ANNUAL REPORT AND ACCOUNTS 2018

GRAFENIA plc

CONTENTS

IN SUMMARY

Grafenia are the people behind the Nettl network of neighbourhood studios and the printing.com brand. We licence our brands and systems in the UK and internationally. At our production hubs, we manufacture print, display and signs. We sell those to businesses of all sizes via our brand partner networks and company-owned Nettl stores.

We're rolling up the signs sector, with the aim of creating a national installation network.

CONTINUING OPERATIONS

	Year ended 31 March 2018	*Year ended 31 March 2017*
	£000	*£000*
Subscription and Licence Fees	**1,773**	1,489
Company Studios	**1,594**	940
Signs	**4,000**	0
Brand Partners Print	**3,870**	3,762
Trade Clients Print	**3,393**	4,254
Total Revenue	**14,630**	10,445
Gross Profit	**8,337**	6,585
EBITDA	**669**	763
Amortisations and Depreciation	**(1,874)**	(1,746)
Operating (Loss)/Profit Before Restructuring Costs	**(1,185)**	(926)
Restructuring Costs	**(20)**	(57)
Exceptional Gain	**102**	-
Operating Loss After Restructuring Costs	**(1,103)**	(983)
Net Finance Expense	**(137)**	(4)
Tax Income	**294**	362
Loss for the Year	**(946)**	(625)
EPS – Continuing Operations	**(2.07)p**	(1.37)p
Total Dividend per Share	**Nil**	Nil
Capital Expenditure	**£1.94m**	£0.89m
Acquisition	**£2.61m**	-
Net (Debt) / Funds	**£(3.04)m**	£0.21m

At our Nettl of Liverpool Waters Business Superstore, we try to inspire clients. It's possible to brand their own environments in many different ways – including functional spaces like toilets.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The transition of Grafenia plc has progressed well since I last wrote to you. The aim of this letter is to inform you about the decisions we made to develop the Group and our reasoning. There is no way to know if the choices we made in the last fiscal year will prove to be successful. However, we strive to be as open as possible with you – the owners of the firm – so that you can make up your own mind.

Operational Performance

In the recent fiscal year, our turnover increased by **40%** to **£14.63m** *(2017: £10.45m)* and gross profit increased by **27%** to **£8.34m** *(2017: £6.59m)*. Our EBITDA reduced by **12%** to **£0.67m** *(2017: £0.76m)*. Operating loss increased to **£1.10m** *(2017: £0.98m)* while we achieved an effective Tax income of **£0.29m** *(2017: £0.36m)*. As in the prior year the Tax income was mainly due to the Group gaining Research & Development Relief. We finished the year with a cash position of **£0.17m** *(2017: £0.52m)* net debt of **£3.04m** *(2017: net funds of £0.21m)*, after spending capital investment of a net **£1.1m** *(2017: £0.89m)* plus consideration of **£2.61m** for the acquisition of Image Group *(2017: £0.05m for the acquisition of ADD Signs Limited)*.

These results are mainly impacted by the inclusion of newly acquired sign firms, most notably Image Group (Image Everything Limited), into our reporting. This causes the headline sales and gross margin to increase in comparison to last fiscal year. Underlying, there have been three broad trends that warrant further commentary:

1. Litho print revenues have been declining. This has mainly been due to decreasing prices in the marketplace. Given that a significant part of our production cost is fixed, any decrease in print revenues immediately causes our contribution margin to decline. This has been the case for many years and we do not expect this to change. It has been a significant drag on profitability in the last year. The only good news is that our reliance on profits from litho print are decreasing every day.

Drive-in vehicle wrapping bay at Nettl of Liverpool Waters Business Superstore. Inside we can wrap full vehicles or apply graphics.

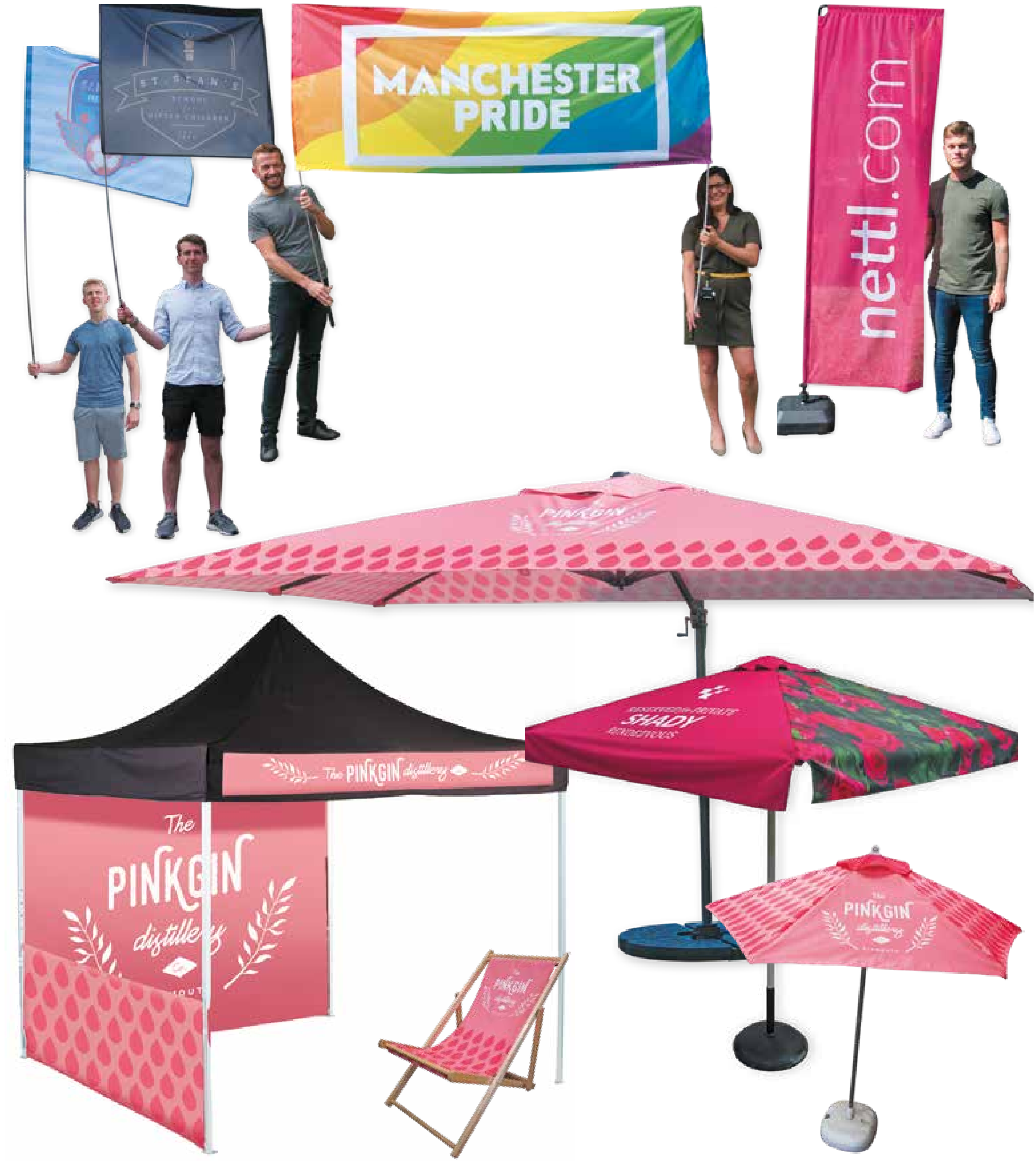
2. Licence revenues have been increasing. First and foremost, you can thank our Nettl team leaders Rob, Paul, Chris and Mat for relentlessly driving partner acquisition and partner development. They've been doing a fine job indeed and their contribution to the Group is remarkable. Only a few years after launching, Nettl now helps more than 150 partners in the UK to offer better design products to their clients. Nettl has also been showing quite encouraging signs internationally, especially in the Netherlands. From an accounting perspective, you should consider two aspects. Firstly, due to the contracts in place, we recognise revenues from licence fees when the cash is due, i.e. primarily monthly. When the number of partners grows quickly (as it did at the end of this financial year) the recognised revenues for the accounting period understate the "run-rate" – meaning number of partners multiplied by monthly licence fees multiplied by 12 months. Secondly, the cost to acquire these new partner contracts tends to be front-loaded. We lay out capital to bring new partners on board – by paying our sales team, hosting exhibitions, marketing and so on – which we think of a bit like an investment. Due to accounting rules, we have to expense this cost in our profit and loss statement. If we stopped selling (which we have no plans to – quite the contrary!) our disclosed earnings would be significantly higher. This effect has been particularly severe in new markets such as the Netherlands. Over there, we essentially incur all the costs to set up shop in the very first trading period with all the fruits coming in pro-rata over time.

3. Our company-owned stores are improving, but are still not where we would like them to be. The good news is that our store performance has increased a lot over the last fiscal year. The bad news is overall it's still not where it needs to be. Some stores are losing money, partly due to the terms of leases signed many years back. I strongly believe that improving own studio performance is the proverbial lowest hanging fruit.

I wish I could present a higher level of granularity in our reporting, to help you better judge our performance. For a variety of reasons, changing our reporting to a more granular level didn't make great sense this reporting period.

Priority has been on integrating the reporting systems of Image Group and figuring out how our financial controls change, with the change in our business focus. In fact, we need to have an internal debate and discuss how our KPIs or segments may change in light of the new focus on acquiring sign businesses. Rest assured though, we will progress to an increased level of transparency, especially around unit economics of the individual business lines.

The costs we incur by being public are still a major drag on our financial performance. We've started to disclose our estimate of "plc overhead" to illustrate the magnitude of the problem. This year EBITDA would have been £1.27m before corporate costs of £0.60m (compared with £0.62m in the previous year).



We've extended our range of outdoor display kit – from simple flags to cantilever parasols and massive personalised gazebos.

Last year I wrote: "The success of my tenure should be measured by whether we figure out a way to make better use of our public listing." With our new focus on rolling-up (i.e. finding, evaluating, buying and integrating) sign businesses, I see a realistic chance to grow the group to a size that justifies a listing on a stock exchange. To that end, we need a) to find enough sign businesses to acquire, b) to pay prices that make financial sense and c) to integrate these sign businesses appropriately into a growing organisation. None of this should be taken for granted and will require great focus and flawless execution from the entire team. More on this later.

