CQR in 1987 (acquired by Expamet International in 1988) as management accountant, he was subsequently appointed financial director & company secretary in 1991. The company was sold to Channel Holdings in 1995 and in 1997 he was appointed operations director by which time the company had turnover of c£20m per annum.

Alan joined the Group in June 1999. Age 60.

Pavel Begun
Non-Executive Director

Pavel is based in Toronto, Canada and has global financial and operational expertise having worked in equity research for Fiduciary Asset Management and A.G. Edwards & Sons. He graduated with Honours from the University of Chicago with an M.B.A. in Accounting and Finance and is also a Chartered Financial Analyst and a member of the Toronto Society of Financial Analysts. Pavel is currently a managing partner of 3G Capital Management LLC, a global value-oriented investment vehicle which he co-founded operating from Toronto and Chicago. Pavel is also a Non-Executive Director of AlarmForce Industries Inc. (TSX: AF), a leading North American residential alarm monitoring company.

Pavel was appointed to the Board in November 2012. Age 37.

Conrad Bona
Non-Executive Director

Conrad is a business consultant, investor and entrepreneur who started his career as a banking and finance lawyer and has worked in Toronto, London and Tokyo. He has a degree in economics from the University of Western Ontario, law degrees from the University of Edinburgh and the University of New Brunswick and qualified to practice as a lawyer in multiple jurisdictions. No longer practicing law, Conrad now advises companies on a wide range of commercial, financial and business matters. He has both Canadian and British citizenship and is based in London, England.

Conrad was appointed to the Board in October 2015. Age 47.

Jan Mohr
Non-Executive Director

Jan is based in Hamburg, Germany and is MD of the advisory firm JMX Capital GmbH. He previously worked with Investmentaktiengesellschaft fuer langfristige Investoren TGV, Hauck & Aufhaeuser and McKinsey & Company. Jan graduated from Frankfurt School of Finance and Management and earned a Master in Finance at Stockholm School of Economics as a German National Merit Scholar.

Jan was appointed to the Board in March 2016. Age 27.

DIRECTORS' REPORT

The Directors present their report and the financial statements of Grafenia plc and its subsidiary companies for the financial year ended 31 March 2016. The Directors have proposed that no final dividend will be paid *(2015: 1.00p)*.

RESEARCH AND DEVELOPMENT

All research costs are written off as incurred.

To maintain and improve our systems the Group undertake continual development of the suite of software modules and tools used by Grafenia owned operations and our partners worldwide. This work is broken down into Projects with the delivery managed with third party programmers and those employed by the Group.

Individual projects have to satisfy the following criteria:

- The project is clearly defined and related expenditure is separately identifiable;
- The project is technically feasible and commercially viable;
- Current and future costs will be exceeded by future sales;
- Adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over time in all cases over a period not exceeding five years commencing in the year when the Group begins to benefit from the expenditure.

DIRECTORS

The following Directors have held office since 1 April 2015:

L A Wheatley	Non-executive Chairman
P Begun	Non-executive Director
C C Bona	Non-executive Director – Appointed 6 October 2015
J-H Mohr	Non-executive Director – Appointed 15 March 2016
P R Gunning	Chief Executive
A Q Roberts	Finance Director
A Rafferty	Chief Executive – Resigned 6 October 2015

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

P Begun, C C Bona, J-H Mohr and A Q Roberts retire by rotation in accordance with the Company's Articles of Association. P Begun, C C Bona, J-H Mohr and A Q Roberts being eligible, offer themselves up for re-election.

Details of Directors' interests in the share capital of the Company as shown in the register, together with details of share options granted and awards made to the Directors, are included in the Report on Directors' Remuneration on pages 28 to 29.

From 3 April 2008 the Company has maintained cover for its Directors under a directors' liability insurance policy, as permitted by the Companies Act 2006.

EMPLOYEES

The employment policies of the Group embody the principles of equal opportunity and the Group does not discriminate against anyone on any grounds. The Group ensures that every consideration is given to applications of employment from disabled persons. If an employee became disabled, every effort would be made to offer suitable alternative employment within the Group and assistance with retraining.

The Group keeps employees informed via the Company's Intranet and by periodic staff meetings and internal announcements and takes account of any comments and feedback provided by employees in the formulation of its policies and procedures.

HEALTH AND SAFETY

Emphasis is placed upon providing a safe and healthy working environment for employees, customers and suppliers. The Group ensures that regular risk assessments are carried out and that plant and machinery is properly maintained. Working practices are developed to embody safe systems of work and the Group ensures that employees receive ongoing instruction, training and supervision for working and health and safety issues.

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

The Board considers social, environmental and ethical matters in all aspects of the business of the Group. They and senior management review and assess the significant risks to the Group's short and long term value as impacted upon by social, environmental and ethical issues. The Group comply with environmental laws and regulations and work with suppliers and customers to improve the effectiveness of environmental management.

Through the period the Group maintained its ISO14001 environmental accreditation.

PRINCIPLES OF CORPORATE GOVERNANCE

The Directors' Statement of Corporate Governance can be viewed on the Company's web site at **www.grafenia.com**.

SUBSTANTIAL SHAREHOLDERS

In addition to the Directors' interests noted in the Directors' Remuneration Report, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 8 June 2016:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	10,872,001	23.82%
Axion SA	3,500,000	7.67%
3G Capital	2,740,000	6.00%
Scherzer & Co SA	2,715,000	5.95%
R G Hardie	1,674,574	3.52%
P Gordon	1,646,050	3.61%
Small Companies Dividend Trust	1,450,000	3.18%

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 5 August 2016 at the Company's offices Focal Point, Third Avenue, The Village, Trafford Park, Manchester M17 1FG. In addition to the ordinary business the Company will also propose a number of resolutions which will be dealt with as special business. Details are contained in the Notice of the Annual General Meeting.

In the opinion of the Directors, the passing of these resolutions is in the best interests of the shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

AUDITORS

KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as Auditor will be proposed at the next Annual General Meeting.

By order of the Board

A Q Roberts
Director
8 June 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE

The Company has an established Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Les Wheatley, Pavel Begun, Conrad Bona and Jan Mohr who are independent Non-executive Directors, Les Wheatley chairs the Committee.

In determining the Directors' remuneration for the year, the Committee consulted the Chief Executive about its proposals. The Committee also sources reports from the Company's various advisers.

REMUNERATION POLICY

The policy of the Committee is to reward Executive Directors in line with the current remuneration of directors in comparable businesses taking into consideration the advice of independent bodies in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for Executive Directors and senior management:

- Basic annual salary (including Directors' fees) and benefits;
- Annual cash bonus payments which cannot exceed 30% of basic salary,
  with the exception of the Chief Executive who has a long term scheme tied to the growth in free cash flow;
- Share option incentives; and
- Pension arrangements.

BASIC PENSIONABLE SALARY

Basic pensionable salary is reviewed annually in March with increases, if awarded, taking effect from 1 April. In addition to basic salary, the Executive Directors also receive certain benefits in kind, principally a car and private medical insurance.

