intercede

Intercede Group plc

Annual Report & Accounts 2017



DIGITAL TRUST



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Company Profile

Intercede® is a software and service company specializing in identity, credential management and secure mobility.

Its solutions create a foundation of trust between connected people, devices and apps and combine expertise with innovation to provide world-class cybersecurity.

Intercede has been delivering solutions to high profile customers, from the US and UK governments to some of the world's largest corporations, telecommunications providers and information technology firms, for over 20 years.

Intercede's product portfolio includes MyID, an identity and credential management system that assigns trusted digital identities to employees citizens and machines.

In 2015, Intercede launched MyTAM, enabling trusted applications to be loaded into a mobile device's Trusted Execution Environment (TEE), providing hardware-level security for Android apps. In 2016, Intercede launched RapID, a secure, easy to implement authentication service for mobile apps and cloud services to completely eliminate the need for passwords.

For more information visit: **www.intercede.com**

Intercede's heritage is in securing some of the world's most sensitive data assets. For two decades, the Company's software has ensured that access to physical infrastructure, networks, applications and data is restricted to people and machines that are both positively identified and authorised. Intercede's solutions are deployed by UK and US governments, by companies like Boeing and Lockheed and by a range of organizations in the most data critical industries including defence, aerospace, government and financial institutions.



Identity & Credential Management

MyID® Secure enterprise access has never been a more critical requirement for protection from growing threats. MyID enables enterprises to replace employee passwords with more secure and more convenient digital identities: providing protection against the number one cause of data breaches - weak or compromised user credentials.

Once deployed, MyID is connected to existing infrastructure to issue trusted digital identities to employees across a wide range of devices including smart cards, virtual smart cards and mobile. It complies with specific regulatory requirements such as FIPS 201 and SP800-171 in the US and GDPR in Europe and can be provided as an on-premise or private cloud solution. Administrators manage the lifecycle of credentials, for example automatically revoking them if a user leaves the organization, or updating them in advance of them expiring.

All credential issuance and lifecycle events are recorded within MyID allowing full visibility of who has active access credentials, and the built-in audit enquiries and reports are often used as part of a compliance audit to show an organization is in control of who can access their systems.



Identity Authentication for Mobile Apps

RapID™, Consumers are fed up with being told to remember an increasing number of complex passwords and the hardware tokens that are commonly seen in banking applications are universally disliked and costly. RapID is the alternative – a secure, easy to implement two-factor authentication service for mobile apps and cloud services. It allows service providers to quickly deploy strong authentication to services from mobile apps, with minimal effort and cost. RapID has relevance in a variety of sectors including banking, shopping, healthcare, social media, gaming and TV/media services.

Built on the experience and using similar core technologies to MyID, RapID uses PKI certificates with two-way SSL to secure trust between the mobile and the service without the need for additional SMS verification or 'one-time' passwords. The result is a frictionless solution for service provider and customer.

RapID dramatically enhances application security with quick and secure two-factor identity authentication, that simultaneously improves the user's experience by eliminating passwords from the equation. As well as authenticating customers without passwords, RapID credentials can also be used for additional security capabilities, such as digitally signing transactions. A prime regulatory market in the payments space solved by RapID is PSD-2.



Trusted application management

MyTAM™, We are set for massive growth in IoT (Internet of Things) devices and services and yet we have already seen the havoc that can be caused through unauthorised access to insecure devices. The requirement for trusted identity applies as much to the IoT device access as it does to enterprise applications and consumer services.

MyTAM allows developers to deploy trusted applications to a secure environment, within the IoT device, to provide hardware-backed, end-to-end authenticated and encrypted communication from the silicon to the service.

For a consumer IoT device like a home gateway, the user registers the device with a cloud service via a mobile app. The IoT service then creates secure hardware protected containers on the home gateway, it then loads applications into containers to enable capabilities and finally, a secure credential is loaded to the gateway to identify it to the subscribed services. Passwords, and their vulnerabilities, are eliminated.

Chairman's Statement



It has always been my view that success in business is best gauged by how well management copes with adversity. The year to 31 March 2017 was a challenging period for Intercede; however, I am pleased to report that the management team has responded admirably. Revenue for the year was £8.3m (2016: £11.0m) which, given our reporting a 49.0% fall during the first half, highlights a return in the second half to the record levels of business recorded by the Group in 2015/16. The improvement is both a testament to the on-going attractions of MyID and a reminder that its addressable market is dominated by a small number of large, highly secure organisations.

Mindful of this, the Intercede team has been focused on developing further applications for its market leading cybersecurity software. We have been at the forefront of mobile usage in evolving MyID for this important segment of our original market. RapID provides a compelling answer to the questions posed by the growth of mobile transactions, particularly in banking, while MyTAM is an innovative security solution for developers within the Internet of Things (IoT). We have also recently launched MyID as a Service (MyIDaaS) which takes the core functionality of MyID and offers it as a cloud-based service that is easy to operate. We believe MyIDaaS provides a proven, cost effective solution for enterprises of all sizes that need to comply with new regulations for protecting customer information.



These developments, and the associated investment in skilled people and marketing, are reflected in our results for the year. I am convinced that we have positioned Intercede well for the demands of these new markets.

The Group has continued to expand its customer base and interaction with partners. During the year, Intercede has won orders from within its traditional markets of the US Federal Government, with an order from the Department of State, and Aerospace & Defence, namely CDG (part of Boeing) and Hanscom Air Force Base. There was also growth in the banking sector, with new wins from LGT Vestra and the Swiss National Bank, and the newer market of healthcare, with orders from Alexion Pharmaceuticals and Mayo Clinic. In addition, there has been significant repeat business from existing customers including ANZ, Boeing, the US Department of Homeland Security Transportation Security Administration, Deutsche Telekom, Telus, the US Federal Aviation Administration, the US Federal Reserve Bank, Northrop Grumman, RDW, the United Health Group and Wells Fargo.

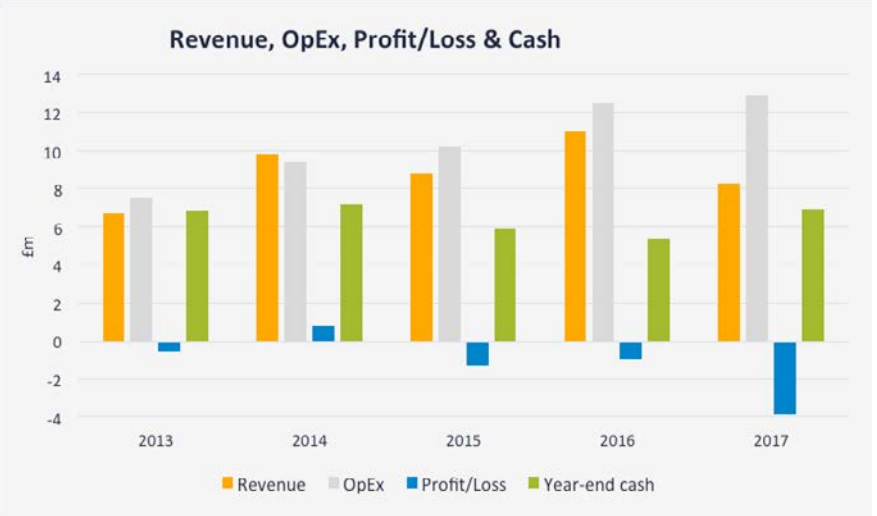
Following the year end, Intercede has won orders from BAE Systems, M.C. Dean and Verizon. Intercede is proud to note that MyID is now used by five of the seven largest Aerospace & Defence companies.

Establishing Intercede at the heart of the critical eco-systems in place or being developed in our space is central to the Group's strategy. I am pleased to report that we are working with a number of partners including ARM, Centrify, Citrix, Intel, LG Electronics, Microsoft, MobileIron, Symantec and VMWare (Airwatch) to further this aim.

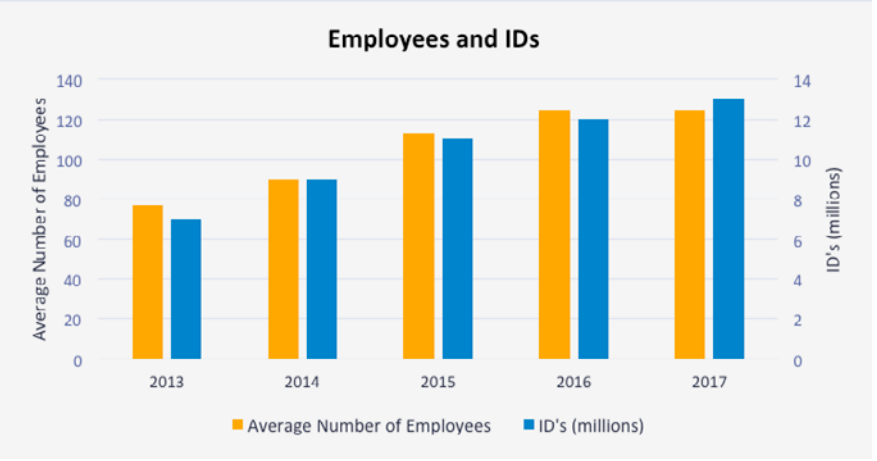
Since its foundation, Intercede has developed largely through the use of its own funds. However, recognising the need to accelerate our progress in key areas, the Group raised a total of £4.6m (net of costs) via the issue of Convertible Loan Notes (CLNs) and new equity in January 2017. These funds are already being deployed successfully and will provide the Group with considerable resources with which to address our expanding market place. Notwithstanding this investment, at the financial year end on 31 March 2017, Intercede had cash and short term deposits totalling £6.9m (31 March 2016: £5.3m).