People at Grafenia, Board changes and Priorities in the past year

Frankly, I wouldn't be asking for your votes at the AGM if I weren't enjoying working with the Grafenia team. The big plus of this organisation is the amount of high quality people that are fun to work with. I admire the energy and sales focus of the teams. I'm thrilled by the thought that the growing organisation will offer larger responsibilities and development options for many team members. I think a lot can be done with our current team and within our current culture. This is terrifically important and good news.

In last year's report, I briefly mentioned the outstanding performance of both Richard and Gavin. In due course, the board decided to appoint both to the plc board. This promotion has been well deserved and I am delighted to give both guys even more responsibility.

I'd like to make special comment about new members to the Grafenia family – especially Neil and Dave of Image Group and Mark of Nettl Liverpool Waters Business Store (previously ADD Signs). When you put all your energy into growing a firm and then decide to sell it, it's a little bit like giving away your child. Neil, Dave and Mark have decided to stay on board after selling their firms to join us in growing Grafenia. And it has been working well for everyone – which is neither common, nor taken for granted. Neil once told me over dinner that his business rule number one is "people are everything". If you happen to be a finance-egghead (like me), such a statement can easily be disregarded as platitude. If you ever tried to make a merger work, you'll find out that it's anything but. People and culture matter very much indeed.

Last year, I called out three areas that Conrad and I can influence as your non-executive directors. Nothing has changed regarding the scope of our work (neither Conrad nor I have become great web designers yet!) This year, I want to self-evaluate how we did on these areas during the last fiscal year.

Our Spectacular Spaces look book blends the range of display we manufacture at Image Group display hub, with our fabric range. Display isn't just for exhibitions. We encourage clients to brand their office and retail environments too.

1. **Finding the right governance structure**
   This looks good. While we will always make improvements to individual roles, both Conrad and I have perceived board work to be a productive and efficient process. We all care about the same goals and communication is high in content and low in politics. That's the tone we want to set for the entire organisation. Unlike a few years ago, we increasingly involve non-board employees in board discussions and will extend this even more in the future. We also decided to make the board a lot more accessible to shareholders. To that end, we overhauled our AGM format last year to be more inclusive, more informative and more fun.

2. **Setting incentives right**
   I didn't do well on that one at all. Last year, I briefly described the free cash-flow based scheme that measures Peter's bonus. After testing it for a while, we found it's not optimal and Conrad and I started a review to introduce an effective management-wide incentive scheme. There isn't much to report on yet and I plan to update you in next year's letter at the latest, what changes we are making and why. In the meantime, we are very happy with the acceptance rate of our SAYE scheme and will offer a new opening this summer. Making team members shareholders is probably the best incentive alignment you can find and it's great to see that a large number of employees at Grafenia will also be co-owners of the business!

3. **Capital allocation (including Post Balance Sheet event)**
   We have come a long way on that one. Quite recently, the board gained enough confidence that rolling-up sign businesses is a great use of our capital. When we struck out to explore this strategy, we used internal funds and debt financing to buy a couple of sign firms and self-evaluate our performance. We were quite positively surprised by what we achieved and felt compelled to ask for more capital to deploy. Not only did this seem very reasonable from an investment perspective, but it also helped to scale our public company platform better.
   On 13 April 2018 we announced we'd conditionally raised £3.44 million by placing 29,258,331 new Ordinary Shares. These were priced at 12 pence per share. According to our plan, we should be able to deploy much of this capital over the next year or so, primarily to fund growth through acquisition and open further Nettl Business Superstores. We'll also repay and renegotiate existing debt arrangements. Investor interest did significantly exceed the amount raised. However we decided against raising more, to strike a balance between raising funds that can be deployed in an accretive way and diluting our prior shareholder base. We are big believers in staging decisions. Let's see what we can achieve with the capital raised this spring. Once we have gathered more data and experience in buying more sign businesses, it may well be prudent to ask for more capital to deploy. But first comes the work and the ball is in our court to deliver! We thank all shareholders of the Group for their trust in our work. We are well aware of the goodwill and responsibility you put in us and we are determined to make your Grafenia investment worthwhile.

Although we lead with the sale of websites and signs, print still is a big part of what we do. Here's an instore display that our Nettl partners can use to display our range.

Outlook & Current priorities

Current trading is mixed. We see very encouraging progress growing the Nettl concept and are able to add new products our partners can resell to their clients. Print revenues continue to be under pressure and are incredibly hard to predict in the short-term. Meanwhile, we continue to talk to many sign businesses and are looking at several potentially joining the Grafenia family.

As I wrote last year, a key focus area for the non-executive team is to continue to improve our internal controls, forecasting function and reporting. We've made some progress and also hired some promising new team members in our finance function. Nevertheless, we need to improve much more and the current processes do not allow for scaling the firm as we plan to. For example, our receivables collection is inefficient and needs to be much more automated. This is a solvable problem which Conrad and I have prioritised. If Grafenia is to become a larger firm, it's better we build an infrastructure we can grow into, rather than utilising what may have been sufficient for a small business.

We are hosting our AGM on Friday, July 27th in Liverpool and cordially invite you to visit us. We decided to hold this year's AGM in our new Nettl of Liverpool Waters Business Store. It's important that you as our shareholders experience first-hand what our new sign focus looks like! In addition to the formal meeting, we will have plenty of time to elaborate on the signage industry and our sign acquisition model.

Jan-Hendrik Mohr
Chairman
8 June 2018

All roads lead to Nettl.

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT

Simplify, then simplify again

From the outside looking in, it's fair to say that, over the last decade, our business has appeared confusing. When I meet with shareholders, there's often a misunderstanding of what our business actually is. It's clear that what we had been doing, was anything but clear.

If you've browsed our annual reports from previous years, it may have looked like someone with logo hayfever had sneezed over the pages. That was with the best of intentions of course. As our traditional business declined, we looked for the next big thing. And as we've tried different business models, different routes to market and different brands, we've introduced complexity to our messaging. Not everything has equal weight. Not everything has equal importance. Some of our brands are less equal than others.

One of my priorities has been to simplify our business.

That's why in my letter, I won't mention some of the names you've seen in the past. That's not to say those brands don't continue to generate revenues. Or that they aren't an important part of our sales funnels. Or that we don't value the clients from these channels. We most certainly do.

But. Focus requires clarity. And simplicity beats complexity every time.

Our drive to simplify things extends to our systems. We've invested in our platform over the years and it runs almost every part of our business. Like any large system, new users sometimes find it daunting and unwieldy.

A few of our 'Pow Wow' town hall meetings with Nettl and printing.com Brand Partners this year. We share things we're working on and listen to their ideas.

This year we've put particular emphasis on redesigning the parts our studio teams use, to make tasks faster to accomplish and easier to navigate. To remove barriers. To automate repetitive tasks. And cut processing time.

Start at the end

A couple of years ago, if you'd asked a dozen team members and partners what they thought we 'were', you'd probably get twenty four different answers. Their view of where we were headed, would be heavily influenced by their job role or immediate experience.

That had to change. How could they know if they were doing the right things, if they didn't know what our ultimate goal was? How did they know whether to pursue opportunity A or B? When to say yes and when to politely decline?

We needed a 'north star'. Something to help our teams navigate.

Last year we published our vision for the first time. We didn't want it to be some corporate fluff which we engraved onto a big stone or stuck inside a gilded frame in the lobby. It should be something clear and something referred to frequently.

At regional 'town hall' meetings, we discussed our vision with team members. We saw everyone in production, in studios and from the sign businesses, new to the family. We also shared the vision with Nettl and printing.com partners. You'll see why.

Now, we ask our teams to refer to the vision when making decisions. Does what they're considering move us towards our vision? If so, let's evaluate it. If not, it's probably a distraction and will slow us down.

At last year's AGM, our resident Nettl of Trafford Park studio-manager-cum-DJ performed a special sunrise set. But that wasn't the only excitement. We also shared our vision with the gaggle of shareholders attending.

Our vision

So here it is. The same vision we shared with our teams:

"To be the world's leading network of web, design and print studios. Known as the local place for business, where business happens. Where customer experience is our priority. Where we deliver compelling value and reliable service every time. So we are rooted in every team member's and partner's success."

You'll see that our vision puts customers and brand partners firmly at the centre. They are our focus. I'll talk later about the things we're doing to make our relationships even stickier.

To drive footfall in our Nettl of Birmingham Business Store we sell from-the-bean coffee and snacks.

Our strategy

As Jan mentions in his letter, we remain too small to be a plc. We've made material steps in scaling the business. But to remain a plc, we need to scale further. To achieve this, we'll use three methods:

Build, buy and licence.

The Grafenia holy trinity, if you like. I'll take each in turn.

Build

It's 20 years ago since we opened our first retail store. It would become the blueprint for the original printing.com model. I'm not bringing this up to reminisce with misty eyes about the good old days, when it was all just fields. I'm mentioning it because we still believe retail is very relevant. It's changed, for sure. But it continues to have a place.

We own six company stores. Four are 'first generation' Nettl web studios (London, Manchester, Dublin and Exeter). We have one second generation Business Store in Birmingham and one Superstore in Liverpool.

Stores sell websites, signage, print and display to local SMEs who need help with creative services. Our company stores are brand beacons to help develop best practice. We use them to train and attract new Nettl partners and team members. They're the purest form of the Nettl model.

We opened our 'second generation' Business Store in Birmingham in 2016. At 2,000sqft it's significantly bigger than other studios. We designed the Business Store experience with the aim of increasing footfall. That was partly achieved with both informal and formal meeting space for hire and sales of coffee. It worked. The things we learned led to the next iteration - the Nettl Business Superstore. I'll talk about that in the next section.

Total sales in our company-owned stores grew **70%** this year to **£1.59m** *(2017: £0.94m)*. Like-for-like sales were up **23%** when we exclude Nettl of Exeter (acquired in 2nd December 2017) and Nettl of Liverpool Waters which had only completed three months trading in the comparative period from 2017. Revenues from web-to-print systems are now handled by our trade and online team so are also excluded from like-for-like.

Nettl of Exeter was one of our top performing partners. As a partner, they paid us licence fees. Print was purchased at wholesale price. When they became a company studio, we no longer get licence fees. However, we benefit from the retail margin - the difference between the wholesale price and the price we sell to end clients.