ANNUAL CASH BONUS

The Committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward Executive Directors and other senior employees for achieving above average performance which also benefits shareholders. The maximum performance related bonus that can be paid is 30% of basic salary. No incentive payments have been made for the financial year ended 31 March 2016.

PENSION ARRANGEMENTS

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

DIRECTORS' CONTRACTS

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of six months' notice, The Chief Executive has a twelve month notice period. There are no special provisions for compensation in the event of loss of office. The Remuneration Committee would consider the circumstances of any early termination and determine compensation payments accordingly.

NON-EXECUTIVE DIRECTORS

The fees of each Non-executive Director are determined by the Board as a whole, excluding the Non-executive being reviewed, having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors do not receive pension contributions.

Non-executive Director's contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION

Year ended 31 March 2016 (audited):

	Basic salary £	**Fees £**	**Benefits £**	**Bonuses £**	**2016 Total £**	**2016 Pension £**
L A Wheatley	**-**	**30,231**	**-**	**-**	**30,231**	**302**
P Begun	**-**	**20,154**	**-**	**-**	**20,154**	**-**
C C Bona	**-**	**9,846**	**-**	**-**	**9,846**	**48**
J-H Mohr	**-**	**1,000**	**-**	**-**	**1,000**	**-**
P R Gunning	**171,559**	**-**	**867**	**-**	**172,426**	**15,525**
A Q Roberts	**85,503**	**-**	**20,756**	**-**	**106,259**	**9,338**
A Rafferty*	**281,374**	**-**	**1,290**	**-**	**282,664**	**11,362**
	538,436	**61,231**	**22,913**	**-**	**622,580**	**36,575**

*A Rafferty's remuneration included £192,976 paid following his departure from the Group reported under restructuring costs in the income statement.

Year ended 31 March 2015 (audited):

	Basic salary £	Fees £	Benefits £	Bonuses £	2015 Total £	2015 Pension £
L A Wheatley	-	30,115	-	-	30,115	279
P Begun	-	20,077	-	-	20,077	-
A Rafferty	170,905	-	1,121	-	172,026	22,725
P R Gunning	170,905	-	703	-	171,608	15,525
A Q Roberts	85,177	-	19,366	-	104,543	9,273
	426,987	50,192	21,190	-	498,369	47,802

DIRECTORS' INTERESTS

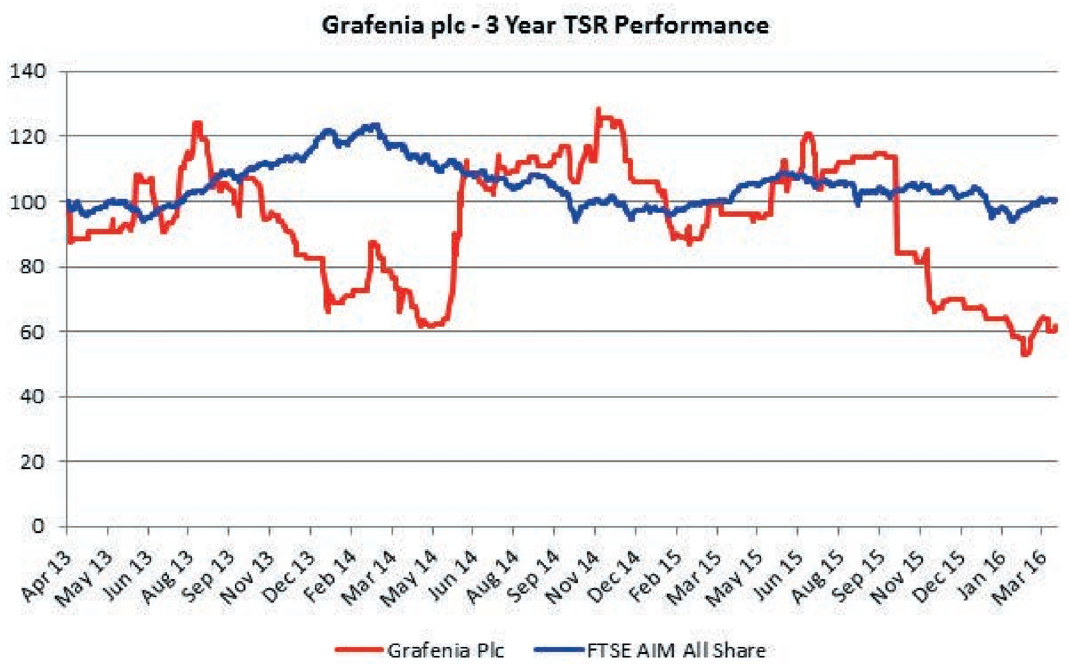
At 31 March 2016, the Directors had the following beneficial interests in the Company's shares, the share option scheme having lapsed in the prior period:

	Ordinary shares of 1p each	
	31 March 2016	31 March 2015
P R Gunning	**1,000,000**	684,646
A Q Roberts	**500,000**	320,000
L A Wheatley	**-**	-
P Begun	**2,740,000**	2,740,000
C C Bona	**450,000**	-
J-H Mohr	**-**	-
A Rafferty	**-**	8,662,222

From the end of the year until 8 June 2016 there have been no changes in the above interests.

No Directors, including family interests, had any interests in the deferred share capital of the Company.

The Group's share price performance for the period under review charted with the AIM all share is shown below. The market price of shares as at 31 March 2016 was 10.75pence *(2015: 18.00pence).* The range during 2016 was 9.25pence to 22.50pence.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAFENIA PLC

We have audited the financial statements of Grafenia plc for the year ended 31st March 2016, set out on pages 15 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the directors have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and, in respect of the separate opinion in relation to the Directors' Remuneration Report on terms that have been agreed. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and, in respect of the separate opinion in relation to the Directors' Remuneration Report, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 AND UNDER THE TERMS OF OUR ENGAGEMENT

In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the company; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

WILL BAKER (SENIOR STATUTORY AUDITOR)

FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
KPMG LLP
8 June 2016
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016	*Note*	**2016 £000**	2015 £000
Revenue	2	**10,766**	11,024
Raw materials and consumables used		**(3,631)**	(3,219)
Gross profit		**7,135**	7,805
Staff costs	4	**(3,776)**	(3,728)
Other operating charges		**(1,838)**	(1,979)
Depreciation and amortisation		**(1,462)**	(1,576)
Restructuring costs		**(308)**	-
Total expenses		**(7,384)**	(7,283)
Operating (loss)/profit		**(249)**	523
Operating (loss)/profit analysed as:			
Operating profit before restructuring costs		**59**	523
Restructuring costs			
Operating (loss)/profit		**(308)**	-
		(249)	523
Financial income		**5**	9
Financial expenses		**(16)**	-
Net financing (expense)/income		**(11)**	9
(Loss)/profit before tax	3	**(260)**	532
Tax income	6	**270**	71
Profit from continuing operations after tax		**10**	603
Profit from discontinued operations after tax	5	**54**	245
Profit for the year		**64**	848
Total comprehensive income for the year		**64**	848
EPS – Continuing Operations	15	**0.02p**	1.28p
EPS – Discontinued Operations	15	**0.12p**	0.52p
EPS – Total(2)	15	**0.14p**	1.80p