Financial Results

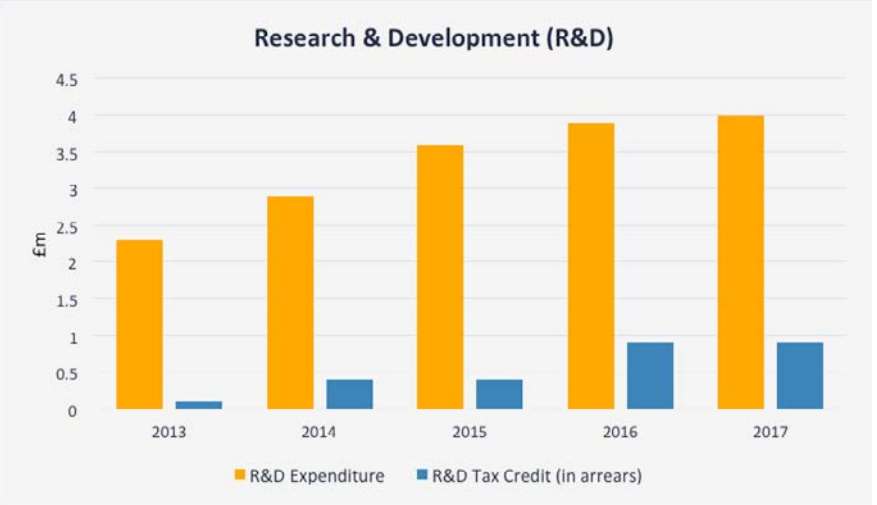
The substantial increase in operating expenses (OpEx) over the last five years primarily reflects continued high levels of strategic investment to exploit new market opportunities. This investment is expected to result in increased revenue and cash flow generation in future periods. The 2017 year-end cash includes net funds raised of £4.6m during the year.



Intercede's strategic investment plan has resulted in a progressive increase in employees, resulting in one of the largest teams with cryptographic key management experience and expertise anywhere in the world. The introduction of RapID, MyIDaaS and MyTAM is expected to result in exponential growth of apps and devices under the management of Intercede's software.

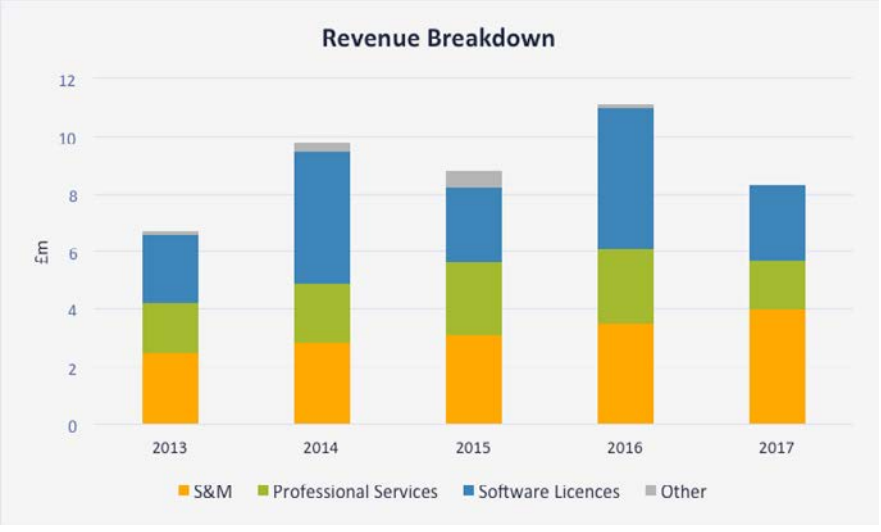


Research and development (R&D) is an important part of Intercede's investment strategy. Money spent on people qualifies, in arrears, for UK government tax credits which are paid in cash in the following year.





The US represents Intercede's largest market with sales to North America again approaching 80% of total sales during FY 2017.



The last five years has seen progressive growth in recurring Support & Maintenance (S&M) revenues due to a cumulative increase in customers which has also resulted in a substantial level of ongoing Professional Services activity. Software license revenues from the traditional MyID business tend to be lumpy but the introduction of the RapID, MyIDaaS and MyTAM cloud-based services (which currently represent less than 5% of total annual revenues) is expected to both increase growth and smooth future volatility.

Review of Operations

Intercede's heritage is in securing sensitive data assets in the most data critical industries but today few companies, in any market sector, can afford to ignore the requirement to more effectively establish digital identity and create the trust relationships that enable 21st Century commerce. The volume of data held has increased dramatically, the regulatory requirements are much more onerous, cybercrime is sophisticated and widespread, consumers are demanding answers and yet much of the world's data is still protected by little more than a username and password combination. That situation cannot continue and it represents a significant market opportunity that Intercede is ideally placed to address.

I believe that Intercede's products will be integral to the way we all conduct a wide range of activities; from work through transactions to managing every day activities. It is a developing market but I am encouraged by the new enquiries we are now receiving, from companies large and small, that recognise the need for change.

Our goal has been to evolve the business in order that it can provide support to this broader range of customers. We have developed cloud-based delivery and applications. We have adapted our products to enable mobile usage. We have produced one of the few applications which allow the secure deployment of apps within the Internet of Things.

Over the last few years, the Directors' believe that Intercede has built one of the most talented teams in the world to address this evolution while maintaining its core principles. We have demonstrated our ability to bring products and, increasingly, services to the market. Indeed, I am pleased to report that Intercede:

(1) was the first company to receive an authority to operate (ATO) a mobile derived credential service within the US Government;

(2) was selected to provide a proof-of-concept implementation of RapID within the Italian banking industry for PSD2 authentication; and

(3) has begun operations of a production MyTAM service for retail banking consumers in Korea.

Intercede now works with some of the largest organisations in the world; both as customers or as partners.

Intercede's Customer Base

Intercede's Interoperability Partners

We are continuing to strengthen our team and, therefore, our ability to address our widening market. Since the end of our financial year, I am pleased to report that we have recruited two high profile and competent team members who will add materially to Intercede's efforts.

Charles ("Chuck") Pol has recently served as Chairperson of Vodafone Americas, a role he has held since 2013 and in which he has led the development of applications for the Internet of Things. Chuck joined Vodafone Americas as President of its Global Enterprise division where he built a US-wide mobile business focused exclusively on Enterprises. Prior to Vodafone Americas, Chuck held senior roles at BT Americas including Chief Operating Officer and President. On leaving BT in 2008, Chuck was President of BT Global Financial Services where he was responsible for BT's relationships with the top 40 global investment banks.

Chuck, who was appointed with effect from 1 June 2017, is now Intercede's Senior Independent Director, reflecting his considerable experience within the North American technology and telecoms industries.

Helen Adams joined the Group on 5 June 2017 from ARM Holdings plc, the world's leading semiconductor intellectual property supplier, where she was Vice President of Regional Sales for both Europe and Asia/Pacific, leading a global team which, under her leadership, delivered more than half of ARM's total revenue which was last reported as £1.3bn. Her mandate will be to manage the growing sales, marketing and business development activity at the Group across all principal product lines and services. Helen is specifically tasked with increasing the Group's engagement with its growing partner base. In addition, given her silicon industry background, Helen will also be responsible for leading the development and growth of its emerging Internet of Things business.

Chuck and Helen join a talented team which is focused clearly on our vision, mission and goals. I would like to take this opportunity to thank that team for its efforts during the last year and to congratulate them on their successes. I believe that the Group is ideally placed to benefit from the likely evolution of the interconnected world in which we live. This position is a reflection of our enthusiasm and skills; values which will be, I am sure, a factor in the success of Intercede.

Outlook

Intercede is now ready to address the demands of a significantly wider customer base. Our team has developed a range of applications for our digital trust software and services which lead the evolution of security across most of the eco-systems in place or likely to form part of interconnectivity for a generation to come.

We face the future with increased confidence and our growth prospects appear significant. We must be mindful of the challenges ahead, but I am convinced that these are surmountable and that the Group is on the cusp of a period of sustained growth and shareholder value creation.



Richard Parris
Chairman & Chief Executive



Strategic Report

For the year ended 31 March 2017

Introduction

Intercede is a cyber security software and services company specialising in digital trust for a hyper-connected, increasingly mobile world.

The Group's vision is a world without passwords and its mission is to provide the enabling technology and services to make this possible for people and things. Intercede's core pillars of strength can be outlined as follows:

- For over 20 years, Intercede has been providing trusted identities to people, devices and apps for some of the world's largest corporations and government agencies.
- Intercede's product innovation roadmap leverages over 1,000 man years of internal expertise and is underpinned by strong customer demand and a committed set of international partners.
- New solutions can be engineered at high speed by a specialist team with longevity of employment. Product design is also informed by major customers and interoperability partners.
- Software is US and UK Government accredited, which secures access to regulated markets. Traditionally it was delivered as an on premise solution but can now be delivered via the Cloud to make it a scalable solution with the potential for exponential growth.

These core strengths mean that Intercede is well placed to take advantage of opportunities in the market, in particular:

- Passwords are universally recognized as being insecure and inconvenient by organizations and end users.
- A growing number of governments and industry bodies are enacting legislation to mandate enhanced levels of security by removing passwords. This increased regulation covers a wide range of activities including banking & finance, general data protection and critical national infrastructure.
- In-house cybersecurity skills are in short supply creating an increased demand for outsourced security solutions.
- There is a growing demand for cloud-based identity as a service (IDaaS) solutions to meet the scalability requirements of large end user populations, particularly in the consumer and IoT markets.

Intercede has the heritage, skills and technology platform to deliver digital identity solutions across a wide range of market sectors and geographical regions, meeting the growing demand for a secure and convenient alternative to passwords.

Strategic Investment

Intercede has embarked upon a period of substantial investment in order to take advantage of the opportunities outlined above. The costs associated with this strategy are being incurred now but the benefits, in terms of increased revenues and cash flow generation, are anticipated to arise in future periods.