In our company studios, our strategy is to grow sales and profit per person utilising the Nettl system and outbound sales activity. Performance in our studios

Clients can use our informal meeting space free. We rent out formal meeting rooms in our Business Stores. Here's the State Room at Nettl of Liverpool Waters – a nod to the docks where we're located.

has been mixed. Some studios have improved performance much more than others. We've reset some teams this year. Overall, company studios improved their gross margin and improved profitability. But we still have work to do.

Buy

We've witnessed a convergence in the graphics sector. Designers, printers, sign businesses all offer similar and competing services to SME clients. Yet we believe SMEs only want a single creative relationship. They don't want to do three lots of briefing, get three different design styles and the inevitable incoherent branding that follows.

Design usually starts with web or signage. It used to be business cards. Now those often come later. We want to be at the start of the creative relationship, no matter where a client chooses to start. Our strategy is to sell SMEs a full suite of print, promo, exhibition products and web design services.

The signs industry has been growing and riding a trend of increased 'brandification'. We like the sector. We got to know it through our investment in direct-to-fabric soft signage. That's still growing rather nicely, thanks for asking. We've extended that range to include more outdoor products too.

The sector is highly fragmented, with several thousand independent businesses. It feels like the print sector did when we started opening printing.com locations. One of the challenges we have is actually determining the size of the market. Is a printed beanbag a sign? A logo doormat? What about branded ceiling tiles? These are all products we've launched this year and probably don't fit the traditional definition of signs. One thing's for certain — the addressable market is large and is forecast to grow.

We're rolling up sign businesses for a reason: to create a national installation capability serving SMEs. Our approach has three stages.

Stage one, we acquire a profitable business. We have published our criteria, to focus our search. This is the most important step, because the leader will stay. We call them 'the remainer'. At stage two, we look for a local sign business where the leader is exiting or retiring — 'the leaver'. There seems to be plenty of businesses like these, where the owner hasn't put a succession plan in place. Finally, stage three. When the timing is right, we relocate both businesses to a larger 'trade counter' location and rebrand as a Nettl Business Store. We might move the first business earlier if the right property pops up.

We think we can make cost savings by centralising HR, legal, accounting, systems and marketing. We take the sign business' client base and extend the range of products we can sell to them. We use the Nettl system. Add the Nettl marketing sparkle. Our aim is to create a better, more joined-up client experience.

Our range of fabric displays has grown this year. Meeting booths can be used at exhibitions or to create private working and breakout spaces.

On 16 January 2017 we acquired ADD Signs. One year later, we rebranded them as Nettl of Liverpool Waters and relocated them to become our first superstore. The doors opened in April 2018. We'll let you know what we learn from our experience and client feedback. In the first full year of our ownership, sales grew over 30% on the previous year.

Following a serendipitous happenstance, we met with the owners of Image Group. We shared our vision. There was a lot of overlap in culture and what they were trying to do. IG were a lot larger than the other sign businesses we've evaluated. However, as our network grew, we planned to centralise some production. We brought forward those plans. On 14 July 2017, Image Group became part of the family. The reporting period includes eight and a half months they have been under our ownership. During this time, we've launched a range of vinyl graphics and rigid substrates, which we sell through our company studios and brand partners. Image Group currently operate from a factory a few miles from our production hub. We're evaluating options for bringing these together when the timing is right.

Right now we're looking for more sign businesses to roll-up. With the first businesses acquired, we've been able to achieve valuation multiples of 2-5x EV/EBIT. From ongoing conversations, it doesn't seem unreasonable to expect to do more deals in this range.

Licence

The final piece of our strategy is to licence. We make Nettl and printing.com available to other graphic professionals (printers, designers, signmakers). We call them our Brand Partners, because our brands are exposed to end clients. Our systems, training and marketing empowers partners to sell higher margin web projects with their existing teams' skillset and enjoy a reliable supply chain for print and signage.

The Nettl network in the UK and Ireland grew by **45%** this year. At the year end we had **157** locations in UK and Ireland *(2017: 108)* and believe the UK will support 300 or more.

Nettl partners are granted geographic exclusivity in towns, city fringes and suburbs in exchange for an initial licence fee of around £2k. These locations are usually too small to support a standalone Nettl Business Store, but by bolting-on Nettl to an existing business, we can leverage existing relationships and help partners sell more. Partners sign multi-year software as a service ("SaaS") subscription agreements. We are paid subscription fees of typically £399 per month, which provide a reliable recurring revenue stream. City centre locations may be available to selected partners who wish to fully brand a Nettl Business Store location, with a higher "Grand Nettl" subscription.

Our licence fee income grew **19%** this year to **£1.77m** *(2017: £1.49m)*. Nettl partner fees grew by **72%** from £0.44m to **£0.76m**.

We launched Nettl into The Netherlands this year. So far we have 25 partners and we're hoping to scale our network further.

We also continue to licence printing.com as a subscription model. Starting as a printing.com partner is often a stepping stone to becoming a Nettl partner. We added over 30 new printing.com partners in 2018 and at the year end we had **108** locations *(2017: 88)*. Licence income from printing.com grew to **£0.31m** *(2017: £0.22m)*.

We sell print, promotional and signage products to partners at a wholesale price. Most core product is manufactured at either our litho or sign hub, although some is outsourced. Most Nettl partners are listed as resellers on the printing.com website too. So we lump together print sales from both. As Jan mentioned, price pressure has continued to be severe. We're working harder for each print pound and wholesale prices have been declining. Despite this, total print sales to Brand Partners grew slightly to **£3.87m** *(2017: £3.76m)*. A greater percentage of print sales now come from sign and display products.

This year we changed the way we support our brand partners. Previously, the network was split geographically and support provided by regional teams. We now think it makes sense to specialise help, according to the stage of their journey, rather than their postcode. We've grouped our support team into launch, growth and catalyst cells. To focus priorities, our system calculates a Metascore for each partner - an index from 0 to 100. The Metascore is refreshed daily, to spot trends and potential threats. We look at individual performance, relative to the rest of the network. The Metascore, and underlying data, helps us determine the kind of support needed - to help them grow, or to recover from potentially difficult situations.

Licensing internationally

We believe there is demand for Nettl in other countries.

In May 2017 we began marketing Nettl in The Netherlands. We are pleased with the results so far, with **25** partners in The Netherlands and Belgium *(2017: 0)*. For legacy reasons, we are currently restricted from supplying print products into the Netherlands. This restriction ends late 2018 and we are evaluating options.

We also started looking for Nettl Partners in France in December 2017. Progress there has been slower but we at the year end we had 5 partners *(2017: 0)* and expect to add more in 2018.

Our long-term partner in New Zealand extended their master licence agreement in April 2018 for a further 18 years. We were delighted with this demonstration of confidence in the Nettl business model. We are paid a share of initial and ongoing licence fees, subject to monthly minimums.

At the same time, we also granted our New Zealand partner the rights to market Nettl in Australia. The approach there is different to the UK. However, we have adapted our platform for Australia and the search for founder partners has begun. It's our job to operate the platform and provide high level and strategic support. Our master licence partner's job is to find local Nettl partners, train and support them.

We've trained our first beta group of Nettl partners how to sell and support Search Engine Optimisation. We take care of the hard work centrally, leaving them time to win new business.

Customer subscriptions

We used the phrase "rooted" in our vision. That choice of word was deliberate. We believe we need to continue to do things which are fundamental to the ongoing success of our partners. Since our systems help make their business more efficient and our marketing helps them win orders, we try to make sure life without us is unthinkable.

As we've developed Nettl, we've tailored our product range to sell things our customers want. Customer priorities have changed over time and our offering has had to change with it.

Just before the end of the financial year, we launched a new Search Engine Optimisation (SEO) offering. Launching a customer's website is just one part of the story. They need to drive traffic to it. Some choose to do that with paid search. Some with offline marketing. Others pay people to work on making their site climb search engine rankings.

We've trained a beta group of Nettl partners how to sell and support SEO. They sign customers up to a monthly subscription. We centrally take care of optimisation, in exchange for a share of fees. We think our method is more cost effective than our partner trying to do things themselves. That makes it better value for customers. It's early days for this new initiative, but we're pleased with the results so far. As customer subscription revenues become more meaningful, we'll share them with you.