(1) Restated to reflect the disposal of Grafenia BV

(2) Earnings per share suffers no dilution

The notes on pages 37 to 60 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONSOLIDATED AND COMPANY

GROUP – YEAR ENDED 31 MARCH 2015

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance at 31 March 2014	475	-	838	(69)	4,567	5,811
Profit and total comprehensive income for the year	-	-	-	-	847	847
Dividends paid	-	-	-	-	(706)	(706)
Total movement in equity	-	-	-	-	141	141
Balance at 31 March 2015	475	-	838	(69)	4,708	5,952

GROUP – YEAR ENDED 31 MARCH 2016

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**64**	**64**
Own shares acquired	**-**	**-**	**-**	**(168)**	**-**	**(168)**
Dividends paid	**-**	**-**	**-**	**-**	**(586)**	**(586)**
Total movement in equity	**-**	**-**	**-**	**(168)**	**(522)**	**(690)**
Balance at 31 March 2016	**475**	**-**	**838**	**(237)**	**4,186**	**5,262**

COMPANY – YEAR ENDED 31 MARCH 2015

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance 31 March 2014	475	-	627	(69)	4,455	5,488
Profit and total comprehensive income for the year	-	-	-	-	716	716
Dividends paid	-	-	-	-	(706)	(706)
Total movement in equity	-	-	-	-	10	10
Balance at 31 March 2015	475	-	627	(69)	4,465	5,498

COMPANY – YEAR ENDED 31 MARCH 2016

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**791**	**791**
Own shares acquired	**-**	**-**	**-**	**(168)**	**-**	**(168)**
Dividends paid	**-**	**-**	**-**	**-**	**(586)**	**(586)**
Total movement in equity	**-**	**-**	**-**	**(168)**	**205**	**37**
Balance at 31 March 2016	**475**	**-**	**627**	**(237)**	**4,670**	**5,535**

The notes on pages 37 to 60 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2016

	Note	**Group 2016 £000**	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Non-current assets					
Property, plant and equipment	8	**1,513**	1,114	**-**	-
Investments in subsidiaries	9	**-**	-	**574**	2,416
Intangible assets	9	**2,893**	4,372	**-**	-
Other receivables	10	**27**	26	**-**	-
Total non-current assets		**4,433**	5,512	**574**	2,416
Current assets					
Inventories		**316**	202	**-**	-
Trade and other receivables	10	**2,608**	2,287	**4,996**	3,112
Current tax repayable	10	**231**	-	**-**	-
Cash and cash equivalents	11	**686**	1,277	**-**	1
Total current assets		**3,841**	3,766	**4,996**	3,113
Total assets		**8,274**	9,278	**5,570**	5,529
Current liabilities					
Other borrowings	12	**(66)**	-	**-**	-
Trade and other payables	13	**(1,363)**	(1,701)	**(6)**	-
Current tax payable	6	**-**	(121)	**-**	-
Accruals and deferred income	13	**(699)**	(813)	**(29)**	(31)
Other liabilities	13	**(108)**	(288)	**-**	-
Total current liabilities		**(2,236)**	(2,923)	**(35)**	(31)
Non-current liabilities					
Other borrowings	12	**(264)**	-	**-**	-
Deferred tax liabilities	7	**(512)**	(403)	**-**	-
Total non-current liabilities		**(776)**	(403)	**-**	-
Total liabilities		**(3,012)**	(3,326)	**(35)**	(31)
Net assets		**5,262**	5,952	**5,535**	5,498
Equity attributable to equity holders of the parent					
Share capital	15	**475**	475	**475**	475
Share premium		**-**	-	**-**	-
Merger reserve		**838**	838	**627**	627
Treasury shares		**(237)**	(69)	**(237)**	(69)
Retained earnings		**4,186**	4,708	**4,670**	4,465
Total equity		**5,262**	5,952	**5,535**	5,498

The notes on pages 37 to 60 form part of these financial statements.

These financial statements were approved by the board of directors on 8 June 2016 and were signed on its behalf by:

A Q ROBERTS
Director

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 MARCH 2016

	Note	**Group 2016 £000**	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Cash flows from operating activities					
Profit for the year		**64**	847	**791**	716
Adjustments for:					
Depreciation, amortisation and impairment (continuing operations)		**1,462**	1,655	**-**	-
(Surplus)/Loss on sale of subsidiary	5	**(279)**	-	**114**	-
Net finance expense/(income)		**11**	9	**(902)**	(611)
Foreign exchange (loss)/gains		**-**	(14)	**(8)**	15
Tax (income)/expense		**(223)**	9	**-**	-
Operating cash flow before changes in working capital and provisions		**1,035**	2,506	**(5)**	120
Change in trade and other receivables		**(322)**	(16)	**(1,884)**	13
Change in inventories		**(114)**	(34)	**-**	-
Change in trade and other payables		**(632)**	(513)	**4**	(23)
Cash (used) / generated from Operations		**(33)**	1,943	**(1,885)**	110
Interest paid		**(16)**	-	**-**	-
Income tax received/(paid)		**(20)**	(130)	**-**	-
Net cash (outflow)/inflow from operating activities		**(69)**	1,813	**(1,885)**	110
Cash flows from investing activities					
Proceeds from sale of subsidiary		**1,728**	-	**1,728**	-
Proceeds from sale of plant and equipment		**-**	5	**-**	-
Interest received		**5**	5	**-**	-
Acquisition of plant and equipment	8	**(438)**	(172)	**-**	-
Capitalised development expenditure	9	**(513)**	(518)	**-**	-
Acquisition of other intangible assets	9	**(500)**	(571)	**-**	-
Dividends received		**-**	-	**910**	596
Net cash generated by/(used in) investing activities		**282**	(1,251)	**2,638**	596
Cash flows from financing activities					
Proceeds from the issue of share capital	15	**-**	-	**-**	-
Purchase of own shares		**(168)**	-	**(168)**	-
Payment of finance leases		**(40)**	-	**-**	-
Dividends paid	15	**(586)**	(706)	**(586)**	(706)
Net cash used in financing activities		**(794)**	(706)	**(754)**	(706)
Net decrease in cash and cash equivalents		**(581)**	(144)	**(1)**	-
Exchange (loss)/gain on cash and cash equivalents		**(10)**	20	**-**	-
Cash and cash equivalents at start of year		**1,277**	1,401	**1**	1
Cash and cash equivalents at 31 March 2016	11	**686**	1,277	**-**	1

The notes on pages 37 to 60 form part of these financial statements.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

Grafenia plc (the "Company") is a company incorporated and domiciled in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group has financial resources and the opportunities open to the Group continue to grow. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, including a consideration of reasonable sensitivities, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Cash flow forecasts indicate cash inflows to ensure that sufficient cash is available for future trading and investment. The Group's external funding is made up of finance leases which totalled £330,000 against cash balances of £686,000 at the year end. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Further information regarding the Group's business activities together with the factors likely to affect its future development, performance and position is set out in the Chief Executive's Statement on pages 9 to 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 19 to 21. In addition, note 16 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

STATEMENT OF COMPLIANCE

Both the parent company financial statements and the Group financial statements have been prepared by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and under the historical cost convention. On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Statement of Comprehensive Income statement and related notes that form a part of these approved financial statements.