The main areas of selective investment are:

- The development of mobile security applications involving interoperability with technologies such as iOS, Android, Windows and BlackBerry.
- The establishment and launch of RapID, a cloud-based service that enables service providers to simply replace passwords with a digital identity, protecting themselves against identity fraud and the resultant data breach.
- Increased collaboration with major industry players such as Intel, Microsoft, ARM and Google.
- Strengthening of the dedicated Intercede Services team focused on delivering Intercede solutions into the consumer and IoT markets.
- Enhancing the core MyID platform to support US Standard FIPS 201-2 compliant derived PIV credentials, thereby extending Intercede's strong position in the US federal government market to incorporate the growing demand for digital identity on mobile devices.
- Re-engineering and expansion of the MyID platform as a cloud-based service to improve scalability to consumer levels and to ensure all of the new areas of opportunity are supported.
- Sales and marketing to promote and protect the MyID, MyTAM and RapID names and technology and to build industry relationships.

To support this investment Intercede raised £4,945,000 in new funding during the year (£4,624,000 net of costs) via the issue of convertible loan notes and equity. The funding has come from new and existing institutional and other investors, as well as experienced technology entrepreneurs. This demonstrates the confidence of our long term backers as well as illustrating that our strategic story resonates strongly with a new generation of technology and security savvy investors.

Trading Results

Revenues for the year ended 31 March 2017 totalled £8,286,000, a 25% reduction on the previous year's record revenues of £11,004,000. The US presidential race resulted in delays from government agencies making investment decisions but we have seen the resumption of business for the MyID platform. We are pleased to see that revenues generated in the second half of the year matched the record revenues achieved in both halves of the previous year.

The rate of investment in the Company's newer products, RapID and MyTAM, continues and business development has resulted in the identification of target markets and talks with reference customers in each of those markets. Work continues on pilot RapID solutions for customers in the wealth management and banking sectors and revenues are expected to be generated in the coming months. While MyTAM continues to be sold as a standalone product it will also become a core component in an Internet of Things product that will address a number of challenges in the IoT market, namely security, interoperability and control via a single interface. The Directors' believe that this development work is expected to result in significant revenues in the coming years.

In the second half of the year, a cost-cutting review removed £600,000 of annualised costs from the business without impacting our development of new products. This partly offset the strategic investment as outlined and resulted in a lower than initially planned increase of 3% in operating expenses from £12,511,000 to £12,891,000. The drop in revenues has primarily lead to a £4,721,000 operating loss (2016: £1,917,000 operating loss).

Staff costs continue to represent the main area of expense, representing 78% of total operating expenses (2016: 79%). Intercede had 121 employees and contractors as at 31 March 2017 (2016: 123). The average number of employees and contractors was unchanged from the previous year at 125.

Expenditure on research and development (R&D) activities totalled £3,994,000 (2016: £3,905,000), approximately 62% of which related to the areas of strategic investment outlined above (2016: 71%). In accordance with the IFRS recognition criteria, the Board has continued to determine that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2017 (2016: £nil).

The net finance cost for the year was £57,000 (2016: £32,000 income) as a result of the interest payable on the convertible loan notes issued during the year.

An £888,000 taxation credit for the period (2016: £892,000 taxation credit) primarily reflects cash received following the 2016 R&D claim as a result of the investment activities outlined above. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits.

A loss for the year of £3,890,000 (2016: loss of £993,000) resulted in a basic and fully diluted loss per share of 8.0p (2016: loss per share 2.1p).

Financial Position

The Group's cash position remains strong with cash and short term deposits totaling £6,891,000 as at 31 March 2017 (2016: £5,289,000). The increase reflects the fundraising that was announced on 28 December 2016 but, it is also worth noting that, following a difficult first half of the year, the Group generated cash from its operating activities in the second half.

The Group has no plans to commence the payment of dividends and will do so when the Board considers this to be appropriate.

Treasury

The Group manages its treasury function as part of the finance department. Whilst the Group's operations are primarily based in the UK it has successfully exported its technology throughout the world for many years. This results in invoices being raised in currencies other than sterling; the most notable being US dollars and euros. A number of suppliers also invoice the Group in US dollars and euros. The Group's current policy is not to hedge these exposures and the exchange differences are recognised in the statement of comprehensive income in the year in which they arise.

Key Performance Indicators (KPIs)

The following KPIs are some of the tools used by management to monitor performance in addition to the more traditional financial statement and sales pipeline information that is provided to the Board each month.

	2014	2015	2016	2017	Target
Trusted identities, devices and apps	9 million	11 million	12 million	13 million	250 million
Sales growth	45%	(10%)	25%	(25%)	30%+
Export sales	91%	85%	96%	95%	80%+
North American sales	61%	51%	79%	77%	50%+
New deployments (revenues over £20,000)	10	6	6	8	10+

All of the above KPIs are geared towards the traditional MyID business. The introduction of RapID and MyTAM is expected to result in the growth of devices (IoT enabled equipment) and apps (online banking) under the management of Intercede's software. This suite of software supports the overall target of 250 million identities, devices and apps under management by 2020.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group are as follows:

- The Group operates in multiple markets, both geographically and by sector, so there is a risk that territory and global macro-economic conditions may result in one or more of these markets being adversely affected and the revenues of the business impacted accordingly. This risk is mitigated to an extent, both through the long term nature of customer relationships and the diversification that results from operating in multiple markets.
- The Group operates in a complex and competitive technological environment so the business will be negatively affected if the Group does not enhance its product offerings and/or respond effectively to technological change. This risk is mitigated by ongoing investment in research and development.
- Technology companies are exposed to intellectual property infringement and piracy. The Group rigorously defends its intellectual property in the primary jurisdictions within which it operates.
- The Group's performance is largely dependent on the experience and expertise of its employees. The loss or lack of key personnel is likely to adversely impact the Group's results. To mitigate this risk, the Group aims to put in place appropriate management structures and to provide competitive remuneration packages to retain and attract key personnel.

By order of the Board



Andrew Walker
Finance Director
7 June 2017

Board of Directors



Richard Parris - Chairman & Chief Executive

Richard Parris is an Anglo-American technology entrepreneur with extensive experience in the digital trust and cybersecurity industries. Expert in business development and innovation, Richard founded Intercede and has led the Group through all stages of its growth, including an IPO on the London Alternative Investment Market (AIM).

He is a regular speaker and evangelist for digital trust at major conferences and has provided advice to government policy makers in senior executive agencies in the UK and US.

Richard is a Chartered Engineer and has an MBA from the University of Warwick Business School. He has served on the UK Government's Cyber Growth Partnership and the membership committee of TechUK.

Andrew Walker - Finance Director



Andrew Walker is a finance professional with 30 years of senior management experience, during which time he has worked for a number of large international organizations. He was Group Financial Controller of The Rugby Group PLC between 1995 and 2000, and was an Executive Board member from 1997. Before this, he worked for APV plc in a variety of roles, having joined as Group Chief Accountant in 1990 and progressed to subsidiary and divisional Finance Director roles. Between 1981 and 1990, Andrew qualified and worked for Price Waterhouse with a wide range of audit clients.

Andrew has a BCom (Honours) degree in Accounting from the University of Birmingham and is a Fellow of the Institute of Chartered Accountants. He was appointed Finance Director of Intercede on 11 September 2000.



Jayne Murphy - Chief Operations Officer

Jayne has 18 years' experience at Intercede as Chief Operations Officer. During this time, she has been responsible for the establishment of Intercede's global infrastructure including human resources, facilities, customer support functions, ISO quality culture, administration functions, staff incentive and retention plans.

Jayne participates in all main Board meetings in the capacity of a PDMR (Person Discharging Managerial Responsibilities) to support the CEO in all operational and HR matters. She is also a director of Intercede's US subsidiary, Intercede MyID Inc. In this role Jayne spends a significant amount of time in the US supervising the growth of Intercede's US operation.

Prior to joining Intercede, Jayne held a number of senior managerial roles in the NHS including that of Chief Executive of Coventry Healthcare NHS Trust. Trained as a professional hospital manager, Jayne is experienced in managing large multidisciplinary teams of highly qualified professionals in resource constrained environments.

Jayne is a serving Magistrate.

Charles ("Chuck") Pol - Non-Executive Director



Chuck Pol recently served as Chairperson of Vodafone Americas, a role he held since 2013 and in which he led the development of applications for the Internet of Things ("IoT"). Chuck joined Vodafone Americas as President of its Global Enterprise division where he built a US-wide mobile business focused exclusively on Enterprises.

Prior to Vodafone Americas, Chuck held senior roles at BT Americas including Chief Operating Officer and President. On leaving BT in 2008, Chuck was President of BT Global Financial Services where he was responsible for BT's relationships with the top 40 global investment banks.

Chuck was appointed a Non-Executive Director of Intercede on 1 June 2017 and will become Intercede's Senior Independent Director, reflecting his considerable experience within the North American technology and telecoms industries. Under the terms of his engagement he will also work in a senior sales consulting role and mentor Intercede's sales leadership.

Ben Drury - Non-Executive Director



Ben Drury is the co-founder of Fooropa and the founder and former CEO of 7digital, which has grown into an AIM listed global company since he founded it in 2004. He is also a Non-Executive Director of Pimoroni Limited. Ben began his career in 1996 as a founder of dotmusic.com before being headhunted in 2000 by BT Group. He was named by Growing Business magazine as a Young Gun 2006 – the award for leading entrepreneurs under 35 – and, in 2007, 7digital was awarded the prestigious Red Herring Top 100 Europe Award. In 2008, Ben was a finalist in the Ernst & Young Entrepreneur of the Year awards, and, in 2013, 7digital made it into the Sunday Times Tech Track 100 and the Deloitte Fast 500.

Ben graduated from King's College London with a BSc (Honours) Physics with Philosophy of Science degree. He is an active angel investor and has served as Deputy Chairman of the Entertainment Retailers Association (ERA) and on the board of the Official UK Charts Company. Ben also acts as an advisor to the Entrepreneur First Program. He was appointed a Non-Executive Director of Intercede on 1 April 2014.

Royston Hoggarth - Non-Executive Director



Royston Hoggarth is Chairman & Chief Executive of iPSL Limited and Non-Executive Chairman of Northgate Public Services. Until April 2012, he was UK Chief Executive for Hays PLC. Prior to Hays, he was Chief Executive UK for BT Global Services, and, before that, Chief Executive for the UK, US and European subsidiaries of Cable & Wireless PLC.