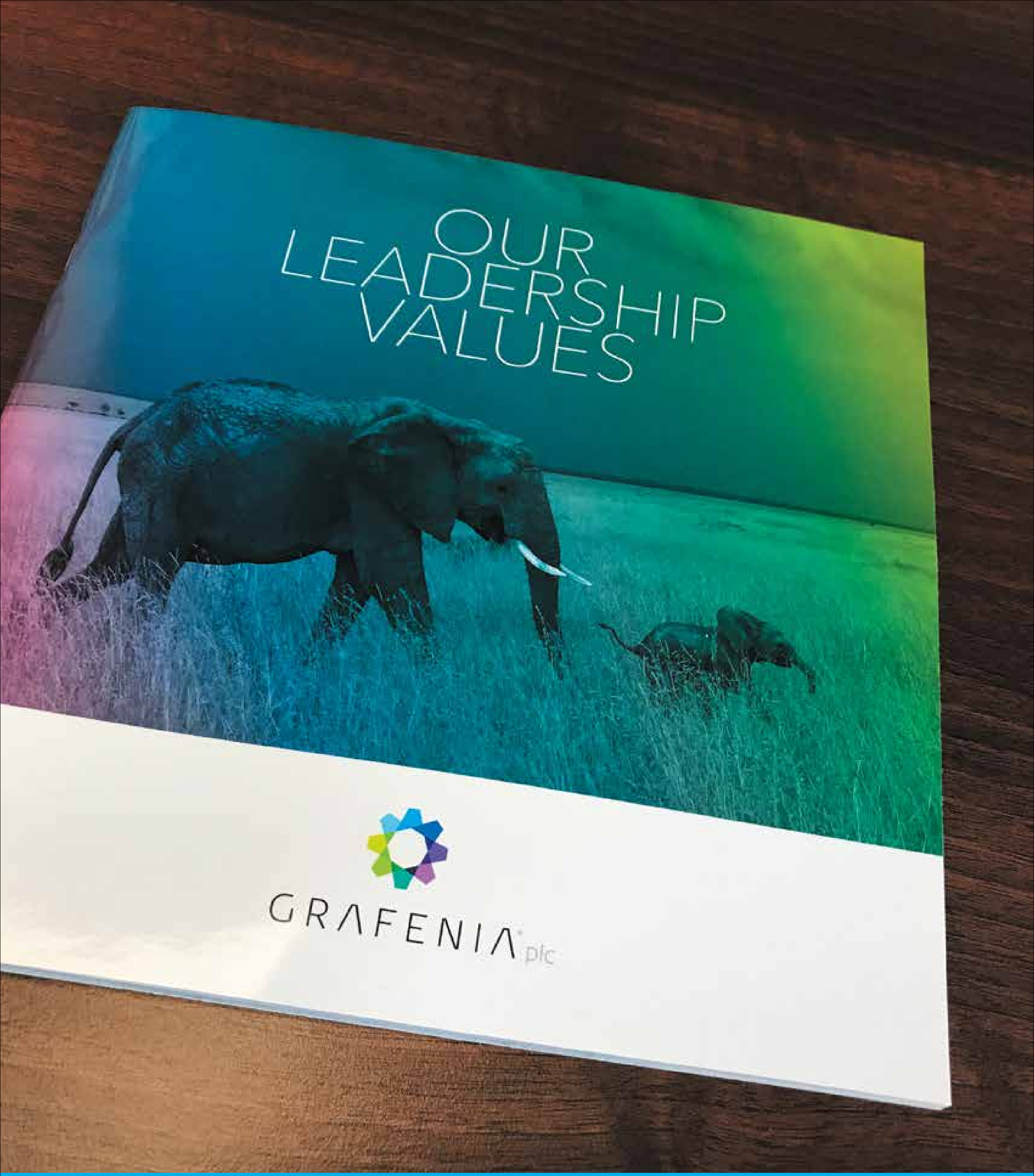
Leadership values

Finally, I mentioned in the interim report that we'd made changes to our sales and support team structures. We focused the leaders into more specialist roles, to make them more accountable and less distracted in trying to do part of everything.

I want to touch on a further cultural change we've made. As we've grown and brought more people into the Grafenia family, it occurred to us that we've never really written down how we expect our leaders to behave. Sure, we've got disciplinary processes like everyone else. But we never told our people how we'd like them to act. The stuff they do that gets them promoted. And the stuff that makes us raise our eyebrows.

In the summer last year we published our first Leadership Values book. It's nineteen short paragraphs. Nineteen things we look for and measure people on. And nineteen things we ask them hold others to account over. Their peers, their colleagues and their leaders.

I hope we'll see you at our AGM where you can have good look round the new Nettl of Liverpool Waters Superstore. You might have already seen photos. But they really don't convey the feeling of being there.



This year we published our Leadership Values book for the first time. Inside are nineteen traits we look for and evaluate our teams on.

After the formalities, our team will share some more detail on things we've been doing. And you'll be able to take away some swag, including your own copy of our Leadership Values book. Because there's nothing like the smell of print in the morning (well, apart from websites and signs of course).

Until then,

Peter Gunning
Chief Executive
8 June 2018

It's now possible to brand just about every surface. We launched printed suspended ceiling tiles this year, to complement printed wall paper and changeable fabric printed wall boxes.

STRATEGIC REPORT

FINANCIAL REVIEW

Alan Q Roberts
Finance Director

Revenue

The year under review showed welcome growth in revenue and gross profit, driven through the acquisition of Image Group and increases in Subscriptions and Licence Fees. Group Revenues increased by **40%** to **£14.63m** *(2017: £10.45m)*. Revenues from the Eurozone were 3% of the total *(2017: 4%)* as disclosed in the Segmental Analysis in note 3. However, overall our losses increased for a number of reasons, which I will detail.

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 increased by **27%** to **£8.34m** *(2017: £6.59m).*

There has been a continued decline in traditional print volumes. Most of our raw materials are sourced from Europe. Our biggest material cost is paper. As long-term tenders ended, we were unable to avoid industry-wide cost increases.

Despite increasing pressure on our costs, we have been unable to increase print prices. Competition remains fierce and market prices have actually fallen further during the year. As a result, our gross margin percentage as a percentage decreased from 63% to **57%**. This change is also partly due to the acquisition of sign businesses, which have different margin characteristics to our traditional business.

We were also directly affected by the well-publicised cyber attack on TNT, our main carrier at the time. Our contingency plans worked and we were able to minimise disruption to our clients, by switching to an alternate courier for time-sensitive consignments. However, as the event was classed as force majeure, we were not able to recover the higher costs we incurred.

Other costs

We have invested in acquiring brand partners in the UK and Nettl in the Netherlands. All of these costs are front-loaded and we incur them before we see a return through subscription income. Resource was also put into improving company owned studio performance.

The acquisition of Image Group was achieved with debt finance, specifically vendor loan notes, asset finance and invoice financing. The debt generated additional finance interest costs. Post balance sheet, the share placing has enabled the debt position to be addressed and resources to be put in place to support the Group's development and signs business roll up strategy.

Adjusted EBITDA before exceptional gain

The year showed a decrease in EBITDA, which is operating loss before interest, tax, depreciation and amortisation and exceptional gain, to **£0.67m** *(2017: £0.76m)* representing a margin of **5%** *(2017: 7%)* to turnover. EBITDA represents an indicator of the Group's potential to generate cash.

Exceptional Gain

The gain realised on the sale and leaseback of certain assets to assist in the financing of the Image acquisition is being released over the term of the lease arrangements with **£0.1m** being released since July and a balance of **£0.27m** being deferred.

Interest Received and Charged

Interest received in the period was negligible. Interest charged increased to **£0.14m** *(2017: £0.02m)* from lease agreements and interest due on loan notes.

Pre-Tax Loss

The Group recorded a pre-tax loss of **£1.24m** *(2017: £0.99m)* being **8%** *(2017: 9%)* of Group revenue.

Staff costs increased in the year to **£4.58m** *(2017: £3.71m)*, falling as a percentage of revenue to **31%** from 36%. The depreciation and amortisation charge for the year was **£1.87m** *(2017: £1.75m)*. The amortisation of software development was **73%** of the total *(2017: 76%)* with write-off over 3 years.

Taxation

As in the prior year the Group gained Research & Development Relief and have accrued for the current year claim which contributed to a Tax income of **£0.29m** *(2017: £0.36m)*.

Earnings Per Share (EPS)

There is no dilution of continuing loss per share (EPS) in either year **2.07p** *(2017: 1.37p)*, based on a weighted average number of shares in issue of **45,638,192** *(2017: 45,500,884)*.

Cash Flow

At the year end the Group had cash balances of **£0.17m** *(2017: £0.52m)*. Net Debt was **£3.04m** with **£1.27m** of asset finance, **£0.84m** of vendor loan notes and **£0.93m** of net borrowings *(Net Funds 2017: £0.21m)*. Operational cash generated after movements in working capital was **£0.94m** *(2017: £0.84m)*.

Post Balance Sheet Event

As mentioned in our Chairman's statement on 13 April 2018, the Company announced it had conditionally raised approximately £3.5 million (before expenses) by way of a placing of 29,258,331 New Ordinary Shares, at a price of 12.00 pence per ordinary share, with certain new and existing investors. These funds were received on 3 May and will enable the Company to fund growth through acquisition, to open further Nettl Business Superstores and to repay and renegotiate existing debt arrangements.

Capital Expenditure

Capital expenditure excluding the Image Group acquisition was **£1.09m** *(2017: £0.89m)*. Capital expenditure reflected investment in the development of the Group's systems the major item being software for Nettl and the Group's SaaS platforms totalling **£0.73m** *(2017: £0.77m)*.

Manufacturing capacity at the Manchester Hub has capacity to support growth without any major expenditure. Systems and processes are continually improved incurring ongoing investment on software development and enhancement to support our Partners and business streams.

Treasury Shares

In February 2018 the Company sold the 2,150,000 shares it had held in Treasury, to support our acquisition strategy. Shares had been repurchased over time, at an average price of 12.10 pence. They were sold at 11.50 pence, raising £247,250 and resulting in a loss of £13,000.

Principal Risks and Uncertainties

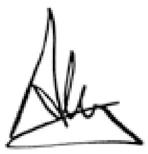
The following are some of the principal risks relating to the Group's operations:

- 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 ongoing operations. The Board anticipate cash balances will rise moving forward.

The Board has developed a model to establish a fair value for the Company's shares and will only purchase shares when the offer price is materially below that value and funds are available. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes, see Note 16.



Alan Q. Roberts
Finance Director
8 June 2018

DIRECTORS

Jan Mohr
Chairman

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 29.

Peter Gunning
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 42.

Alan Q Roberts
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 62.

Gavin Cockerill
Chief Operating Officer

After graduating from Birmingham City University in 2000 and following a short stint in advertising, Gavin helped launch and grow the printing.com studio in Birmingham. Since joining the Group he has been involved in progressing the Nettl and printing.com business models across the UK and it's numerous master licenses globally. Moving to Manchester in 2012 he launched and developed the group's TemplateCloud and Flyerzone offerings.

Gavin joined the Group in 2000 and was appointed COO in October 2015. Age 39.

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 49.

Richard Lightfoot

Company Secretary

Richard graduated from Manchester Metropolitan University in 1998 with a First Class honours degree in Business Studies. He subsequently worked for a Corporate Finance advisory firm assisting on mergers & acquisitions and venture capital fund raisings. Since joining the Group in 2004 he has performed a number of roles supporting the board in implementing strategic initiatives.

Richard was appointed Company Secretary in October 2015. Age 46.

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 2018. The Directors have proposed that no final dividend will be paid *(2017: nil)*.

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 in the UK and worldwide. Once defined the tasks become Projects with the delivery managed through third party programmers and the small team 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 revenue.
- 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 three years commencing in the year when the Group begins to benefit from the expenditure.

FINANCIAL INSTRUMENTS

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. See Note 16.

DIRECTORS

The following Directors have held office since 1 April 2017:

J-H Mohr	Non-executive Chairman
C C Bona	Non-executive Director
P R Gunning	Chief Executive Officer
A Q Roberts	Finance Director
G G Cockerill	Chief Operating Officer – appointed 23 January 2018
R A Lightfoot	Director and Company Secretary – appointed 23 January 2018
P Begun	Non-executive Director – resigned 28 July 2017

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

G G Cockerill and R A Lightfoot retire by rotation in accordance with the Company's Articles of Association both 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 39 to 41.