The financial statements were approved by the Board of Directors on 8 June 2016.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements. To improve the clarity of the financial statements a number of policies are presented alongside the relevant accounting note.

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the Company and all of its subsidiaries made up to the financial year end. Subsidiaries are entities controlled by the Group. Control exists when the Group has power over the investee to direct the relevant activities, exposure, or right to variable returns from its involvement with the investee and the ability to use if power over the investee to affect the amount of the investor's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Accounting policies are consistently applied throughout the Group. Intercompany balances and transactions have been eliminated. Profits from intercompany sales, to the extent that they are not yet realised outside the Group, have also been eliminated.

1. ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

For acquisitions the Group measures goodwill at the acquisition date as the:

- fair value of the consideration transferred; plus
- recognised amount of any non-controlling interests in the acquiree; plus
- fair value of the existing equity interest in the acquiree; less
- net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

INVESTMENTS

Investments in subsidiaries are stated at cost. Where in the opinion of the Directors an impairment of the investment has arisen, the value of the investment will be written down to the recoverable amount in accordance with IAS 36 'Impairment of Assets'.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and is valued at purchased cost. Net realisable value is based on estimated selling price less additional costs to completion and necessary costs to make the sale. Inventories are made up of raw materials of £311,000 *(2015: £199,000)* and work in progress of £3,000 *(2015: £3,000).*

INTEREST BEARING BORROWINGS

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

IMPAIRMENT OF ASSETS

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss.

CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

OPERATING LEASE PAYMENTS

Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss as an integral part of the total lease expense over the term of the lease.

FINANCE LEASE PAYMENTS

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

FINANCING COSTS

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit and loss on the date the entity's right to receive payments is established.

SHARE BASED PAYMENTS

The share option programme for Group employees to acquire shares in the Company lapsed in 2014.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rate prevailing at the date of the transaction. At each Balance Sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the Balance Sheet date. Translation differences on monetary items are taken to profit and loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

The financial statements of overseas subsidiaries are translated into sterling at the exchange rate ruling at the Balance Sheet date; income and expenses are translated at exchange rates at the date of transaction. The resulting surpluses and deficits are taken directly to profit and loss.

On disposal of a foreign subsidiary any cumulative exchange differences held in shareholders' equity are transferred to the Consolidated Statement of Comprehensive Income.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

INTERCOMPANY RECEIVABLES

Intercompany receivables have been reclassified to current assets in the current and prior year to more accurately reflect the arrangement.

TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

1. ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

- **Intangibles – capitalisation of software and development costs**
  The Board hold that the Group's key differentiators stem from its proprietary software, operationally W3P and that developed to support Nettl, Marqetspace, BrandDemand, Templating and Online initiatives. It is essential to continue investing in these assets. Projects are agreed with user forums to improve functionality for partners. Separate projects are defined for international expansion and for new initiatives as they are identified. Development costs are capitalised where a project has been defined, tested and expected to realise future economic benefits. Programming is carried out by third parties who work to a detailed specification and schedule. The Group's policy is to amortise these costs over 3 to 5 years whilst the software in question remains in use. Further, the Board will use estimates in assessing the carrying value of intangible assets.

- **Recoverability of receivables**
  The Group review outstanding loan balances and overdue trade debtors on a regular basis and make provisions against those balances considered most at risk. In estimating the bad debt provision management will consider the level of debt over 90 days overdue, agreement and compliance with payment plans and the ability to offset the risk against related payables.

STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ENDORSED, BUT WHICH ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP:

- IFRS 9 Financial Instruments – effective for periods starting on or after 1 January 2018 – Deals with the classification and measurement of financial assets.
- IFRS 15 – Revenue from contracts with customers – effective for periods starting on or after 1 January 2018 – Established a single comprehensive model to use in the accounting of revenue arising from customers.
- IFRS 16 – Leases – effective for periods starting on or after 1 January 2019 – Introduces a single lessee accounting model. The standard has not yet been endorsed by the EU.
- Amendments to IAS1 – presentation of financial statements – effective 1 January 2016.
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of Depreciation and Amortisation – effective for periods starting on or after 1 January 2016.
- Amendments to IAS 28 – Investments in Associates and Joint Ventures – effective for periods starting on or after 1 January 2016 – outlines the application of the consolidation exception.
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in joint operations – effective for periods on or after 1 January 2016.
- Amendments to IFRS 10 – Consolidated Financial statements – The IASB has deferred those amendments until a date to be determined by the IASB, although early adoption is permitted.,
- Amendments to IFRS 5 - Non-current assets held for sale and discontinued operations – effective for periods starting on or after 1 January 2016.

These new standards, amendments to standards and interpretations have been issued but are not yet effective, and therefore have not yet been adopted by the Group. These are not expected to have a material impact on the Group's accounts when adopted.

2. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the invoiced amount, net of Value Added Tax, of goods sold and services provided to customers outside the Group and is recognised as follows:

- For printing services revenue is recognised on completion of the print run at the fair value of the consideration receivable net of any discounts as the risks and rewards of the inventory pass to the Customer upon completion of printing. Revenue recognised relates only to amounts invoiced to Customers rather than the full amount paid by the end client. Where production is undertaken by a supplier, revenue is recognised when the supplier dispatches the goods.
- Print partners may use the Group's Brambl web design tool paying a monthly fee plus charges when websites are deployed and hosted.
- Revenue in respect of brand license fees for printing.com and Nettl are spread evenly over the period to which the rights are made available. An initial fee is charged in relation to training and set-up which is recognised based on the fair value of these services at the time they are delivered.
- Nettl partners monthly fees, and therefore revenue, is recognised in the month of supply.
- The Group owns and operates a number of Nettl Studios which design, deploy and host websites. Revenue is recognised against milestones agreed with Clients whilst being designed. Ongoing services are then supplied, charged and recognised on a monthly basis.
- Master Licensees have agreements based on the use of the Group's Brands and platforms. Fees are agreed at a minimum monthly rate which rises when minimum activity rates are exceeded. Charges and therefore revenues are recognised on a monthly basis.

As in the prior year the Group's operating segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service is also consistent with the prior year being conventional printing services, online printing services and license income. This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Of the Group revenue of £10,766,000, £9,551,000 was generated in the UK *(2015: £9,762,000)*. Revenue generated outside the UK is primarily attributable to France £427,000 *(2015: £456,000)* and Republic of Ireland £306,000 *(2015: £295,000)*. No single customer provided the Group with over 10% of its revenue.

Of the Group's non-current assets (excluding deferred tax) of £4,433,000, £4,394,000 are located in the UK. Non-current assets located outside the UK are in France £12,000, *(2015: 13,000)* and the Republic of Ireland £27,000, *(2015: £28,000)*.

2. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

ANALYSIS BY LOCATION OF SALES	**UK & Ireland £000**	**Europe £000**	**Other £000**	**Total £000**
Period ended 31 March 2016				
Segment revenues	**9,857**	**540**	**369**	**10,766**
Operating Expenses				**(10,707)**
Results from operating activities				**59**
Exceptional restructuring costs				**(308)**
Net finance expense				**(11)**
Loss before tax				**(260)**
Tax Income				**270**
Profit from discontinued operations after tax				**54**
Profit for the period				**64**
Assets – Unallocated net assets				**5,262**

	UK & Ireland £000	Europe £000	Other £000	Total £000
Period ended 31 March 2015				
Segment revenues	10,058	590	376	11,024
Operating Expenses				(10,501)
Results from operating activities				523
Net finance income				9
Profit before tax				532
Tax Income				71
Profit from continuing operations after tax				603
Profit from discontinued operations after tax				245
Profit for the period				848
Assets – Unallocated net assets				5,535

ANALYSIS BY TYPE	**Printing services – online sales £000**	**Printing services £000**	**License Income £000**	**Total £000**
Period ended 31 March 2016				
Segment revenues	**635**	**8,589**	**1,541**	**10,766**
Operating Expenses				**(10,707)**
Results from operating activities				**59**
Exceptional restructuring costs				**(308)**
Net finance expense				**(11)**
Loss before tax				**(260)**
Tax Income				**270**
Profit from continuing operations				**10**
Profit from discontinued operations after tax				**54**
Profit for the period				**64**
Unallocated net assets				**5,262**

2. REVENUE AND SEGMENTAL INFORMATION (CONTINUED)

ANALYSIS BY TYPE	Printing services – online sales £000	Printing services £000	License Income £000	Total £000
Period ended 31 March 2015				
Segment revenues	801	8,771	1,452	11,024
Operating Expenses				(10,501)
Results from operating activities				523
Net finance income				9
Profit before tax				532
Tax Income				71
Profit for the period for continuing operations				603
Profit from discontinued operations				245
Profit for the period				848
Unallocated net assets				5,535

3. (LOSS)/PROFIT BEFORE TAXATION

Included in profit are the following:

	2016 £000	2015 £000
Operating lease rentals	**306**	348
Amortisation of intangible assets	**1,139**	1,111
Depreciation	**379**	544
(Gain)/Loss on foreign currency transactions	**(39)**	14

Restructuring costs

There were restructuring costs of £308,000 in the financial year *(2015: £nil)* the largest item being the severance payment to Tony Rafferty of £192,976.

Auditors' remuneration:

	2016 £000	2015 £000
Audit of these financial statements	**18**	16
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**27**	32
Tax compliance services	**11**	11
Other tax advisory services	**12**	10
Review of interim financial statements	**8**	6
Other assurance services	**2**	2

The 2016 Auditors' remuneration for statutory audit services and non-audit services relate solely to amounts paid to KPMG LLP. Amounts paid to the Group's Auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

Number of employees	Group 2016	Group 2015	Discontinued 2015	Company 2016	Company 2015
Administration	**14**	13	5	**3**	2
Sales and distribution	**53**	52	23	-	-
Production	**57**	53	-	**-**	-
	124	118	28	**3**	2

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

	Group 2016 £000	Group 2015 £000	Discontinued 2016 £000	Discontinued 2015 £000	Company 2016 £000	Company 2015 £000
Wages and salaries	**3,358**	3,304	**353**	663	**61**	50
Social security costs	**356**	345	**61**	123	**6**	5
Other pension costs	**62**	79	**18**	21	**-**	-
	3,776	3,728	**432**	807	**67**	55

Defined contribution plan

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The amounts charged to the Consolidated Statement of Comprehensive Income represent the contributions payable to the scheme in respect of the accounting period. In the year ended 31 March 2016 £71,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2015: £79,000*). As at 31 March 2016 £3,000 *(2015: £nil)* contributions were outstanding on the balance sheet.

KEY MANAGEMENT REMUNERATION:

	2016 £000	2015 £000
Key managements' emoluments	**562**	449
Company contributions to money purchase pension plans	***36***	47
	598	496

The Group considers the key management to be the Directors of the Group. Information covering Directors' remuneration is set out in full in the 'Elements of remuneration' section of the Directors Remuneration Report on page 28.

The aggregate of emoluments for the highest paid Director was £283,000 *(2015: £172,000)*, and Company pension contributions of £11,000 *(2015: £23,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes amounted to 3 *(2015: 3*).

5. DISCONTINUED OPERATIONS

The disposal of Grafenia BV was completed on 6 October 2015 and was treated as a post balance sheet subsequent event when the Company issued it's Interim Report and it applied IFRS 5 at that time.

The results for discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Revenue	**2,551**	5,980
Expenses	**(2,729)**	(5,636)
Operating (Loss)/Profit	**(178)**	344
Finance revenue	**-**	5
Finance expense	**-**	(24)
Surplus on disposal of discontinued operations	**279**	-
Profit before tax	**101**	325
Taxation	**(47)**	(80)
Profit for the period from discontinued operations	**54**	245

The above profit on disposal of business of £0.34m is calculated as proceeds of £1.73m less costs of disposal of £0.07m less net assets disposed of £1.38m. In addition to the disposal of Grafenia BV, other discontinued operations include the wind up of PDC SA and Grafenia France SA being reorganised into Grafenia France sarl, which have been included in the expenses of discontinued operations. The net cash flows attributable to discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Operating cash flows	**329**	75
Investing cash flows	**(15)**	(25)
Financing cash flows	**(386)**	(146)
Net cash outflow	**(72)**	(96)
Exchange (loss)/gain on cash and cash equivalents	**(1)**	18

6. TAXATION

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The adjustment in the tax expense for prior years is primarily due to R&D tax reclaims. These amounts are recognised by the Group when the claims have been drafted. The amounts reclaimed differ from the development costs capitalised under IAS and therefore the difference is not recognised as part of the tax base of these assets.

Recognised in the income statement

	2016 £000	2015 £000
Current tax expense		
Current year	**(219)**	167
Foreign tax	**54**	92
Adjustments for prior years	**(167)**	(290)
	(332)	(31)
Deferred tax expense		
Origination and reversal of temporary differences (see note 6)	**52**	(149)
Movement due to change in rate of tax	**(56)**	-
Adjustment in respect of prior year	**113**	189
Total tax on continuing and discontinuing operations	**(223)**	9

The tax (credit)/expense in the income statement is disclosed as follows:		
Total tax in income statement on continuing operations	**(270)**	(71)
Total tax in income statement on discontinued operations	**47**	80
Total tax in income statement	**(223)**	9

6. TAXATION (CONTINUED)

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is (68%) lower *(2015: lower)* than the standard rate of corporation tax in the UK of 20% *(2015: 21%)*. The differences are explained below:

	2016 £000	2015 £000
(Loss)/Profit on continuing operations	**(260)**	532
Profit on discontinued operations	**101**	325
(Loss)/Profit for the period	**(159)**	857
Tax using the UK corporation tax rate of 20% (2015:21%)	**(32)**	180
Effects of:		
Permanent differences	**(87)**	14
Overseas tax losses not recognised	**-**	1
Difference in overseas tax rate	**10**	4
Losses carried forward	**-**	(97)
Adjustments in respect of prior periods – current tax	**(167)**	(290)
Adjustments in respect of prior periods – deferred tax	**113**	189
Unrelieved losses carried into following year	**75**	8
Withholding tax	**10**	-
R&D losses surrendered	**83**	-
R&D super deduction	**(171)**	-
Movement due to the change in the tax rate	**(57)**	-
Total tax (repayment)/expense	**(223)**	9

The Group Tax Debtor amounts to £231,000 *(2015 Creditor: £121,000)*. The deferred tax liabilities as at 31 March 2016 have been calculated using the tax rate of 18% which was substantively enacted at the balance sheet date.