Royston also worked for Logica CMG PLC for six years as Group Marketing Director, responsible for Group strategy and Chief Executive International, responsible for the Americas, Middle East, Asian and Australian businesses, and for IBM where he spent 13 years in a variety of senior management roles. He was appointed a Non-Executive Director of Intercede on 5 August 2002.

Jacques Tredoux - Non-Executive Director



Jacques Tredoux is the Chief Executive of Tredoux Capital Limited, a company authorized by the Financial Conduct Authority to provide corporate finance advisory services. Prior to establishing Tredoux Capital Limited, he was the Chief Executive Officer of the Credo Group (UK) Limited, a group of companies in London that provides wealth management services. Members of the Credo Group have provided corporate finance and fundraising assistance to the Company since before its admission to AIM.

Jacques qualified as a lawyer in 1988 in South Africa, and practiced at Edward Nathan & Friedland Inc and Clifford Chance. He was appointed a Non-Executive Director of Intercede on 31 March 2006.

Directors' Report - For the year ended 31 March 2017

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2017.

Principal Activities

Intercede is a cybersecurity company specialising in identity, credential management and secure mobility to enable digital trust. A review of the activities of the Group and future developments is provided in the Chairman's Statement and Strategic Report.

The Company

The Company is a holding company which was set up to facilitate the admission of the Group onto the AIM section of the London Stock Exchange.

Results and Dividends

The audited accounts for the year ended 31 March 2017 are set out on pages 19 to 39. The Group's loss for the year was £3,890,000 (2016: £993,000 loss for the year). The Directors do not recommend the payment of a dividend (2016: £nil).

Management of Financial Risk

The Group's policy for the management of financial risk is set out within note 14.

Research and Development Expenditure

The Group continues to invest in an ongoing programme of research and development. The total cost of development during the year ended 31 March 2017 was £3,994,000 (2016: £3,905,000) which has been written off as incurred.

Intellectual Property

The Group's revenues are primarily derived from licensing its proprietary MyID product. Intercede Limited owns the copyright for this product. The Group relies on trademark laws and the law of passing off, or its equivalent in non-UK countries, to protect the trademarks which it uses. Intercede Limited is the proprietor or applicant of certain trademarks in important markets. The Group also endeavours to protect its intellectual property through the filing of patent applications where appropriate.

Employees

It is the Group's policy to provide, where possible, employment opportunities for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy. Employees are kept informed of the performance and objectives of the Group through a combination of regular formal and informal meetings.

Environment

The Group's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report, the Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

Directors and their Interests

Details of the present Directors are provided on pages 12 and 13. Rob Chandhok retired as an independent non-executive director on 31 December 2016 and Charles ("Chuck") Pol was appointed as an independent non-executive director on 1 June 2017.

In accordance with the Company's Articles of Association, Andrew Walker and Chuck Pol will offer themselves for re-election at the forthcoming Annual General Meeting.

The interests of the Directors serving at the end of their year, and their immediate families, in the shares of the Company are set out below:

	Ordinary Shares 31 March 2017	Ordinary Shares 31 March 2016
RA Parris	5,681,012	5,664,516
AM Walker	1,515,000	1,506,752
B Drury	5,239	—
R Hoggarth	168,721	168,721
J Tredoux	11,813,888	11,813,888

Jacques Tredoux is interested in 1,463,216 shares which are registered in the name of Pershing Nominees Limited which is a nominee of Angus Investment Holdings Limited ("Angus"). Angus is controlled by The South Hills Trust. As at 31 March 2017, Jacques Tredoux was also interested in 10,350,672 shares indirectly held by The Azalia Trust. Jacques Tredoux and his wife and children are members of the class of discretionary beneficiaries of both The South Hills Trust and The Azalia Trust.

On 28 December 2016, the Company announced a fundraising that resulted in the subsequent issue of convertible loan notes ("CLNs") totalling £4,495,000 on 30 January 2017 (see note 12). The interests of the Directors, and their immediate families, that were included in this issue are £50,000 and £50,000 for Richard Parris and Andrew Walker respectively.

None of the Directors had any material interest in any other contract or arrangement made by the Company during the year with the exception of those referred to in note 17.

Directors' Indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also maintains insurance cover for the Directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Substantial Shareholders

As at 10 May 2017, the following had notified the Company of disclosable interests in 3% or more of the Company's issued share capital:

	Ordinary Shares Number	%
The Azalia Trust	10,350,672	20.7
RA Parris	5,701,652	11.4
Liontrust Asset Management	3,849,166	7.7
Anjar International Limited	3,241,631	6.5
Plastic Technologies Limited	3,147,436	6.3
Herald Investment Management	2,050,266	4.1
Capita IRG Trustees Nominees Limited	1,803,626	3.6
AM Walker	1,525,320	3.1

The Capita IRG Trustees Nominees Limited shareholding relates to the Intercede Share Incentive Plan ("SIP") which has been set up for UK employees (including directors). The RA Parris and AM Walker shareholdings include 68,186 and 34,093 shares respectively that are also included within the Capita IRG Trustees Nominees Limited shareholding.

Purchase of own Shares to be held in Treasury

As at 31 March 2017, the Company had 294,000 ordinary shares held in treasury (2016: 294,000). There were no purchases or transfers of shares to or from treasury during the year. During the previous year, the Company purchased 32,500 ordinary shares for a consideration of £47,000; 32,500 options were exercised using treasury shares and 15,000 ordinary shares were transferred to an employee, pursuant to an incentive arrangement.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 and the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and UK Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

Annual General Meeting

The seventeenth Annual General Meeting of the Company will be held on Wednesday 13 September 2017. The Notice of the Annual General Meeting will be sent out to shareholders prior to the meeting.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board



Andrew Walker
Company Secretary
7 June 2017

Corporate Governance

As a company listed on AIM, Intercede Group plc is not required to comply with the requirements of the Combined Code. The Company does endeavour to comply with the NAPF Corporate Governance Guidelines for smaller companies and a number of voluntary disclosures have been made that are not subject to audit.

Board of Directors

The Company is controlled through the Board of Directors which currently comprises two executive and four non-executive directors, two of whom are considered to be independent. All of the directors have extensive business experience.

The Company has historically combined the posts of Chairman and Chief Executive in one person, namely Richard Parris. The Board believes that to separate the roles would be detrimental at this stage of the Group's development. Chuck Pol has been appointed as the senior independent non-executive director with effect from 1 June 2017 reflecting his considerable experience within the North American technology and telecoms industries. All directors submit themselves for re-election at least every three years.

Committees of the Board

The Board has established three committees; the Audit Committee, the Remuneration Committee and the Nominations Committee.

The structure of the Board Committees from 1 June 2017 onwards is as follows:

Audit Committee – Royston Hoggarth is the Chairman of the Audit Committee given his "recent and relevant" financial experience in a variety of Chairman, Chief Executive and non-executive director roles and given his prior experience as Chairman of the Axon Group plc Audit Committee. Ben Drury and Chuck Pol, both of whom are considered to be independent, are also members of the Audit Committee.

Remuneration Committee – Ben Drury has been appointed as the Chairman of the Remuneration Committee which also comprises Royston Hoggarth and Chuck Pol, thereby providing a majority of independent directors.

Nominations Committee – The Nominations Committee consists of Richard Parris (Chairman) and Chuck Pol (senior independent non-executive director).

Relations with Shareholders

The Company gives high priority to communications with current and potential future shareholders by means of an active investor relations programme. The principal communication with private investors is through the website (www.intercede.com) and the provision of Annual and Interim Reports. All shareholders will receive at least 21 clear days' notice of the Annual General Meeting at which the Directors will be present and available for questions.

Going Concern

The Directors, after having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. This expectation is on the basis that the Group has significant cash balances as at the date of these accounts and these balances, together with receipts from confirmed and highly likely renewals and repeat orders, are anticipated to cover substantially all of the Group's operating costs for the next 12 months. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by Group which complies with the guidance "Internal Control: Guidance for Directors on the Combined Code (The Turnbull Report)".

The key features of the Group's internal control systems are as follows:

Group Organisation and Culture

The Board meets regularly, and is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the key business risks and reviews the strategic direction of the Group, its codes of conduct, forward projections and progress towards their achievement. Senior management concentrates on the formulation of strategic proposals to the Board and operational decision making.

Delegation of Authority

The Board reserves to itself a range of key decisions to ensure it retains proper direction and control of the Group, whilst delegating authority to individual directors who are responsible for the day to day management of the business.

Financial Reporting

There is a comprehensive planning system, including regular periodic forecasts which are presented to and approved by the Board. The performance of the Group is reported monthly and compared to the latest forecast and the prior period.

Report of the Remuneration Committee

As a company listed on AIM, Intercede Group plc is not required to present a Report of the Remuneration Committee. A number of voluntary disclosures have been made which are not subject to audit. The matters set out below are nevertheless relevant to understanding the activities of the Remuneration Committee and remuneration of the Company's Directors.

The Remuneration Committee is composed entirely of Non-Executive Directors. None of the Committee members has any personal interest in the matters to be decided. The Chairman & Chief Executive is invited to attend committee meetings but is not present during discussions relating to his own remuneration.

Remuneration Policy

The remuneration packages for Executive Directors are intended to incentivise them to meet the financial and strategic objectives of the Group. The policy is to pay individual directors a salary at market levels for comparable jobs recognising the size of the Group and the business sector in which it operates. The main components are base salary, an annual bonus plan, pension contributions and share options. Note 4 to the financial statements provides details of the remuneration paid and payable in respect of the year ended 31 March 2017.

Service Contracts

The Executive Directors have service contracts that are terminable by either party giving 12 months' notice to the other. The Non-Executive Directors' service contracts are terminable on one month's notice by either party with the exception of R Hoggarth whose service contract is terminable on three months' notice by either party.

Pension Arrangements

The Group makes pension contributions to money purchase schemes in respect of both of the Executive Directors.