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 it'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 continually refined 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

As the Group is AIM listed it is not required to comply with the Combined Code. However, 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 2018:

Registered holding	Number of shares	% of issued share capital
Langfristige Investoren TGV	**21,705,333**	**28.26%**
Frank Fischer	**15,833,333**	**20.61%**
Scherzer & Co SA	**5,675,500**	**7.39%**
Axion SA	**5,000,000**	**6.51%**
Stefan Winterling	**4,205,000**	**5.47%**

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Friday 27 July 2018 in Liverpool at the Company's new Nettl of Liverpool Waters Business Store, Canada Dock Exchange, 7 Junction Road, Liverpool L20 8AF. 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.

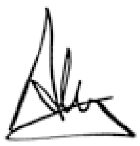
DISCLOSURE OF INFORMATION TO THE AUDITOR

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.

AUDITOR

RSM UK Audit 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 2018

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 Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 the company and of the profit or loss of the group for that period. In preparing each of the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Grafenia plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

A Q Roberts
Director
8 June 2018

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION REPORT

As a company listed on AIM the Company is exempt from the S420 obligation of the Companies Act 2006 to prepare a Directors' Remuneration Report and the S439 obligation to put a written remuneration policy to a shareholder vote once every three years.

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 Jan Mohr and Conrad Bona who are Non-executive Directors, Jan Mohr 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;
- Pension arrangements.

BASIC ANNUAL 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 2018.

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, except for the Chief Executive who has a twelve month notice period. There are no specific 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' contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION

Year ended 31 March 2018:

	Basic salary £	**Fees £**	**Benefits £**	**Bonuses £**	**Pension £**	**2018 Total £**
J-H Mohr	**-**	**14,942**	**-**	**-**	**-**	**14,942**
C C Bona	**-**	**14,942**	**-**	**-**	**218**	**15,160**
P R Gunning	**169,595**	**-**	**841**	**-**	**15,525**	**185,961**
A Q Roberts	**84,524**	**-**	**21,725**	**-**	**9,736**	**115,985**
G G Cockerill (since appointment)	**17,407**	**-**	**73**	**-**	**227**	**17,707**
R A Lightfoot (since appointment)	**13,946**	**-**	**216**	**-**	**207**	**14,369**
P Begun (resigned 8th July 2017)	**-**	**4,903**	**-**	**-**	**-**	**4,903**
	285,472	**34,787**	**22,855**	**-**	**25,913**	**369,027**

Year ended 31 March 2017:

	Basic salary £	Fees £	Benefits £	Bonuses £	Pension £	2017 Total £
J-H Mohr	-	20,077	-	-	-	20,077
P Begun	-	20,077	-	-	-	20,077
C C Bona	-	20,077	-	-	200	20,277
P R Gunning	170,905	-	745	20,000	15,525	207,175
A Q Roberts	85,178	-	21,202	-	9,336	115,716
L A Wheatley (resigned 15th August 2016)	-	18,692	-	-	188	18,880
	256,083	78,923	21,947	20,000	25,249	402,202

DIRECTORS' INTERESTS

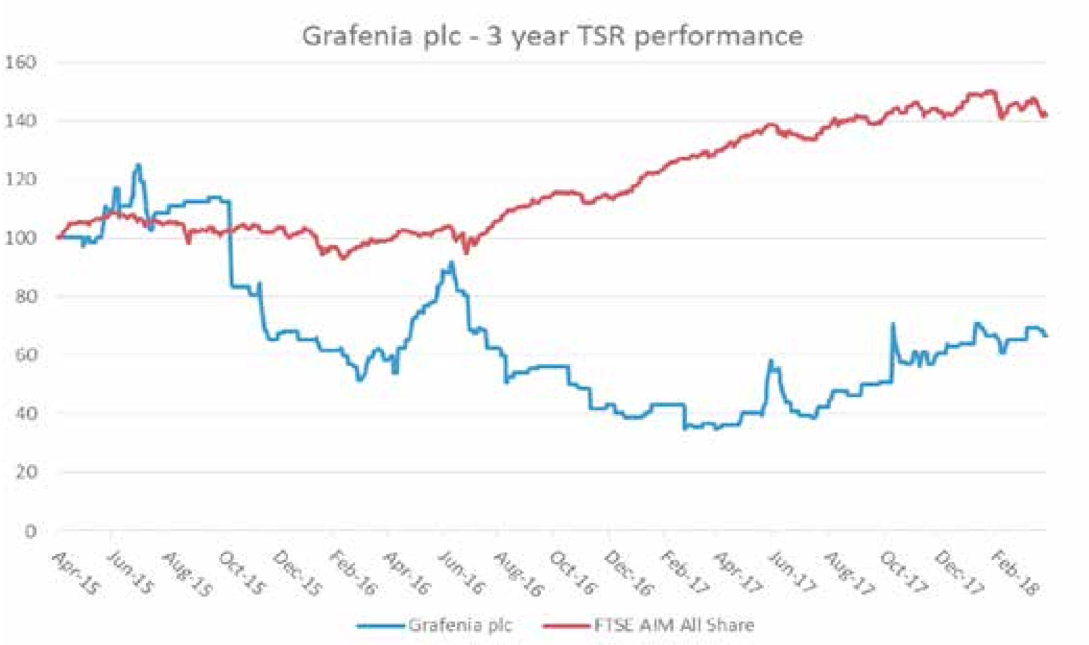
At 31 March 2018, the Directors had the following beneficial interests in the Company's shares.

	Ordinary shares of 1p each	
	31 March 2018	31 March 2017
J-H Mohr	**-**	-
C C Bona	**540,000**	450,000
P R Gunning	**1,250,000**	1,000,000
A Q Roberts	**500,000**	500,000
G G Cockerill	**4,874**	-
R A Lightfoot	**75,000**	-
P Begun	**N/A**	2,740,000

On the 13 April 2018 the Company issued 29,258,331 ordinary shares, Conrad Bona participated and increased his holding to 865,000 shares Peter Gunning also increased his holding to 1,625,000 shares. No Directors, or other family members, had any interests in the deferred share capital of the Company.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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 2018 was 12.00 pence *(2017: 6.38 pence*). The range during 2018 was 6.50 pence to 12.75 pence. At the close of business on Friday 8th June, the price was 14.75 pence.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAFENIA PLC

We have audited the financial statements of Grafenia Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, consolidated and company statements of changes in equity, consolidated and company statements of financial position, consolidated and company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 31 March 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ACQUISITION OF IMAGE EVERYTHING LIMITED

(Refer to the accounting policy on page 50 in respect of the basis of consolidation, the accounting policy on page 53 in respect of business combinations and investments, note 2 in respect of acquisitions in the current period and note 10 in respect of intangible assets and investments).

THE RISK

On 14 July 2017 the Group acquired Image Everything Limited. There is a risk that the business combination was incorrectly accounted for due to the valuation and accounting treatment of the components of consideration and the valuation of the identifiable intangible assets.

OUR RESPONSE

The calculation of the consideration was reviewed against the share purchase agreement, the cash payments, the issue of vendor loan notes and management's valuation of the deferred contingent consideration.

The valuation of separately identifiable intangible assets arising on the acquisition was tested through a review of management's calculations of the net present value of each intangible asset category. The projected cashflows were compared to approved budgets to confirm they were consistent and to confirm they were in line with our understanding of the business. The discount factor used was compared to the cost of debt and equity for the group to ensure it was reasonable. The models' key inputs and assumptions were reviewed by in-house valuation specialists and sensitised in order to assess the validity of the valuations.

RECOVERABILITY OF TRADE RECEIVABLES

(Refer to accounting policy on page 51 regarding calculation of recoverable amount, accounting policy on page 52 regarding trade and other receivables, the accounting policy on page 53 regarding recoverability of receivables, note 10 regarding trade and other receivables and the credit risk section of note 16 regarding financial instruments).

THE RISK

The group trades with a wide variety of customers in terms of their size and nature of trade. Management's assessment of the recoverability of debts with their customers is inherently judgemental. There is a risk that the impairment provision and trade receivables are materially misstated.

OUR RESPONSE

The impairment provision was reviewed through a combination of substantive analytical review and tests of detail. The methodology utilised by management to calculate the provision was reviewed and the cash received after the year end was checked. Management's judgements over the quantum of the impairment provision were then challenged.

VALUATION OF INTANGIBLE ASSETS

(Refer to the accounting policy on page 53 in respect of 'Intangibles – capitalisation of software and development costs', the accounting policy on page 51 in respect of impairment of assets and note 9 in respect of intangible assets and investments).

THE RISK

The group holds significant intangible assets including domains and brand, software, development costs, customer lists and goodwill. There is a risk that the amounts capitalised are materially misstated because the requirements for capitalisation have not been met, the amounts capitalised are revenue in nature or they are impaired.

OUR APPROACH

Management's methodology and controls over the capitalisation of software and development costs were reviewed. The capitalisation criteria of IAS38 were considered against management documentation, our understanding of the business and discussions with relevant key individuals.

Management's impairment review of intangible assets was obtained and reviewed. The net present value calculations were sensitised and the presumed cash flows compared to budget information to ensure this was consistent with our understanding of the business and its strategic plans for the intangible assets under scrutiny.

OUR APPLICATION OF MATERIALITY

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £147,500, which raised to £164,000 following amendment to the financial statements. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £3,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Grafenia Plc, Grafenia Operations Limited and Image Everything Limited were subject of full scope audit procedures for group and statutory purposes. The financial information of ADD Signs Limited and Grafenia France s.a.r.l. included in the consolidated financial statements were subject to full scope audit procedures using component materiality. We did not rely on the work of any component auditors. As part of our planning we assessed the risk of material misstatement including those that required significant auditor consideration at the component and group level. Procedures were then performed to address the risk identified and for the most significant assessed risks the procedures performed are outlined above in the key audit matters section of this report.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

USE OF OUR REPORT

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. 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 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.