The UK corporation tax rate has been progressively reduced over the last 4 years. The October 2015 statement announced that the rate will further reduce to 19% from 1 April 2017 and 18% from 1 April 2020.

7. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying value amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Recognised deferred tax assets and liabilities

	Assets 2016 £000	Assets 2015 £000	**Liabilities 2016 £000**	Liabilities 2015 £000
Property, plant and equipment	-	-	**507**	394
Intangible assets	-	-	**5**	9
Tax (assets)/liabilities	-	-	**512**	403

Movement in deferred tax during the year.	**31 March 2015 £000**	**Adjustment for prior years £000**	**Recognised in income £000**	**Recognised in income due to tax rate change £000**	**31 March 2016 £000**
Property, plant and equipment	**394**	**113**	**55**	**(55)**	**507**
Intangible assets	**9**	**-**	**(3)**	**(1)**	**5**
	403	**113**	**52**	**(56)**	**512**

Movement in deferred tax during the year.	1 April 2014 £000	Adjustment for prior years £000	Recognised in income £000	31 March 2015 £000
Property, plant and equipment	349	189	(144)	394
Intangible assets	14	-	(5)	9
	363	189	(149)	403

COMPANY

The Company had no deferred tax assets or liabilities as at 31 March 2016 *(2015: £nil)*.

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Depreciation

Fixtures and fittings –	20%-33% straight line	Plant and equipment –	10%-30% straight line
Motor Vehicles –	25% straight line	Leasehold improvements –	over remaining lease life

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
Balance at 31 March 2014	576	6,889	61	908	8,434
Additions	-	4	-	168	172
Disposals	-	(5)	-	(265)	(270)
Effect of movements in foreign exchange	-	-	(4)	(30)	(34)
Balance at 31 March 2015	576	6,888	57	781	8,302
Balance at 31 March 2015	576	6,888	57	781	8,302
Additions	-	556	-	252	808
Disposals	-	(730)	-	(255)	(985)
Effect of movements in foreign exchange	-	-	2	20	22
Balance at 31 March 2016	**576**	**6,714**	**59**	**798**	**8,147**
Depreciation and impairment					
Balance at 31 March 2014	564	5,753	39	579	6,935
Depreciation charge for the year	5	388	9	142	544
Disposals	-	(5)	-	(260)	(265)
Effect of movements in foreign exchange	-	-	(4)	(22)	(26)
Balance at 31 March 2015	569	6,136	44	439	7,188
Balance 31 March 2015	569	6,136	44	439	7,188
Depreciation charge for the year	2	218	8	151	379
Disposals	-	(730)	-	(212)	(942)
Effect of movements in foreign exchange	-	-	2	7	9
Balance at 31 March 2016	**571**	**5,624**	**54**	**385**	**6,634**

8. PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Net book value					
At 31 March 2014	12	1,136	22	329	1,499
At 31 March 2015	7	752	13	342	1,114
At 31 March 2016	**5**	**1,090**	**5**	**413**	**1,513**

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2016 Group had leased assets with a carrying value of £350,000 *(2015: £36,000).*

9. INTANGIBLE ASSETS AND INVESTMENTS

RESEARCH AND DEVELOPMENT COSTS

All research costs, which do not proceed to development, are written off as incurred, in the year £nil was written off *(2015: nil).*

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed. In such circumstances the costs are carried forward and amortised over time in all cases over a period not exceeding five years commencing in the year when the asset is available for use.

Amortisation on patents, trademarks and development costs is charged to profit and loss on a straight-line basis over the useful economic life of the asset.

- Patents and trademarks – 20 years
- Domain names – 5% straight line
- Capitalised development costs – 3-5 years

Reviews of impairment indicators in relation to the carrying value of development expenditure are undertaken annually.

SOFTWARE

External expenditure on computer systems and software is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the useful economic life of the asset, which is expected to be no more than five years.

CUSTOMER LISTS AND TERRITORY RIGHTS

Intangible assets include customer lists purchased on the buy-back of Stores from existing Franchisees. Customer lists are stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight line basis over a three year period.

GOODWILL

Goodwill largely cleared on the disposal of Grafenia BV.

TRADE AND ASSETS OF FRANCHISES

During the year the Group acquired no Franchise trade and assets *(2015: £nil).*

9. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

IMPAIRMENT TESTING – Goodwill

The recoverable amount of goodwill is determined from value in use calculations.

The Group prepares cash flow forecasts derived from budgets and two year business plans. For the purposes of impairment testing inflationary growth of 2% is assumed beyond this period. The sales growth relates to Nettl, printing.com and MarqetSpace the key revenue streams principally in the UK and Ireland. The growth rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites.

A pre-tax discount factor of 10% *(2015: 10%)* was applied.

Group	**Domain name £000**	**Software £000**	**Development costs £000**	**Customer Lists £000**	**Goodwill £000**	**Other £000**	**Total £000**
Cost							
Balance at 31 March 2014	463	2,691	1,737	1,039	1,280	142	7,352
Acquisitions – internally developed	-	-	518	-	-	-	518
Acquisitions – externally purchased	1	559	-	-	-	11	571
Disposals	-	(385)	(92)	(341)	-	-	(818)
Foreign exchange movement	-	(38)	-	-	(8)	(2)	(48)
Balance at 31 March 2015	464	2,827	2,163	698	1,272	151	7,575
Balance at 31 March 2015	464	2,827	2,163	698	1,272	151	7,575
Acquisitions – internally developed	-	-	513	-	-	-	513
Acquisitions – externally purchased	-	498	-	-	-	2	500
Disposals	(108)	(320)	(68)	(135)	(1,253)	-	(1,884)
Foreign exchange movement	-	6	-	-	(6)	1	1
Balance at 31 March 2016	**356**	**3,011**	**2,608**	**563**	**13**	**154**	**6,705**
Amortisation and impairment							
Balance at 31 March 2014	304	1,323	550	736	-	33	2,946
Amortisation for the year	37	554	335	169	(4)	20	1,111
Disposals	-	(385)	(92)	(341)	-	-	(818)
Foreign exchange movement	-	(27)	-	-	(8)	(1)	(36)
Balance at 31 March 2015	341	1,465	793	564	(12)	52	3,203
Balance at 31 March 2015	341	1,465	793	564	(12)	52	3,203
Amortisation for the year	28	597	417	78	-	19	1,139
Disposals	(98)	(249)	(68)	(135)	24	(8)	(534)
Foreign exchange movement	-	3	-	-	-	1	4
Balance at 31 March 2016	**271**	**1,816**	**1,142**	**507**	**12**	**64**	**3,812**

Amortisation and impairment charge

The amortisation charge of £1,139,000 *(2015: £1,111,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2015: £nil)* was recognised during the year.

9. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

Group	Domain name £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Net book value							
At 31 March 2014	159	1,368	1,187	303	1,280	109	4,406
At 31 March 2015	123	1,362	1,370	134	1,284	99	4,372
At 31 March 2016	**85**	**1,195**	**1,466**	**56**	**1**	**90**	**2,893**

Other intangibles

Development expenditure and external software costs are allocated to specific projects and revenue streams. Value in use calculations are made to justify carrying values and Amortisation policy, impairment risk is reviewed by the Board. This also applies to template systems.

Customer lists in intangible assets relate to the value placed upon customer lists of Studios acquired. Applying IAS36 Stores customer lists are being amortised over three to five years and are individually tested bi-annually for indications of impairment.

No reasonably possible change in any of the assumptions noted above would lead to an impairment charge being required.

Investments - Company	Shares in Subsidiary undertakings £000	Total £000
Cost		
Balance at 31 March 2014	2,416	2,416
Balance at 31 March 2015	2,416	2,416
Balance at 31 March 2016	**574**	**574**

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

UK incorporated Subsidiary undertakings – wholly owned	Nature of business/status
Grafenia Operations Limited	Printing – trading
Printing.com (UK Franchise) Limited	Franchise contracts – dormant
Printing.com Franchise Limited	Franchise contracts – dormant
Nettl UK Limited	Partner contracts – dormant
Grafenia Systems Limited	License agreements – dormant
Grafenia Technology Limited	License agreements – dormant
Creative Enterprise Support Limited	Enterprise Support – dormant
TemplateCloud Limited	Template Provision – dormant
W3P Limited	Software – dormant
W3P Platforms Limited	License agreements – dormant

France incorporated Subsidiary undertaking – wholly owned	Nature of business/status
Grafenia France sarl	Franchise contracts - trading

10. TRADE AND OTHER RECEIVABLES

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Other receivables due from subsidiary companies	**-**	-	**4,989**	3,106
Trade receivables	**2,051**	1,976	**-**	-
Prepayments	**477**	284	**-**	-
Corporation tax	**231**	-	**-**	-
Other receivables	**80**	27	**7**	6
	2,839	2,287	**4,996**	3,112

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

At 31 March 2016 trade receivables are shown net of an allowance for doubtful debts of £212,000 *(2015: £216,000).*

An analysis of impairment losses recognised in the year is given in note 16.

Trade and other receivables denominated in currencies other than sterling comprise £192,000 *(2015: £339,000)* of trade receivables and nil *(2015: £nil)* of other receivables denominated in Euro.

Non-current assets included the following amounts falling due after more than one year:

	Group 2016 £000	Company 2015 £000	**Company 2016 £000**	Company 2015 £000
Other receivables	**27**	26	**-**	-

11. CASH AND CASH EQUIVALENTS

	Group 2016 £000	Company 2015 £000	**Company 2016 £000**	Company 2015 £000
Cash and cash equivalents	**686**	1,277	**-**	1

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments. Cash denominated in currencies other than Sterling comprise £31,000 *(2015: £337,000*) all in Euro.

12. OTHER INTEREST-BEARING LIABILITIES

The Company had no interest bearing liabilities. The Group had interest-bearing liabilities from Finance Leases amounting to £66,000 as a current liability and £264,000 as a non-current liability. In the prior year there were no interest bearing liabilities. For more information on the Group and Company's exposure to interest rate, foreign currency risk and finance leases, see note 16.

13. TRADE AND OTHER PAYABLES

	Group 2016 £000	Company 2015 £000	**Company 2016 £000**	Company 2015 £000
Other trade payables	**1,363**	1,701	**6**	-
Accruals	**653**	736	**29**	31
Deferred income	**46**	77	**-**	-
Other liabilities	**108**	288	**-**	-
	2,170	2,802	**35**	31

Other trade payables denominated in currencies other than Sterling comprise £18,000 *(2015: £263,000)* denominated in Euro.

14. EMPLOYEE BENEFITS

SHARE-BASED PAYMENTS

The share based payment charge for the current and prior year is not material and therefore abbreviated rather than full disclosure of share options are set out below.

GROUP EMPLOYEES

The Group established an EMI Share Option Scheme on 6 August 2004 and all of the Options lapsed in 2014.

THIRD PARTIES

The Company established share option schemes for Franchisees to incentivise them to drive the Printing.com business forward and to align their interests with the Company and its Shareholders. Options were granted to Franchises when they entered their Territory Franchise Agreements. Once granted the Options only vest in tranches when pre-defined challenging revenue targets are met and exercised when the market price of Ordinary Shares has exceeded certain levels for a period of not less than 200 days.

The number and weighted average exercise prices of share options issued to third parties, principally Franchisees, are as follows:

Options	**Weighted average exercise price 2016**	**Number of options 2016**	Weighted average exercise price 2015	Number of Options 2015
Outstanding at the beginning of the period	**63.50**	**24,000**	32.46	434,000
Expired during the period	**63.50**	**(24,000)**	30.64	(410,000)
Outstanding at the end of the period	**-**	**-**	63.50	24,000

The total expenses recognised for the period arising from share based payments in respect of Franchisees was nil *(2015: £nil*).

15. SHARE CAPITAL

SHARE CAPITAL - GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2016**	Ordinary shares 2015
In issue at 31 March 2015	**47,072**	47,072
Purchased by the Company and held in Treasury	**(1,424)**	-
Shares on the market at 31 March 2016 – fully paid	**45,648**	47,072

Total treasury shares purchased and held by the Company are 1,910,000 *(2015: 410,000).*

	£000	£000
Allotted, called up and fully paid		
47,557,835 *(2015: 47,557,835)* ordinary shares of £0.01 each	**475**	475
63 deferred shares of £0.10 each	**-**	-
	475	475

15. SHARE CAPITAL (CONTINUED)

EARNINGS PER SHARE

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

	2016	2015
	£000	£000
Profit after taxation for the financial year from continuing operations	**10**	603
Profit after taxation on discontinued operations	**54**	245

Weighted average number of shares

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**46,639,156**	47,071,835
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**46,639,156**	47,071,835

Share options in issue at year end all had exercise prices higher than the average market price of ordinary shares during the period, therefore they are not treated as dilutive for the purposes of the earnings per share calculation.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The holders of deferred shares shall not be entitled to any participation in the profits or the assets of the Company and the deferred shares do not carry any voting rights.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity which was 1.15% *(2015: 15%)* at the year end. The Board of Directors have adopted the policy that dividends will not be proposed for the foreseeable future.

At present employees hold 11% of ordinary shares, there are no outstanding share options.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

15. SHARE CAPITAL (CONTINUED)

Dividends	**2016** **£000**	2015 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**471**	471
Interim dividends paid in respect of the current year	**115**	235
Total dividend paid in the year	**586**	706

After the balance sheet date the Board proposed no final dividend would be made *(2015: £471,000/1.00p per qualifying ordinary share).*

16. FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found on page 21. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and finance leases.