Share Options

The Company introduced a new Share Option Plan for senior executives on 22 July 2011 and options were granted later that year. The awards made to senior managers on 26 July and 20 December 2011 vested during the year ended 31 March 2016. No options were exercised during the year. The awards made to directors on 16 August 2011 have yet to vest but will vest and become exercisable subject to the Company's share price reaching 200p over 30 consecutive dealing days prior to 16 August 2018.

Further options were granted to senior managers and directors on 7 November 2014 and on 29 June 2015 in accordance with the resolution that was approved by shareholders at the Company's AGM on 17 September 2014. These options will vest and become exercisable subject to the Company's share price reaching 400p over 30 consecutive dealing days in the period between the 3rd and 7th anniversary of the date of grant.

The following options were outstanding as at 31 March 2017:

Plan	Date of Grant	No. of Shares	Exercise Price	Dates Exercisable
EMI	26 July 2011	152,500	1.0p	26 July 2014 to 25 July 2021
EMI	16 August 2011	631,572	1.0p	16 August 2014 to 15 August 2021
Unapproved	16 August 2011	612,087	1.0p	16 August 2014 to 15 August 2021
EMI	20 December 2011	50,000	1.0p	20 December 2014 to 19 December 2021
EMI	7 November 2014	401,961	127.5p	7 November 2017 to 6 November 2024
Unapproved	7 November 2014	98,039	127.5p	7 November 2017 to 6 November 2024
EMI	29 June 2015	74,025	94.5p	29 June 2018 to 28 June 2025

The interests of the Directors and their immediate families that are included within the options outlined above are as follows:

RA Parris – 869,565 options were granted on 16 August 2011 (448,517 of which are unapproved) and 250,000 options were granted on 7 November 2014 (98,039 of which are unapproved).

AM Walker – 374,094 options were granted on 16 August 2011 (163,570 of which are unapproved) and 50,000 options were granted on 7 November 2014.

On 1 September 2015, a free unit award equivalent to 100,000 ordinary shares of 1 pence each in the capital of the Company ("Free Units") was granted to R Chandhok, Non-Executive Director of Intercede Group plc. The award was made under the existing Intercede MyID Inc. Unit Incentive Plan, further details of which are provided in note 16. A pro rata payment of this award totalling £28,000 was made to R Chandhok following his retirement from the Board on 31 December 2016.

Share Incentive Plan (SIP)

Following the introduction of a Share Incentive Plan for all UK employees during the year ended 31 March 2014, a similar plan was introduced for all US employees during the year ended 31 March 2015. Full details are provided in note 16.

Share Price

As at 31 March 2017, the market value of the shares of the Company was 44.0p (mid-market price). The share price fluctuated between a high of 129.5p and a low of 42.5p during the year ended 31 March 2017.

Independent Auditors' Report to the Members of Intercede Group plc

Report on the group financial statements

Our opinion

In our opinion, Intercede Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 March 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 31 March 2017;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the company financial statements of Intercede Group plc for the year ended 31 March 2017.



Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 June 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Continuing operations			
Revenue	2	**8,286**	11,004
Cost of sales		**(116)**	(410)
Gross profit		**8,170**	10,594
Operating expenses		**(12,891)**	(12,511)
Operating loss	3	**(4,721)**	(1,917)
Finance income	5	**13**	32
Finance costs	5	**(70)**	—
Loss before tax		**(4,778)**	(1,885)
Taxation	6	**888**	892
Loss for the year		**(3,890)**	(993)
Total comprehensive expense attributable to owners of the parent company		**(3,890)**	(993)
Loss per share (pence)	7		
- basic		**(8.0)p**	(2.1)p
- diluted		**(8.0)p**	(2.1)p

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheet

At 31 March 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	8	**695**	864
Current assets			
Trade and other receivables	10	**1,280**	1,146
Cash and cash equivalents		**6,891**	5,289
		8,171	6,435
Total assets		**8,866**	7,299
Equity			
Share capital	11	**499**	487
Share premium		**673**	232
Equity reserve		**60**	—
Merger reserve		**1,508**	1,508
(Losses)/retained earnings		**(2,354)**	1,131
Total equity		**386**	3,358
Non-current liabilities			
Convertible loan notes	12	**4,124**	—
Deferred revenue		**141**	122
		4,265	122
Current liabilities			
Trade and other payables	13	**1,390**	1,795
Deferred revenue		**2,825**	2,024
		4,215	3,819
Total liabilities		**8,480**	3,941
Total equity and liabilities		**8,866**	7,299

The financial statements on pages 19 to 33 were authorised for issue by the Board of Directors on 7 June 2017 and were signed on its behalf by::

RA Parris Director
AM Walker Director

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	(Losses)/ retained earnings £'000	Total equity £'000
At 1 April 2015	487	232	—	1,508	2,257	4,484
Purchase of own shares	—	—	—	—	(610)	(610)
Employee share option plan charge (note 16)	—	—	—	—	115	115
Employee share incentive plan charge (note 16)	—	—	—	—	334	334
Employee treasury share transfer	—	—	—	—	28	28
Loss for the year and total comprehensive expense	—	—	—	—	(993)	(993)
At 31 March 2016	487	232	—	1,508	1,131	3,358
Purchase of own shares	—	—	—	—	(143)	(143)
Employee share option plan charge (note 16)	—	—	—	—	60	60
Employee share incentive plan charge (note 16)	—	—	—	—	488	488
Issue of new shares (note 11)	12	441	—	—	—	453
Equity component of convertible loan notes (note 12)	—	—	60	—	—	60
Loss for the year and total comprehensive expense	—	—	—	—	(3,890)	(3,890)
At 31 March 2017	499	673	60	1,508	(2,354)	386

All amounts included in the table above are attributable to owners of the parent company.

Share capital: Nominal value of shares issued.
Share premium: Amount subscribed for share capital in excess of the nominal value.
Equity reserve: Amount recorded as equity on the initial fair value measurement of issued convertible loan notes.
Merger reserve: Created on the issue of shares on acquisition of its subsidiary accounted for in line with merger accounting principles.
(Losses)/retained earnings: All other net (losses)/profits not recognised elsewhere.

The accompanying notes are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Operating loss	**(4,721)**	(1,917)
Depreciation	**194**	186
Loss on disposal of property, plant and equipment	**48**	—
Employee share option plan charge	**60**	115
Employee share incentive plan charge	**488**	334
Employee unit incentive plan (credit)/charge	**(20)**	58
Employee unit incentive plan payment	**(28)**	—
Employee treasury share transfer	**—**	28
Increase in trade and other receivables	**(364)**	(100)
(Decrease)/increase in trade and other payables	**(417)**	611
Increase/(decrease) in deferred revenue	**820**	(66)
Cash used in operations	**(3,940)**	(751)
Finance income	**14**	36
Taxation	**888**	892
Net cash (used in)/generated from operating activities	**(3,038)**	177
Investing activities		
Purchases of property, plant and equipment	**(73)**	(197)
Cash used in investing activities	**(73)**	(197)
Financing activities		
Purchase of own shares	**(143)**	(610)
Proceeds from issue of ordinary share capital	**453**	—
Proceeds from issue of convertible loan notes	**4,495**	—
Convertible loan note issue costs	**(321)**	—
Cash generated from/(used in) financing activities	**4,484**	(610)
Net increase/(decrease) in cash and cash equivalents	**1,373**	(630)
Cash and cash equivalents at the beginning of the year	**5,289**	5,895
Exchange gains on cash and cash equivalents	**229**	24
Cash and cash equivalents at the end of the year	**6,891**	5,289

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

1 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

General Information

Intercede Group plc ('the Company') and its subsidiaries (together 'the Group') is a leading independent developer and supplier of identity and credential management software. The Company is a public limited company which is listed on the AIM section of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is Lutterworth Hall, St. Mary's Road, Lutterworth, Leicestershire, LE17 4PS. The registered number of the company is 04101977.

Basis of preparation

The consolidated financial statements of Intercede Group plc have been prepared in accordance with European Union endorsed International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the EU and the Companies Act 2006 applicable to companies reporting under IFRS. The Directors consider that the going concern assumption is appropriate and therefore the consolidated financial statements have been prepared on a going concern basis under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The accounting estimates that have the most risk of causing a material adjustment to the amounts recognised in the financial statements are the judgements relating to:

- Research & Development (R&D) costs – in accordance with the IFRS recognition criteria outlined elsewhere within this note, the Board has determined that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2017 (2016: £nil).
- The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing a percentage of qualifying R&D to be paid as tax credits. The annual R&D tax credit claims are recognised in arrears, ie the period during which cash is received.
- Deferred tax asset – a deferred tax asset has not been recognised against the backdrop of the current programme of substantial strategic investment and unused tax losses brought forward.
- Share-based payments – the estimation of fair values for share-based payments is dependent on a number of assumptions (outlined in note 16) including expected volatility and the expected life of the option.

The Company has elected to prepare its entity financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and these are separately presented on pages 35 to 39.

Basis of consolidation

The Group financial statements include the results of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of during the year are included from the date of acquisition or disposal respectively.

The financial statements of the Company and its subsidiary undertakings are prepared for the same reporting year as the Group, using consistent accounting policies and in accordance with local Generally Accepted Accounting Principles. All intercompany balances and transactions, including unrealised profits arising from inter-group transactions, have been eliminated in full.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency.

Transactions in foreign currencies by individual entities are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the statement of comprehensive income.

Revenue recognition

Revenue, which excludes sales between Group companies and trade discounts, represents the invoiced value of goods and services net of value added tax. The Group's revenue recognition polices are detailed below:

Software licence sales (goods) – Revenue is recognised once the license is ready for transfer to the customer. This is on the basis that the customer cannot return the license or ask for it to be transferred to another party and the Group is under no obligation to provide a refund.

Software as a service (SAAS) sales – Revenue is recognised evenly over the period during which the service is provided.

Consulting and development services – Revenue is recognised on a time and materials basis as costs are incurred.

Support and maintenance services – Fees are invoiced at the beginning of the period to which they relate and are initially recorded as deferred revenue. Revenue is then recognised evenly over the maintenance period.