RSM UK Audit LLP

JONATHAN LOWE (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF
8 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018	*Note*	**2018**	2017
Continuing Operations		**£000**	£000
Revenue	3	**14,630**	10,445
Raw materials and consumables used		**(6,293)**	(3,860)
Gross profit		**8,337**	6,585
Staff costs	5	**(4,577)**	(3,716)
Other operating charges		**(3,071)**	(2,049)
Restructuring costs		**(20)**	(57)
Adjusted EBITDA		**669**	763
Depreciation and amortisation		**(1,874)**	(1,746)
Exceptional gain	8	**102**	-
Operating loss		**(1,103)**	(983)
Financial income		**1**	17
Financial expenses		**(138)**	(21)
Net financing expense		**(137)**	(4)
Loss before tax	4	**(1,240)**	(987)
Tax income	6	**294**	362
Loss for the year		**(946)**	(625)
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(946)**	(625)
EPS – Continuing Operations	15	**(2.07)p**	(1.37)p

(1) Earnings per share suffers no dilution

The notes on pages 50 to 72 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONSOLIDATED AND COMPANY

GROUP – YEAR ENDED 31 MARCH 2017

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance at 31 March 2016	475	838	(237)	4,186	5,262
Loss and total comprehensive income for the year		-	-	(625)	(625)
Own shares acquired		-	(24)	-	(24)
Total movement in equity		-	(24)	(625)	(649)
Balance at 31 March 2017	475	838	(261)	3,561	4,613

GROUP – YEAR ENDED 31 MARCH 2018

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Loss and total comprehensive income for the year		**-**	**-**	**(946)**	**(946)**
Own shares sold		**-**	**261**	**(13)**	**248**
Exchange differences		-	-	**70**	**70**
Total movement in equity		**-**	**261**	**(889)**	**(628)**
Balance at 31 March 2018	**475**	**838**	**-**	**2,672**	**3,985**

COMPANY - YEAR ENDED 31 MARCH 2017

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance 31 March 2016	475	627	(237)	4,670	5,535
Profit and total comprehensive income for the year		-	-	54	54
Own shares acquired		-	(24)	-	(24)
Total movement in equity		-	(24)	54	30
Balance at 31 March 2017	475	627	(261)	4,724	5,565

COMPANY – YEAR ENDED 31 MARCH 2018

	Share Capital £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Loss and total comprehensive income for the year		**-**	**-**	**(224)**	**(224)**
Own shares acquired		**-**	**261**	**(13)**	**248**
Total movement in equity		**-**	**261**	**(237)**	**24**
Balance at 31 March 2018	**475**	**627**	**-**	**4,487**	**5,589**

The notes on pages 50 to 72 form part of these financial statements.

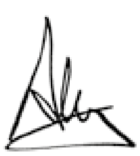
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2018

	Note	**Group 2018 £000**	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Non-current assets					
Property, plant and equipment	8	**2,076**	1,333	**-**	-
Investments in subsidiaries	9	**-**	-	**3,242**	637
Intangible assets	9	**4,808**	2,305	**-**	-
Other receivables	10	**-**	50	**-**	-
Total non-current assets		**6,884**	3,688	**3,242**	637
Current assets					
Inventories	1	**450**	369	**-**	-
Trade and other receivables	10	**3,295**	2,386	**3,628**	4,983
Current tax repayable	10	**111**	138	**-**	-
Cash and cash equivalents	11	**171**	524	**-**	1
Total current assets		**4,027**	3,417	**3,628**	4,984
Total assets		**10,911**	7,105	**6,870**	5,621
Current liabilities					
Other borrowings	12	**(2009)**	(83)	**(600)**	-
Trade and other payables	13	**(1,437)**	(1,370)	**(26)**	(20)
Accruals and deferred income	13	**(983)**	(389)	**(52)**	(36)
Other liabilities	13	**(504)**	(118)	**-**	-
Total current liabilities		**(4,933)**	(1,960)	**(678)**	(56)
Non-current liabilities					
Other borrowings	12	**(1,055)**	(216)	**(245)**	-
Provisions	12	**(358)**	-	**(358)**	-
Deferred tax liabilities	7	**(580)**	(316)	**-**	-
Total non-current liabilities		**(1,993)**	(532)	**(603)**	-
Total liabilities		**(6,926)**	(2,492)	**(1,281)**	(56)
Net assets		**3,985**	4,613	**5,589**	5,565
Equity attributable to equity holders of the parent					
Share capital	15	**475**	475	**475**	475
Merger reserve		**838**	838	**627**	627
Treasury shares		**-**	(261)	**-**	(261)
Retained earnings		**2,672**	3,561	**4,487**	4,724
Total equity		**3,985**	4,613	**5,589**	5,565

The notes on pages 50 to 72 form part of these financial statements.

These financial statements were approved by the board of directors on 8 June 2018 and were signed on its behalf by:



A Q ROBERTS
Director

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 MARCH 2018

	Note	**Group 2018 £000**	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Cash flows from operating activities					
(Loss)/Profit for the year		**(946)**	(625)	**(224)**	54
Adjustments for:					
Depreciation, amortisation and impairment (continuing operations)		**1,874**	1,746	**-**	-
(Surplus) on sale of plant and equipment	8	**(102)**	-	**-**	-
Net finance expense		**137**	4	**36**	11
Foreign exchange gains/(loss)		**-**	14	**(4)**	(11)
Tax income		**(294)**	(362)	-	-
Operating cash flow before changes in working capital and provisions		**669**	777	**(192)**	54
Change in trade and other receivables		**(882)**	235	**1,355**	13
Change in inventories		**(81)**	(45)	**-**	-
Change in trade and other payables		**1,528**	(361)	**10**	21
Cash generated from Operations		**1,234**	606	**1,173**	88
Interest paid		**(138)**	(21)	**-**	-
Income tax received /(paid)		**(3)**	259	**-**	-
Net cash inflow from operating activities		**1,093**	844	**1,173**	88
Cash flows from investing activities					
Interest received		**-**	3	**-**	-
Proceeds from sale of plant and equipment		**900**	-	**-**	-
Acquisition of plant and equipment	8	**(1,136)**	(119)	**-**	-
Capitalised development expenditure	9	**(424)**	(442)	**-**	-
Acquisition of other intangible assets	9	**(430)**	(327)		-
Acquisition of Subsidiary net of cash		**(1,000)**	(26)	**(1,420)**	(63)
Overdraft purchased on acquisition		**(38)**	-	**-**	-
Net cash (used in) investing activities		**(2,128)**	(911)	**(1,420)**	(63)
Cash flows from financing activities					
Funding from invoice finance		**1,098**	-	**-**	-
Payment of loan notes		**(258)**	-	**-**	-
Sale/(Purchase) of own shares		**246**	(24)	**246**	(24)
Payment of finance leases		**(404)**	(69)	**-**	-
Net cash generated from/(used in) financing activities		**682**	(93)	**246**	(24)
Net decrease in cash and cash equivalents		**(353)**	(160)	**(1)**	1
Exchange loss on cash and cash equivalents		**-**	(2)	**-**	-
Cash and cash equivalents at start of year		**524**	686	**1**	-
Cash and cash equivalents at 31 March 2018	11	**171**	524	**-**	1

The notes on pages 50 to 72 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 public 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"), and are presented in sterling. The parent company financial statements present information about the Company as a separate entity and not about its Group.

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 2018.

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. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. 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.

GOING CONCERN

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 13 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 29 to 32. In addition, note 17 to the financial statements includes details of the Group's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Following the acquisition of Image the Group put in place an Invoice Finance facility to fund working capital. Subsequently and in light of the Group's signs rollup strategy the Board decided to seek Shareholder support and raised £3.5m through a placing in April following the yearend. Consequently the Group now has the focus and financial resources to grow. 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 and invoice financing through it's bank. Accordingly the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

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.

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 £429,000 *(2017: £366,000)* and work in progress of £21,000 *(2017: £3,000)*.

INTEREST BEARING BORROWINGS

Interest bearing borrowings are recognised initially at fair value less any attributable transaction costs. Subsequent to 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. Where a gain has been made on a sale and leaseback contract, the gain is deferred and released to the statement of comprehensive income over the life of the lease.

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.

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, which are charged to administration expenses in the income statement.

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 consider that the Group's key differentiators stem from its proprietary software, operationally W3P and that developed to support Brand Partners Nettl and printing.com, Marqetspace, 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 Board exercises judgement in determining the costs to be capitalised and will use estimates to determine the useful economic life to be applied typically 3 years or whilst the asset in question remains in use. Acquired intangibles have been identified as the customer base and brand, the valuation is based upon future discounted cash flows and expectations for the business. Further, the Board will use estimates of future incremental cash flows in assessing the carrying value of intangible assets.

- **Recoverability of receivables**
  The Group reviews outstanding loan balances and overdue trade debtors on a regular basis and makes 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 and introduces an expected credit loss model for impairment. The Group are considering the implications of the new impairment model on the financial statements which may lead to a change in the level of provision for credit losses.

- IFRS 15 – Revenue from contracts with customers – effective for periods starting on or after 1 January 2018 will replace IAS 18 'Revenue' for accounting periods commencing on or after 1 January 2018. For the Group the effective date is the financial year commencing 1 April 2018.

  The core principle of the standard is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to a customer.

  To apply this principle, entities must follow the five-step model below:

  1. Identify the contract(s) with a customer written, oral or implied by an entity's customary business practices.

  2. Identify the performance obligations in the contract(s) and evaluate the terms in the contract to identify all the promised goods or services and then determine which of these will be treated as separate performance obligations.

  3. Determine the transaction price – the amount that an entity expects to be entitled to in exchange for transferring goods or services to a customer.

  4. Allocate the transaction price to the performance obligations.

  5. Recognise revenue when the entity satisfies each performance – when control of a promised good or service transfers to the customer.

We are undertaking a review of the implications and impact of IFRS 15 'Revenue from Contracts with Customers' through careful consideration of each type of customer contract that occur across the Group. Licence income is expected be recognised over time, with product supply recognised at the date of delivery. New contracts being entered into, particularly for new markets, may be more complex and require careful consideration. The nature of contracts will be regularly reviewed in future periods. Full disclosure will be reported in the September 2018 interim statement.

The Group are also considering IFRS 16 'Leases' for the implications on the financial statements for periods starting on or after 1 January 2019, which will lead to operating leases being capitalised on the balance sheet with accumulated depreciation and finance costs impacting the income statement rather than the current rental cost.

The Directors do not believe that the other standards above will have a material impact on the financial statements.

2. ACQUISITIONS OF SUBSIDIARIES

Acquisitions in the current period

On 14 July 2017, the Company acquired all of the ordinary shares in Image Everything Limited (Image Group) for a consideration of £2.61m, satisfied in cash, vendor loan notes and deferred contingent consideration. The company is a leading large format sign manufacturer and exhibition contractor.