The Group's policy during the financial year ended 31 March 2016 and 31 March 2015 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of significant fixed assets through finance leases.

Credit risk

Group

The Group's credit risk is primarily attributable to trade and other receivables both current and non-current. Trade receivables are included in the balance sheet net of doubtful receivables, estimated by the Group's management. The maximum credit risk in respect of the Group's and Company's financial assets at the yearend is represented by the balance outstanding on trade receivables and other receivables due from Partners as shown below.

During the year the Group has continued to use the Pay As You Go (PAYG) model to manage debtors and mitigate the credit risk through structured payments. This model ensures that in most instances total debts do not increase while continuing to serve the customer base. Repayment plans have been entered into separately for certain PAYG debtors and make up £512,000 *(2015: £562,000)* of total gross debtors. The Group retains the right to charge interest on overdue balances and re-call debts ahead of the payment plans agreed.

The ageing of trade receivables and other receivables (not including prepayments) due from Partners at the reporting date was:

	31 March 2016 **Total** **£000**	**31 March 2016** **Impairment** **£000**	31 March 2015 Total £000	31 March 2015 Impairment £000
Not past due	**1,106**	**-**	1,300	-
Past due 0 – 30 days	**326**	**-**	225	-
Past due 31 – 90 days	**363**	**-**	251	-
Past due 90 days and over	**555**	**(212)**	539	(216)
	2,350	**(212)**	2,315	(216)

16. FINANCIAL INSTRUMENTS (CONTINUED)

IMPAIRMENT

	£000
Balance at 31 March 2014	267
Impairment loss recognised	(53)
Increase in impairment allowance	2
Balance at 31 March 2015	216
Impairment loss recognised	(48)
Increase in impairment allowance	44
Balance at 31 March 2016	**212**

Of the total impairment provision £186,000 relates to Partners that have ceased trading.

COMPANY

The Company did not have trade receivables at the year end.

INTEREST RATE RISK

The Group and the Company do not have a material exposure to interest rates.

LIQUIDITY RISK

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting agreements:

31 MARCH 2016

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000
Trade and other payables	**2,170**	**2,170**	**2,170**	**-**	**-**	**-**
Bank Loans	**-**	**-**	**-**	**-**	**-**	**-**
Finance lease liability	**330**	**386**	**44**	**44**	**87**	**211**
	2,500	**2,556**	**2,214**	**44**	**87**	**211**

31 March 2015

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000
Trade and other payables	2,802	2,802	2,802	-	-	-
Bank Loans	-	-	-	-	-	-
Finance lease liability	6	6	6	-	-	-
	2,808	2,808	2,808	-	-	-

All trade receivables are contractually due within 6 months.

16. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk

GROUP

The Group transacts some business in foreign currency, principally Euro, and therefore incurs some transaction risk. The risk does not warrant hedging activity by the Group to defend against the impact of exchange rate movements.

The Group's exposure to foreign currency risk denominated in GBP was as follows:-

	31 March 2016 Euro £000	**31 March 2016 GBP £000**	31 March 2015 Euro £000	31 March 2015 GBP £000
Trade receivables	**192**	**2,544**	339	2,202
Cash and cash equivalents	**31**	**655**	337	941
Trade payables	**18**	**(1,381)**	(263)	(1,438)
	241	**1,818**	413	1,705

SENSITIVITY ANALYSIS

Where the Group operate in Europe both revenues and costs are in the local currency therefore the level of exchange risk is low. In the Eurozone the Group have a presence in France, and Ireland. In managing interest rate and currency risks the Company and Group aims to reduce the impact of short-term fluctuations on the Company and Group's earnings.

At 31 March 2016, it is estimated that a general increase of one percentage point in the value of the Euro would increase the Group's profit before tax by approximately £3,000 *(2015: £6,000)* with an equal adjustment to equity.

FAIR VALUES

There is £14,000 difference of *(2015: £nil)* between fair values and carrying amounts on the balance sheet.

TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

TRADE PAYABLES

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

FINANCE LEASE LIABILITY / BANK LOANS

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The market rate of interest for finance leases is determined by reference to similar lease agreements.

17. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2016 £000	Group 2015 £000	**Company 2016 £000**	Company 2015 £000
Plant and machinery				
Less than one year	**16**	7	**-**	-
Between one and five years	**21**	2	**-**	-
Land and buildings				
Less than one year	**213**	298	**-**	-
Between one and five years	**511**	752	**-**	-
More than five years	**-**	16	**-**	-
	761	1,075	**-**	-

The most significant lease in land and buildings is that of the Manchester Production Hub and Head Office.

GROUP

During the year £306,000 *(2015: £348,000)* was recognised as an expense in profit and loss in respect of operating leases.

18. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the yearend *(2015: £nil)*.

19. CONTINGENCIES

Neither the Group nor the Company had contingencies at the yearend *(2015: £nil)*.

20. RELATED PARTIES

The Company receives dividends from its subsidiaries Grafenia Operations Limited and Grafenia BV prior to its disposal. In the year ended 31 March 2016 dividends of £910,000 were received *(2015: £596,000)*. Total sales to subsidiary undertakings were nil *(2015: £nil)* and total expenses incurred from subsidiary undertakings were nil *(2015: £nil)*. The amounts outstanding at the year-end from subsidiary undertakings are shown in note 10.

Transactions with key management personnel

Directors of the Company control 10.27 per cent of the voting shares of the Group.

The compensation of the Directors, who are the key management personnel, is disclosed in the Directors Remuneration Report – see pages 28 to 29 and note 4.

ADVISERS AND COMPANY INFORMATION

Registered Office	Third Avenue The Village Trafford Park MANCHESTER M17 1FG	**Auditors** to the Company	**KPMG LLP** 1 St Peter's Square MANCHESTER M2 3AE
Company Number	**03983312 (England and Wales)**	**Registrars and Receiving Agents** to the Company	**Capita Registrars** Northern House Woodsome Park Fenay Bridge HUDDERSFIELD HD8 0LA
Website Address	**www.grafenia.com**		
Company Secretary	**Richard A Lightfoot**		
Financial Adviser, Nominated Adviser and Broker to the Company	**N+1 Singer** West One 114 Wellington Street LEEDS LS1 1BA	**Bankers** to the Group	**The Royal Bank of Scotland plc** 1 Spinningfields Square MANCHESTER M3 3AP
Solicitors to the Company	**Gateley plc** Ship Canal House 98 Kings Street MANCHESTER M2 4WU		

GRAFENIA plc

Third Avenue > The Village > Trafford Park > Manchester > M17 1FG

t: **+44 (0)161 848 5700** > e: **investors@grafenia.com**

WWW.GRAFENIA.COM

Grafenia plc is registered in England and Wales under number 03983312
Registered office: Third Avenue, The Village, Trafford Park, Manchester M17 1FG. VAT Registration No. GB 764 5390 08

XIR/AQR/CRH/06-16/R1