Segmental reporting

A geographical segment is engaged in providing products or services within a particular economic environment and may be subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

All of the Group's sales, operating profits and net assets originate from operations in the UK. The Directors consider that the activities of the Group across all areas of revenue constitute a single business segment. This conclusion is consistent with the nature of information that is presented to the Board of Directors of the Company, which is considered to be the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8.

Research and development costs

Expenditure incurred on research and product development and testing is charged to the statement of comprehensive income in the period in which it is incurred, unless the development expenditure meets the criteria for capitalisation. Where the development expenditure meets the criteria for capitalisation, development costs are capitalised and amortised over the period of expected future sales of the related projects with impairment reviews being carried out at least annually. The asset is carried at cost less any accumulated amortisation and impairment losses.

In general the Group's research and development activities are closely interrelated and it is not until the technical feasibility of a product can be determined with reasonable certainty that development costs are considered for capitalisation. In addition, intangible assets are not recognised unless it is reasonably certain that the resultant products will generate future economic benefits in excess of the amounts capitalised.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes all expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the costs provide enhancement, it is probable that future economic benefits associated from the item will flow to the Group and the cost of the enhancement can be measured reliably. All other repair and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided to write off the cost less the estimated residual value of property (excluding freehold land), plant and equipment over their estimated useful economic lives by equal annual instalments using the following rates:

Freehold buildings	2% pa
Leasehold improvements	Remaining period of the lease
Fixtures and fittings	15% pa
Computer and office equipment	25% pa

Leased assets

Leases under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to the statement of comprehensive income on a straight-line basis.

Trade and other receivables

Trade receivables are classified as loans and receivables under IFRS 7 and recognised and carried at original invoice amount less a provision for any uncollectible amounts. Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying value and the present value of estimated future cash flows.

Cash and cash equivalents

Cash and cash equivalents are classified as loans and receivables under IFRS 7 and are held with highly rated financial institutions. These comprise cash at bank and in hand and bank deposits with a short-term maturity.

Convertible loan notes

The proceeds received from the issue of the convertible loan notes are allocated between their financial liability and equity components. The financial liability is initially recognised at fair value (being the discounted cash flows using a market rate of interest that would be payable on a similar instrument that does not include an option to convert). The equity component is assigned to the residual amount after deducting this fair value liability from the fair value of the financial instrument as a whole. It is recognised in the 'Equity reserve' within shareholders' equity. More information is provided in note 12.

The financial liability is subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. The difference between the interest expense and the coupon payable is added to the carrying amount of the liability in the balance sheet.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based upon their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Pension costs

The Group operates a money purchase pension scheme via an independent provider. Contributions are charged to the statement of comprehensive income as incurred.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair values requires determination of the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 16.

Where share options are awarded to employees, the fair value of share-based compensation at the date of grant for equity-settled plans granted to employees after 7 November 2002 is charged to the statement of comprehensive income over the expected vesting period with a corresponding amount recognised as an increase in equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

The Group operates a Unit Incentive Plan to provide similar benefits for all US employees. The plan provides phantom shares or units, equivalent in value to shares in the Company, and the plan is cash-settled.

Taxation

The tax expense represents the sum of the current tax and deferred tax. UK corporation tax is provided at amounts expected to be paid (or recovered) and the current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised using the balance sheet liability method for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilised.

Adoption of new accounting standards

A number of new amendments to existing standards are effective for the first time for periods beginning on (or after) 1 January 2016 and have been adopted in these financial statements. None of the amendments impacted on the Group's consolidated financial statements.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not effective, including IFRS 9 'Financial Instruments', which is effective for periods beginning on or after 1 January 2018; IFRS 15 'Revenue from contracts with customers', which is effective for periods beginning on or after 1 January 2018; and IFRS 16 'Leasing', which is effective for periods beginning on or after 1 January 2019.

The Group has not early-adopted any of these new standards or amendments to existing standards. The Group is currently assessing the impact of IFRS 9, IFRS 15 and IFRS 16. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Revenue

All of the Group's revenue, operating profits and net assets originate from operations in the UK. The Directors consider that the activities of the Group constitute a single business segment.

The split of revenue by geographical destination of the end customer can be analysed as follows

	2017 £'000	2016 £'000
UK	**403**	462
Rest of Europe	**960**	1,312
North America	**6,367**	8,699
Rest of World	**556**	531
	8,286	11,004

Revenue of £2,711,000 (2016: £3,334,000) is derived from the only end customer that individually represents over 10% of the Group's revenues.

3 Operating loss

Operating loss is stated after charging/(crediting):

	2017 £'000	2016 £'000
Staff costs (note 4)	**10,049**	9,826
Foreign exchange gain	**(165)**	(108)
Depreciation of property, plant and equipment (note 8)	**194**	186
Operating lease rentals	**390**	363
Cost of sales	**116**	410
Other expenses	**2,423**	2,244
	13,007	12,921

Included in the costs above is research and development expenditure totalling £3,994,000 (2016: £3,905,000).

The analysis of auditors' remuneration is as follows:

	2017 £'000	2016 £'000
Fees payable for the audit of the parent company and consolidated financial statements	**37**	36
Fees payable for the audit of the Company's subsidiaries, pursuant to legislation	**5**	5
	42	41

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

4 Staff costs

The average monthly number of employees and contractors of the Group (including Executive Directors) was:

	2017 Number	2016 Number
Technical	97	95
Sales and marketing	17	19
Administration	11	11
	125	125

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	8,355	8,192
Social security costs	857	842
Other pension costs	309	285
Employee share option plan (note 16)	60	115
Employee share and unit incentive plan (note 16)	468	392
	10,049	9,826

Pension contributions totalling £44,000 (2016: £44,000) are included within year end trade and other payables.

Directors' remuneration

The aggregate remuneration of the executive Directors and key management was as follows:

	2017 £'000	2016 £'000
Emoluments	486	776
Company contributions to money purchase pension scheme	28	28
	514	804

Directors' emoluments

	Salary and fees 2017 £'000	Bonus 2017 £'000	Benefits in kind 2017 £'000	Total 2017 £'000	Total 2016 £'000	Pension contributions 2017 £'000	Pension contributions 2016 £'000
Executive Directors							
RA Parris	222	—	1	223	372	14	14
AM Walker	152	—	1	153	247	8	8
Non-Executive Directors							
R Chandhok	57	—	—	57	67	—	—
B Drury	25	—	—	25	25	—	—
R Hoggarth	25	—	—	25	25	—	—
	481	—	2	483	736	22	22
Fees paid to third parties	25	—	—	25	25	—	—

Fees paid to third parties comprise amounts paid to Tredoux Capital Limited under an arrangement to provide the Group with the services of J Tredoux as a Non-Executive Director. J Tredoux is a Director of Tredoux Capital Limited.

Details of the Directors' share options are set out in the Report of the Remuneration Committee on page 17.

5 Finance income and costs

	2017 £'000	2016 £'000
Finance income		
Interest income on short term bank deposits	**13**	32
Finance costs		
Convertible loan notes	**(70)**	—

Finance costs represent interest payable totalling £60,000 (2016: £nil) in respect of the convertible loan notes that were issued during the year plus £10,000 (2016: £nil) representing an effective interest rate adjustment (note 12).

6 Taxation

The tax credit comprises:

	2017 £'000	2016 £'000
Current year – UK corporation tax	**—**	—
Current year – US corporation tax	**(34)**	(40)
Research and development tax credits relating to prior years	**922**	932
Taxation	**888**	892

The difference between the tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2017 £'000	2016 £'000
Loss before tax	**(4,778)**	(1,885)
Loss before tax at UK corporation tax rate of 20% (2016: 20%)	**956**	377
Research and development claim	**784**	859
Research and development tax credits relating to prior years	**922**	932
Depreciation in excess of capital allowances	**(32)**	—
Expenses not deductible for tax purposes	**(2)**	(3)
Other temporary differences	**1**	(2)
Employee share option plan charge	**(12)**	(23)
Employee share incentive plan charge	**(70)**	(67)
Employee unit incentive plan credit/(charge)	**11**	(11)
Purchase of shares for employee share incentive plan	**74**	97
Share options exercised	**—**	9
US corporation tax	**(1)**	(10)
Transition to FRS101 by subsidiary	**—**	19
Losses carried forward	**(1,743)**	(1,285)
Tax credit for the year	**888**	892

The Group has unused tax losses of £11,773,000 (2016: £9,460,000) and unrecognised deferred tax assets of £2,001,000 (2016: £1,703,000) calculated at the UK corporation tax rate of 17% (2016: 18%).

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

7 Loss per share

The calculations of loss per ordinary share are based on the loss for the financial year and the weighted average number of ordinary shares in issue during each year. Basic and diluted loss per share are the same as potential dilution cannot be applied to a loss making year.