The acquisition of Image, given its size, is a significant further step in our sign roll-up strategy. It enables us to scale our business more quickly through extending the range of signage services we sell through our Nettl and printing.com networks. We want to help clients fulfil more of their display, exhibition and signage needs.

In the nine months to the period end the subsidiary contributed an operating profit of £369,000 to the consolidated result for the year. If the acquisition had occurred on 1st April 2017 Group revenue would have been £1,330,000 higher. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of accounting period.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Book and Fair values on acquisition £000	Intangibles acquired £000	Total assets and liabilities £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	**324**	**-**	**324**
Intangible assets	**-**	**3,119**	**3,119**
Inventories	**70**	**-**	**70**
Trade and other receivables	**718**	**-**	**718**
Cash and cash equivalents	**(38)**	**-**	**(38)**
Interest-bearing loans and borrowings	**(289)**	**-**	**(289)**
Trade and other payables	**(779)**	**-**	**(779)**
Deferred tax	**-**	**(530)**	**(530)**
Net identifiable assets and liabilities	**6**	**2,589**	**2,595**
Goodwill			**16**
Consideration paid:			
Initial cash price paid			**1,150**
Vendor Loan Notes			**1,103**
Deferred consideration at fair value			**358**
Total consideration			**2,611**

Intangibles acquired include the Customer Base and Brand Recognition arising on the acquisition and recognising the value placed upon acquired customer revenues, those Intangibles result in a Deferred Tax charge.

The initial consideration, paid on completion, comprises cash of £1.15m, together with vendor loan notes of £1.17m (together the "Initial Consideration"). Vendor loan notes were subject to warranty claims and are now valued at £1.10m. A maximum contingent amount of £0.6m consideration is payable if certain targets are met relating to the future financial performance of Image (the "Earn-out"), of which the full amount is expected to be payable. Of this, £0.36m has been treated as consideration.

3. 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 and signage, 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.

- Revenue in respect of brand licence fees for printing.com and Nettl and other licence clients 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 and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service now states Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. 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.

ANALYSIS BY LOCATION OF SALES	UK & Ireland £000	Europe £000	Other £000	Total £000
Period ended 31 March 2018				
Segment revenues	**13,791**	**489**	**350**	**14,630**
Period ended 31 March 2017				
Segment revenues	9,634	430	380	10,444

Of the Group revenue of £14,630,000, £13,791,000 was generated in the UK *(2017: £9,634,000)*. Revenue generated outside the UK is primarily attributable to partners in France, New Zealand, Australia, Poland and the USA. No single customer provided the Group with over 10% of its revenue.

In UK&IE Licence Fees BrandPartners, Nettl and printing.com, amounted to £1.07m *(2017: £0.73m)*. Master Licensees were £0.56m *(2017: £0.53m)*. Company Studios achieved Website sales of £0.16m *(2017: £0.15m)*.

Of the Group's non-current assets (excluding deferred tax) of £6,884,000, £6,836,000 are located in the UK. Non-current assets located outside the UK are in France £8,000 *(2017: £12,000)* and the Republic of Ireland £40,000 *(2017: £49,000)*.

ANALYSIS BY TYPE	Licence Fees	Company Studios	Brand Partner Print	Signs	Online & Trade	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Period ended 31 March 2018						
Segment revenues	**1,773**	**1,594**	**3,870**	**4,000**	**3,393**	**14,630**
Period ended 31 March 2017						
Segment revenues	1,488	940	3,762	-	4,254	10,444

4. LOSS BEFORE TAXATION

Included in profit are the following:

	2018 £000	2017 £000
Operating lease rentals	**463**	256
Amortisation of intangible assets	**1,486**	1,409
Depreciation	**388**	336
Gain on foreign currency transactions	**-**	(14)

Auditors' remuneration

	2018 £000	2017 £000
Audit of these financial statements	**24**	18
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**26**	24
Tax compliance services	**11**	11
Other tax advisory services	**12**	12
Review of interim financial statements	**6**	8
Other assurance services	**2**	2

The 2018 Auditors' remuneration for statutory audit services are to be paid to RSM UK Audit LLP and non-audit services relate solely to amounts paid to RSM UK Tax and Accounting Limited, in the prior year 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.

5. STAFF NUMBERS AND COSTS

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

Number of employees	**Group 2018**	Group 2017	**Company 2018**	Company 2017
Administration	**37**	14	**2**	3
Sales and distribution	**61**	50	**-**	-
Production	**81**	56	**-**	-
	179	120	**2**	3

5. STAFF NUMBERS AND COSTS (CONTINUED)

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 2018 £79,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2017: £56,000).* As at 31 March 2018 £5,000 *(2017: £3,000)* contributions were outstanding on the balance sheet.

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

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Wages and salaries	**3,992**	3,275	**35**	79
Social security costs	**506**	385	**1**	3
Other pension costs	**79**	56	-	-
	4,577	3,716	**36**	82

KEY MANAGEMENT COMPENSATION:

	2018 £000	2017 £000
Key managements' emoluments	**285**	278
Company contributions to money purchase pension plans	**26**	25
	311	303

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 40 where details of fees and benefits can be found. National Insurance contributions of £36,000 were paid on Directors remuneration.

The aggregate of emoluments for the highest paid Director was £170,000 *(2017: £192,000)*, and Company pension contributions of £16,000 *(2017: £16,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes 5 *(2017: 2).*

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

	2018 £000	2017 £000
Current tax expense		
Current year	**-**	(123)
Foreign tax	**8**	7
Adjustments for prior years	**(40)**	(50)
	(32)	(166)
Deferred tax expense		
Origination and reversal of temporary differences (see note 8)	**(264)**	(132)
Movement due to change in rate of tax	-	(26)
Adjustment in respect of prior year	**2**	(38)
Total tax in income statement	**(294)**	(362)

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 lower *(2017: lower)* than the standard rate of corporation tax in the UK of 20% *(2017: 20%)*. The differences are explained below:

	2018 £000	2017 £000
Loss on continuing operations	**(1,240)**	(987)
Profit on discontinued operations		-
Loss for the period	**(1,240)**	(987)
Tax using the UK corporation tax rate of 19% *(2017:19%)*	**(247)**	(197)
Effects of:		
Permanent differences	**75**	13
Other tax adjustments, reliefs and transfers	**(6)**	-
Adjustments in respect of prior periods – current tax	**(40)**	(50)
Adjustments in respect of prior periods – deferred tax	**2**	(38)
Withholding tax	**8**	9
R&D losses surrendered	**-**	46
R&D super deduction	**(117)**	(143)
Movement due to the change in the tax rate	**31**	(9)
Total tax repayment	**(294)**	(362)

The Group Tax Debtor amounts to £101,000 *(2017 Debtor: £138,000)*. The deferred tax liabilities as at 31 March 2018 have been calculated using the tax rate of 17% 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 2018 £000	Assets 2017 £000	**Liabilities 2018 £000**	Liabilities 2017 £000
Property, plant and equipment	**-**	-	**49**	313
Intangible assets	**-**	-	**531**	3
Tax liabilities	**-**	-	**580**	316

Movement in deferred tax during the year.	**31 March 2017 £000**	**Adjustment for prior years £000**	**Recognised in income £000**	**Recognised in income due to tax rate change £000**	**31 March 2018 £000**
Property, plant and equipment	**313**	**-**	**(264)**	**-**	**49**
Intangible assets	**3**	**530**	**(2)**	**-**	**531**
	316	**530**	**(266)**	**-**	**580**

Movement in deferred tax during the year.	1 April 2016 £000	Adjustment for prior years £000	Recognised in income £000	Recognised in income due to tax rate change £000	31 March 2017 £000
Property, plant and equipment	507	(38)	(130)	(26)	313
Intangible assets	5	-	(2)	-	3
	512	(38)	(132)	(26)	316

Company

The Company had no deferred tax assets or liabilities as at 31 March 2018 *(2017: £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.

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
Balance at 31 March 2016	576	6,714	59	798	8,147
Additions	-	25	-	94	119
Acquisition of subsidiary	-	62	27	4	93
Disposals	-	-	-	(46)	(46)
Effect of movements in foreign exchange	-	-	-	3	3
Balance at 31 March 2017	576	6,801	86	853	8,316
Balance at 31 March 2017	576	6,801	86	853	8,316
Additions	-	927	-	209	1,136
Acquisition of subsidiary	-	282	2	40	324
Disposals	-	(4,312)	-	-	(4,312)
Effect of movements in foreign exchange	-	-	-	-	-
Balance at 31 March 2018	**576**	**3,698**	**88**	**1,102**	**5,464**
Depreciation and impairment					
Balance at 31 March 2016	571	5,624	54	385	6,634
Depreciation charge for the year	2	191	-	143	336
Acquisition of subsidiary	-	45	11	1	57
Disposals	-	-	-	(46)	(46)
Effect of movements in foreign exchange	-	-	-	2	2
Balance at 31 March 2017	573	5,860	65	485	6,983
Balance 31 March 2017	573	5,860	65	485	6,983
Depreciation charge for the year	1	206	10	171	388
Disposals	-	(3,983)	-	-	(3,983)
Balance at 31 March 2018	**574**	**2,083**	**75**	**656**	**3,388**
Net book value					
At 31 March 2016	5	1,090	5	413	1,513
At 31 March 2017	3	941	21	368	1,333
At 31 March 2018	**2**	**1,615**	**13**	**446**	**2,076**

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

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 –	7%-30% straight line
Motor Vehicles –	25% straight line	Leasehold improvements –	over remaining lease life

Where assets have been depreciated down to their estimated residual value they are no longer depreciated, a number of assets were subject to this in the year.

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2018 Group had leased assets with a carrying value of £1,272,000 *(2017: £275,000)*. The Image acquisition was part financed by a sale and leaseback of assets giving rise to a gain of £102,000 in the period.

9. INTANGIBLE ASSETS AND INVESTMENTS

RESEARCH AND DEVELOPMENT COSTS

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 three years. Impairment risk is reviewed by the Board.

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 years
- Customer Lists – 5 – 10 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 set at three year.

CUSTOMER LISTS

Intangible assets include customer lists purchased on the buy-back 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.

GOODWILL

Goodwill may arise on acquisitions, where this occurs the valuation will be supported by a fair value assessment of the revenues expected to flow from customer relationships allowing for an appropriate level of attrition.

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 3% 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 12.5% *(2017: 12.5%)* was applied.