	2017 £'000	2016 £'000
Loss for the year	**(3,890)**	(993)

		Number	Number
Weighted average number of shares	– basic	**48,835,080**	48,429,489
	– diluted	**48,835,080**	48,429,489

		Pence	Pence
Loss per share	– basic	**(8.0)p**	(2.1)p
	– diluted	**(8.0)p**	(2.1)p

The weighted average number of shares used in the calculation of basic and diluted earnings per share for each year were calculated as follows:

	2017 Number	2016 Number
Issued ordinary shares at start of year	**48,735,005**	48,735,005
Effect of purchase of own shares	**(294,000)**	(305,516)
Effect of issue of ordinary share capital	**394,075**	—
Weighted average number of shares - basic	**48,835,080**	48,429,489
Add back effect of purchase of own shares	**N/A**	N/A
Effect of share options in issue	**N/A**	N/A
Effect of convertible loan notes in issue	**N/A**	N/A
Weighted average number of shares – diluted	**48,835,080**	48,429,489

8 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer and office equipment £'000	Total £'000
Cost					
At 1 April 2015	422	83	97	814	1,416
Additions	—	41	27	129	197
Disposals	—	—	(1)	—	(1)
At 1 April 2016	422	124	123	943	1,612
Additions	**—**	**29**	**29**	**15**	**73**
Disposals	**—**	**(83)**	**(20)**	**(13)**	**(116)**
At 31 March 2017	**422**	**70**	**132**	**945**	**1,569**
Accumulated depreciation					
At 1 April 2015	25	13	57	468	563
Charge for the year	8	19	12	147	186
On disposals	—	—	(1)	—	(1)
At 1 April 2016	33	32	68	615	748
Charge for the year	**9**	**23**	**18**	**144**	**194**
On disposals	**—**	**(37)**	**(18)**	**(13)**	**(68)**
At 31 March 2017	**42**	**18**	**68**	**746**	**874**
Net book amount					
At 31 March 2017	**380**	**52**	**64**	**199**	**695**
At 31 March 2016	389	92	55	328	864

9 Subsidiaries

The Company's subsidiaries, all of which have been consolidated in the Group's financial statements at 31 March 2017, are as follows:

	Country of incorporation	Class of shares	% held	Principal activity
Intercede Limited	England and Wales	Ordinary	100	Software developer
Intercede 2000 Limited	England and Wales	Ordinary	100	Dormant
Intercede MyID Inc.	USA	Common	100	Service provider

Intercede Limited and Intercede 2000 Limited are registered at Lutterworth Hall, St. Mary's Rd, Leicestershire, LE17 4PS, UK. Intercede MyID Inc. is registered at 2711 Centerville Rd, Suite 400, Wilmington, New Castle, DE 19808, USA.

10 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	1,033	733
Prepayments and accrued income	137	332
Other debtors	110	81
	1,280	1,146

As outlined in note 14, the Group's main credit risk relates to its trade receivables. The carrying amount of trade and other receivables approximates to their fair value, which has been calculated based on expectations of debt recovery from historic performances. Trade receivables are stated net of a provision for estimated irrecoverable amounts of £nil (2016: £nil). The level of trade receivables over 60 days old which have been provided for is £nil (2016: £nil). The amount written off as irrecoverable during the year was £nil (2016: £nil).

Included within trade receivables are receivables with a carrying amount of £37,000 (2016: £148,000) which are past due but have not been impaired as the amounts are still considered to be recoverable. The level of unprovided trade receivables over 60 days old was £15,000 (2016: £6,000). The average age of the Group's trade receivables is 33 days (2016: 34 days).

11 Share capital

	2017 £'000	2016 £'000
Authorised		
481,861,616 ordinary shares of 1p each (2016: 481,861,616)	4,819	4,819
Issued and fully paid		
49,903,143 ordinary shares of 1p each (2016: 48,735,005)	499	487

The increase in issued and fully paid ordinary shares of 1p each represents the issue of 379,542 shares on 29 July 2016 to facilitate the July 2016 Free Share award (note 16) and the issue of 788,596 shares on 27 January 2017, at an issue price of 57.0p per ordinary share, in connection with the fundraising that was announced on 28 December 2016.

As at 31 March 2017, the Company had 294,000 ordinary shares held in treasury (2016: 294,000). There were no purchases or transfers of shares to or from treasury during the year. During the previous year, the Company purchased 32,500 ordinary shares for a consideration of £47,000; 32,500 options were exercised using treasury shares and 15,000 ordinary shares were transferred to an employee pursuant to an incentive arrangement.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

12 Convertible loan notes

	2017 £'000	2016 £'000
Non-current		
8% Convertible loan notes (29 December 2021)	**4,124**	—

Borrowings are repayable as follows:

	2017 £'000	2016 £'000
Between two and five years	**4,124**	—

On 30 January 2017 the Company issued £4,495,000 convertible loan notes that carry an interest coupon of 8.0% pa payable quarterly. The Company has granted security by way of a composite guarantee and debenture in favour of Welbeck Capital Partners LLP to secure the repayment of principal and interest due on the convertible loan notes to the holders. Holders of the convertible loan notes may convert into ordinary shares, at a conversion price of 68.8125 pence per ordinary share, at any time until the final redemption date of 29 December 2021.

The amount recognised in the balance sheet in relation to the convertible loan notes is as follows:

	2017 £'000	2016 £'000
Nominal value of convertible loan note issue	**4,495**	—
Issue costs	**(321)**	—
Equity component at date of issue	**(60)**	
Liability component at date of issue	**4,114**	—
Effective interest rate adjustment	**10**	—
Liability component at 31 March	**4,124**	—

13 Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**451**	609
Taxation and social security	**175**	188
Accruals	**764**	998
	1,390	1,795

Included within accruals is £16,000 (2016: £64,000) relating to the Employee Unit Incentive Plan (note 16).

14 Financial instruments

The numerical disclosures in this note deal with financial assets and financial liabilities. There is no material difference between the fair value and the book values disclosed. Short term trade receivables and payables have been excluded from the disclosures, with the exception of the currency disclosures.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, purchase existing shares, issue new shares, or sell assets to reduce debt.

The Group's financial instruments have historically comprised convertible loan notes, cash and cash equivalents, and various items such as trade receivables and payables which arise directly from its operations. The main purpose of these financial instruments has been to fund the Group's operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group has no derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The Board has reviewed these risks on an ongoing basis throughout the year. The policy for their management is summarised below:

Interest rate risk

The Group has financed its operations to date through a variety of sources of external finance primarily including equity and convertible loan notes. The convertible loan notes, which are denominated in sterling, bear interest at fixed rates.

Liquidity risk

The Group's policy has been to ensure continuity of funding throughout the year.

Credit risk

The Group's business model is to license its technology and sell its products via partners who are typically major IT security industry players. Furthermore, at this stage in the development of the market for identity and credential management software, end user customers tend to be large corporates or government departments. As such, the inherent credit risk is relatively low.

Foreign currency risk

A number of suppliers invoice the Group in US dollars and euros. The Group has also entered into a number of agreements to license its technology and sell its products via other international organisations. This results in invoices being raised in currencies such as US dollars and euros. The Group's current policy is not to hedge these exposures. The exchange differences are recognised in the statement of comprehensive income in the year in which they arise (note 3).

Interest rate profile

The Group has cash deposits of £6,891,000 (2016: £5,289,000) at the year end. This includes US dollar deposits of £910,000 (2016: £1,422,000) and euro deposits of £203,000 (2016: £195,000). Interest rates on cash deposits are based on LIBOR.

Maturity of financial liabilities

The maturity of the Group's external borrowings are disclosed in note 12. The only other financial liabilities are short term trade and other payables as outlined within note 13.

Borrowing facilities

The Group has no undrawn committed borrowing facilities (2016: £nil).

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the statement of comprehensive income. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the Group (sterling). These exposures were as follows:

	Net foreign currency monetary assets		
	US dollar £'000	Euro £'000	Total £'000
At 31 March 2017	**1,704**	**230**	**1,934**
At 31 March 2016	2,134	200	2,334

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

15 Financial commitments

a) *Capital commitments*

The Group had no capital commitments at the year end (2016: £nil).

b) *Operating leases*

Future aggregate commitments under non-cancellable operating leases are as follows:

	2017 £'000	2016 £'000
Due within one year	**410**	292
Due between one and two years	**383**	344
Due between two and five years	**953**	891
Due beyond five years	**371**	550
	2,117	2,077

The operating lease commitments outlined above primarily relate to rent payable for the Company's UK and US offices.

16 Share based payments

The Company introduced a new Share Option Plan for senior executives on 22 July 2011 and options were granted later that year. The contractual life of an option is 10 years and exercise of an option is subject to achievement of performance targets, a 3 year vesting period and continued employment. The fair value of the options granted during 2011 was determined using a Black-Scholes valuation model.

Further options were granted on 7 November 2014 and 29 June 2015 in accordance with the resolution that was approved by shareholders at the Company's AGM on 17 September 2014. The fair value of the options granted was determined using a monte carlo valuation model and includes a share price target of 400p, as disclosed in the Report of the Remuneration Committee.

The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	26 July 2011	16 Aug 2011	20 Dec 2011	7 Nov 2014	29 June 2015
Share price at grant date	69.0p	57.0p	64.0p	127.5p	94.5p
Exercise price	1.0p	1.0p	1.0p	127.5p	94.5p
Number of employees	4	3	1	8	1
Shares under option	200,000	1,243,659	50,000	500,000	74,025
Expected vesting period (years)	3	6	3	6	5
Expected option life (years)	7	7	7	7	7
Expected volatility	57.53%	58.21%	42.54%	39.03%	39.65%
Risk free rate	2.29%	1.65%	1.24%	1.93%	1.87%
Expected dividends expressed as a dividend yield	2.90%	3.51%	3.13%	3.00%	3.00%
Fair value per option	55.0p	44.0p	50.0p	27.0p	15.0p

The expected volatility is based on historical volatility over the three year period through to the date of grant. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The options granted on 26 July 2011 and 20 December 2011 have now vested and 47,500 of these options had been exercised to date as at 31 March 2017 (2016: 47,500).

The total charge for the year relating to employee share options was £60,000 (2016: £115,000). Share options outstanding at the year end have a weighted average contractual life of 5.3 years (2016: 6.3 years).

In February 2014, HM Revenue & Customs approved an equity-settled Share Incentive Plan (SIP) for all UK employees including the Executive Directors. A Free Share award of £3,600 per employee was made on 29 July 2016 which, based upon the previous day's closing middle market price of 98.0p, resulted in 3,673 shares being issued to each of the 105 employees who were eligible. Partnership Shares can be subscribed for by employees via salary deductions during the year ending 31 March 2018, either on a monthly or lump sum basis to a cumulative value of up to £1,800. As at 31 March 2017, 77 employees representing 76% of the eligible employees, had made binding commitments to subscribe for Partnership Shares during the year ending 31 March 2018. Matching Shares will be given to employees on the basis of two Matching Shares for each Partnership Share.

16 Share based payments continued

Free Share and Matching Share awards to date have generally been met by the transfer of ordinary shares held in treasury and from continued on market purchases either by the Company or Capita IRG Trustees Limited as Trustee of the SIP. To the extent that ordinary shares are not available in treasury or in the volume required through the market, the Company will issue new ordinary shares to meet these awards. This was the route that was followed in respect of the July 2016 Free Share award.