Group	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Cost							
Balance at 31 March 2016	356	3,011	2,608	563	13	154	6,705
Acquisitions – internally developed	-	-	442	-	-	-	442
Acquisitions – purchased	-	329	-	-	-	-	329
Acquisitions of subsidiary	-	-	-	-	49	-	49
Disposals	-	-	(160)	(284)	-	-	(444)
Balance at 31 March 2017	356	3,340	2,890	279	62	154	7,081
Balance at 31 March 2017	356	3,340	2,890	279	62	154	7,081
Acquisitions – internally developed	-	-	424	-	-	-	424
Acquisitions – purchased	-	307	-	120	-	3	430
Acquisitions of subsidiary	549	-	-	2,570	16	-	3,135
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2018	**905**	**3,647**	**3,314**	**2,969**	**78**	**157**	**11,070**
Amortisation and impairment							
Balance at 31 March 2016	271	1,816	1,142	507	12	64	3,812
Amortisation for the year	18	701	627	46	-	17	1,409
Disposals	-	-	(162)	(285)	-	-	(447)
Foreign exchange movement	-	-	-	-	-	2	2
Balance at 31 March 2017	289	2,517	1,607	268	12	83	4,776
Balance at 31 March 2017	289	2,517	1,607	268	12	83	4,776
Amortisation for the year	32	580	676	179	-	19	1,486
Disposals	-	-	-	-	-	-	-
Foreign exchange movement	-	-	-	-	-	-	-
Balance at 31 March 2018	**321**	**3,097**	**2,283**	**447**	**12**	**102**	**6,262**

9. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

Group	Domains & brand £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Net book value							
At 31 March 2016	85	1,195	1,466	56	1	90	2,893
At 31 March 2017	67	823	1,283	11	50	71	2,305
At 31 March 2018	**584**	**550**	**1,031**	**2,522**	**66**	**55**	**4,808**

Amortisation and impairment charge

The amortisation charge of £1,486,000 *(2017: £1,409,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2017: £nil)* was recognised during the year.

Investments - Company	Shares in Subsidiary undertakings £000	Total £000
Cost		
Balance at 31 March 2016	574	574
Balance at 31 March 2017	637	637
Acquisitions in the year	2,605	2,605
Balance at 31 March 2018	**3,242**	**3,242**

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
Image Everything Limited	Sign Design, Manufacture and Installation
ADD Signs Limited	Sign Design, Manufacture and Installation
Printing.com (UK Franchise) Limited	Partner contracts – dormant
Printing.com Franchise Limited	Partner contracts – dormant
Nettl UK Limited	Partner contracts – dormant
Grafenia Systems Limited	Licence agreements – dormant
Grafenia Technology Limited	Licence agreements – dormant
Creative Enterprise Support Limited	Enterprise Support – dormant
TemplateCloud Limited	Template Provision – dormant
W3P Limited	Software – dormant
W3P Platforms Limited	Licence agreements – dormant

Registered address for all UK business is Focal Point, Third Avenue, Trafford Park, Manchester M17 1FG

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

Address 12 Rue de Chaussee, d'Antin 75009 Paris

10. TRADE AND OTHER RECEIVABLES

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Other receivables due from subsidiary companies	**-**	-	**3,615**	4,977
Trade receivables	**2,765**	1,854	**-**	-
Prepayments	**482**	469	**-**	-
Corporation tax	**111**	138	**-**	-
Other receivables	**48**	63	**13**	6
	3,406	2,524	**3,628**	4,983

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

At 31 March 2018 trade receivables are shown net of an impairment allowance for doubtful debts of £339,000 *(2017: £415,000).*

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 £133,000 *(2017: £192,000)* of trade receivables.

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

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Other receivables	**-**	50	**-**	-

11. CASH AND CASH EQUIVALENTS

	Group 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Cash and cash equivalents	**171**	524	**-**	1

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments. All cash Sterling other than Euro of £78,000 *(2017: £58,000).*

12. OTHER INTEREST-BEARING LIABILITIES

The Company had £600,000 of current liabilities and £245,000 of non current liabilities from interest bearing loan notes. The Group had interest-bearing liabilities from Finance Leases and loans amounting to £2,009,000 *(2017: £83,000)* as a current liability and £1,055,000 *(2017: £216,000)* and £358,000 in deferred consideration as a non-current liability. 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 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Other trade payables	**1,437**	1,370	**26**	20
Accruals	**703**	375	**52**	36
Deferred income	**280**	14	**-**	-
Other liabilities	**504**	118	**-**	-
	2,924	1,877	**78**	56

Other trade payables denominated in currencies other than Sterling comprise £67,000 *(2017: £15,000)* denominated in Euro.

14. EMPLOYEE BENEFITS

Share-based Save as You Earn (SAYE) Scheme

The Company launched a SAYE Scheme commencing 1 March 2017. The Scheme offered all employees the opportunity to participate in the future growth of the Company through the granting of share options.

The scheme requires employees to commit to making a monthly payment of between £5 and £500 for 36 months. These instalments are paid into a savings account, operated by Royal Bank of Scotland plc, held independently from the Company.

Employees were invited to subscribe for options over ordinary shares of 1 penny each in the Company ("Ordinary Shares") with an exercise price of 7.75 pence per share, representing the closing mid-market price of the Ordinary Shares on the day prior to the invitation to participate. The options are exercisable when all 36 payments have been made, between 1 March 2020 and 31 August 2020.

A total of 49 employees elected to participate in the SAYE Scheme and were granted options over 4,359,460 Ordinary Shares on 23 February 2017, equating to 9.6 per cent of the current total voting rights in the Company. Two employees left during the year so the option total is now for 47 employees over 4,266,558 Ordinary Shares.

15. SHARE CAPITAL

SHARE CAPITAL - GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2018**	Ordinary shares 2017
On issue at 31 March 2017	**47,558**	47,558
Purchased by the Company and held in Treasury	**-**	(2,150)
Shares on the market at 31 March 2018 – fully paid	**47,558**	45,408

All treasury shares held by the Company were sold on 20 February *(2017: 2,150,000)*

	£000	£000
Allotted, called up and fully paid		
47,557,835 (2017: 47,557,835) ordinary shares of £0.01 each	**475**	475
63 deferred shares of £0.10 each	**-**	-
	475	475

EARNINGS PER SHARE

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

	2018 £000	2017 £000
Loss after taxation for the financial year from continuing operations	**(946)**	(625)

Weighted average number of shares

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**45,638,192**	45,500,884
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**45,638,192**	45,500,884

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.

Dividends

During the year and prior year no dividends were proposed or paid. After the balance sheet date the Board proposed no final dividend would be made *(2017: £nil).*

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 pages 29-32. 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 2018 and 31 March 2017 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.

After the balance sheet date the Board proposed no final dividend would be made *(2017: £nil).*

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 £509,000 *(2017: £550,000)* 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 2018 Total £000	**31 March 2018 Impairment £000**	31 March 2017 Total £000	31 March 2017 Impairment £000
Not past due	**1,409**	**-**	1,171	-
Past due 0 – 30 days	**625**	**-**	241	-
Past due 31 – 90 days	**456**	**-**	348	-
Past due 90 days and over	**662**	**(339)**	622	(415)
	3,152	**(339)**	2,382	(415)

IMPAIRMENT

	£000
Balance at 31 March 2016	212
Impairment loss recognised	(52)
Increase in impairment allowance	255
Balance at 31 March 2017	415
Impairment loss recognised	(107)
Increase in impairment allowance	32
Balance at 31 March 2018	**339**

Of the total impairment provision £136,000 *(2017: £118,000)* 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 2018

	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	**2,924**	**2,924**	**2,924**	**-**	**-**	**-**
Bank Loans	**-**	**-**	**-**	**-**	**-**	**-**
Finance lease liability	**1,272**	**1,272**	**106**	**105**	**374**	**728**
Loan Notes + deferred consideration	**1,203**	**1,203**	**300**	**300**	**452**	**-**
Invoice financing	**1,076**	**1,076**	**1,076**	**-**	**-**	**-**
	6,324	**6,324**	**4,406**	**405**	**826**	**728**

31 March 2017

	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	1,877	1,877	1,877	-	-	-
Bank Loans	24	31	4	4	8	16
Finance lease liability	275	310	47	47	91	125
	2,176	2,218	1,928	51	99	141

All trade receivables are contractually due within 6 months.

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 2018 Euro £000	**31 March 2018 GBP £000**	31 March 2017 Euro £000	31 March 2017 GBP £000
Trade receivables	**178**	**3,408**	167	2,567
Cash and cash equivalents	**78**	**(1,005)**	58	467
Trade payables	**67**	**(1,504)**	(15)	(1,356)
	322	**899**	210	1,678

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 2018, 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 £41,000 *(2017: £2,000)* with an equal adjustment to equity.

FAIR VALUES

There is a difference of £309,000 *(2017: £20,000)* between fair and carrying values on the balance sheet in respect of finance leases and loan notes.

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 2018 £000	Group 2017 £000	**Company 2018 £000**	Company 2017 £000
Plant and machinery				
Less than one year	**49**	15	**-**	-
Between one and five years	**31**	8	**-**	-
Land and buildings				
Less than one year	**276**	259	**-**	-
Between one and five years	**318**	426	**-**	-
	674	708	**-**	-

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

GROUP

During the year £463,000 *(2017: £256,000)* 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 *(2017: £nil).*

19. CONTINGENCIES

Neither the Group nor the Company had contingencies at the yearend *(2017: £nil).*

20. RELATED PARTIES

The Company provides cross company guarantees to the Group's bankers. In the year ended 31 March 2018 no dividends were received *(2017: nil).*

Transactions with key management personnel

Directors of the Company control 4.98 per cent of the voting shares of the Group.

The compensation of the Directors, who are the key management personnel, is disclosed in note 5.

21. POST BALANCE SHEET EVENT

On 13 April 2018, the Company announced it had conditionally raised approximately £3.5 million (before expenses) by way of a placing of 29,258,331 new Ordinary Shares, at a price of 12 pence per ordinary share, with certain new and existing investors. The net proceeds are intended to be used in the near term primarily to fund growth through acquisition, to open further Nettl Business Superstores and to repay and renegotiate existing debt arrangements.

ADVISERS AND COMPANY INFORMATION

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Grafenia plc is registered in England and Wales under number 03983312
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