The total charge for the year relating to the employee Share Incentive Plan was £488,000 (2016: £334,000).

In October 2014, the Company introduced a Unit Incentive Plan to provide similar benefits for all US employees. The plan provides phantom shares or units, equivalent in value to shares in the company, and the plan is cash-settled.

As noted in the Report of the Remuneration Committee, a Free Unit award equivalent to 100,000 ordinary shares of 1 pence each in the capital of the Company was granted to R Chandhok, Non-Executive Director of Intercede Group plc, on 1 September 2015. A pro rata payment of this award totalling £28,000 was made to R Chandhok following his retirement from the Board on 31 December 2016.

The total credit for the year relating to the employee Unit Incentive Plan was £20,000 (2016: £58,000 charge) as outlined in the table below:

	2017 £'000	2016 £'000
At 1 April	**64**	6
Additional (credit)/ charge	**(20)**	58
Paid during the year	**(28)**	—
At 31 March	**16**	64

17 Related party transactions

During the year ended 31 March 2017, J Tredoux served as a Non-Executive Director. J Tredoux is also a director of Tredoux Capital Limited, the Group's corporate finance adviser. Consultancy fees charged by Tredoux Capital Limited to the Group in respect of his services as a Non-Executive Director and general corporate finance advice, and balances outstanding at the year ends were as follows:

	2017 £'000	2016 £'000
Consultancy fees charged	**25**	25
Balance outstanding at the year end	**13**	6

During the year ended 31 March 2017, R Hoggarth served as a Non-Executive Director. R Hoggarth is also Chairman of Northgate Public Services, an existing Intercede customer. Sales made to Northgate Public Services during the year ended 31 March 2017 totalled £39,000 (2016: £107,000), of which £8,000 (2016: £8,000) was outstanding at the year end.

On 28 December 2016, the Company announced a fundraising that resulted in the subsequent issue of convertible loan notes totalling £4,495,000 on 30 January 2017 (note 12). The interests of the Directors, and their immediate families, that were included in this issue are £50,000 and £50,000 for R Parris and A Walker respectively.

Independent Auditors' Report to the Members of Intercede Group plc

Report on the company financial statements

Our opinion

In our opinion, Intercede Group plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Accounts (the "Annual Report"), comprise:

- the Company Balance Sheet as at 31 March 2017;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Intercede Group plc for the year ended 31 March 2017.



Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
7 June 2017

Company Balance Sheet

At 31 March 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Investments	3	**4,721**	4,221
Current assets			
Trade and other receivables	4	**4,017**	—
Total assets		**8,738**	4,221
Equity			
Share capital	5	**499**	487
Share premium		**673**	232
Equity reserve		**60**	—
Retained earnings		**3,305**	2,946
Total equity		**4,537**	3,665
Non-current liabilities			
Convertible loan notes	6	**4,124**	—
Current liabilities			
Trade and other payables	7	**77**	556
Total liabilities		**4,201**	556
Total equity and liabilities		**8,738**	4,221

The amount of loss dealt with in the Company financial statements was £46,000 (2016: £70,000 loss).

The financial statements on pages 35 to 39 were authorised for issue by the Board of Directors on 7 June 2017 and were signed on its behalf by:

RA Parris Director
AM Walker Director

The accompanying notes are an integral part of these financial statements.

Intercede Group plc: Registered No. 04101977

Company Statement of Changes in Equity

For the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2015	487	232	—	3,149	3,868
Purchase of own shares	—	—	—	(582)	(582)
Employee share option and share incentive plan charges	—	—	—	449	449
Loss for the year and total comprehensive expense	—	—	—	(70)	(70)
At 31 March 2016	487	232	—	2,946	3,665
Purchase of own shares	—	—	—	(143)	(143)
Employee share option and share incentive plan charges	—	—	—	548	548
Issue of new shares	12	441	—	—	453
Equity component of convertible loan notes	—	—	60	—	60
Loss for the year and total comprehensive expense	—	—	—	(46)	(46)
At 31 March 2017	499	673	60	3,305	4,537

The accompanying notes are an integral part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 March 2017

1 Accounting policies

The Company is a holding company which was set up to facilitate the admission of the Group onto the AIM section of the London Stock Exchange. It does not trade and it has no employees or staff costs and is therefore not required to display a staff costs note.

Basis of Preparation

The financial statements have been prepared on the going concern basis in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The Company has taken advantage of Section 408 of the Companies Act 2006 not to present its own profit and loss account.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IAS 7 'Statement of cash flows';
(b) the requirements of IFRS 7 'Financial Instruments: Disclosures';
(c) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share Based Payment';
(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements';
(e) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
(f) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement'; and
(g) the requirements of paragraphs 17-19 of IAS 24 'Related Party Disclosures'.

A summary of the principal accounting policies, which have been applied consistently, is set out below.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for impairment in value.

Taxation

The tax expense represents the sum of the current tax and deferred tax. UK corporation tax is provided at amounts expected to be paid (or recovered) and the current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised using the balance sheet liability method for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which deductible temporary differences can be utilised.

Convertible loan notes

The proceeds received from the issue of the convertible loan notes are allocated between their financial liability and equity components. The financial liability is initially recognised at fair value (being the discounted cash flows using a market rate of interest that would be payable on a similar instrument that does not include an option to convert). The equity component is assigned to the residual amount after deducting this fair value liability from the fair value of the financial instrument as a whole. It is recognised in the 'Equity reserve' within shareholders' equity. More information is provided in note 6.

The financial liability is subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. The difference between the interest expense and the coupon payable is added to the carrying amount of the liability in the balance sheet.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based upon their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

Share-based payments

The equity-settled share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of all the options granted are measured using the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms of the grant. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share options made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investment in subsidiary undertaking based on an estimate of the number of shares that will eventually vest.

Adoption of new accounting standards

A number of new amendments to existing standards are effective for the first time for periods beginning on (or after) 1 January 2016 and have been adopted in these financial statements. None of the amendments impacted on the Company's financial statements.

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not effective, including IFRS 9 'Financial Instruments', which is effective for periods beginning on or after 1 January 2018; IFRS 15 'Revenue from contracts with customers', which is effective for periods beginning on or after 1 January 2018; and IFRS 16 'Leasing', which is effective for periods beginning on or after 1 January 2019.

The Company has not early-adopted any of these new standards or amendments to existing standards. The Company is currently assessing the impact of IFRS 9, IFRS 15 and IFRS 16. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

Notes to the Company Financial Statements continued

For the year ended 31 March 2017

2 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the parent company are £2,000 (2015: £2,000).

3 Investments

	2017 £'000	2016 £'000
At 1 April	**4,221**	3,713
Additions	**500**	508
At 31 March	**4,721**	4,221

Additions in the year of £500,000 (2016: £508,000) reflect the employee share option, incentive and unit plan charges and credits relating to employees of the Company's subsidiaries.

The Company's subsidiaries at 31 March 2017 are:

	Country of incorporation	Class of shares	% held	Principal activity
Intercede Limited	England and Wales	Ordinary	100	Software developer
Intercede 2000 Limited	England and Wales	Ordinary	100	Dormant
Intercede MyID Inc.	USA	Common	100	Service provider

The registered offices are set out in note 9 of the consolidated financial statements.

4 Trade and other receivables

	2017 £'000	2016 £'000
Amounts owed by subsidiary undertakings	**4,017**	—

Amounts owed by subsidiary undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged on amounts owed by subsidiary undertakings at market rates.

5 Share capital

	2017 £'000	2016 £'000
Authorised		
481,861,616 ordinary shares of 1p each (2016: 481,861,616)	**4,819**	4,819
Allotted and fully paid		
49,903,143 ordinary shares of 1p each (2016: 48,735,005)	**499**	487

The increase in issued and fully paid ordinary shares of 1p each represents the issue of 379,542 shares on 29 July 2016 to facilitate the July 2016 Free Share award (note 16 of the consolidated financial statements) and the issue of 788,596 shares on 27 January 2017, at an issue price of 57.0p per ordinary share, in connection with the fundraising that was announced on 28 December 2016.

As at 31 March 2017, the Company had 294,000 ordinary shares held in treasury (2016: 294,000). There were no purchases or transfers of shares to or from treasury during the year. During the previous year, the Company purchased 32,500 ordinary shares for a consideration of £47,000; 32,500 options were exercised using treasury shares and 15,000 ordinary shares were transferred to an employee pursuant to an incentive arrangement.

6 Convertible loan notes

	2017 £'000	2016 £'000
Non-current		
8% Convertible loan notes (29 December 2021)	**4,124**	—

Borrowings are repayable as follows:

	2017 £'000	2016 £'000
Between two and five years	**4,124**	—

On 30 January 2017 the Company issued £4,495,000 convertible loan notes that carry an interest coupon of 8.0% pa payable quarterly. The Company has granted security by way of a composite guarantee and debenture in favour of Welbeck Capital Partners LLP to secure the repayment of principal and interest due on the convertible loan notes to the holders. Holders of the convertible loan notes may convert into ordinary shares, at a conversion price of 68.8125 pence per ordinary share, at any time until the final redemption date of 29 December 2021.

The amount recognised in the balance sheet in relation to the convertible loan notes is as follows:

	2017 £'000	2016 £'000
Nominal value of convertible loan note issue	**4,495**	—
Issue costs	**(321)**	—
Equity component at date of issue	**(60)**	
Liability component at date of issue	**4,114**	—
Effective interest rate adjustment	**10**	—
Liability component at 31 March	**4,124**	—

7 Trade and other payables

	2017 £'000	2016 £'000
Amounts owed to subsidiary undertakings	**—**	492
Accruals	**77**	64
	77	556

Amounts owed to subsidiary undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

8 Financial commitments

a) Capital commitments

The Company had no capital commitments at the year end (2016: £nil).

b) Operating leases

The Company had no annual commitments under non-cancellable operating leases at the year end (2016: £nil).


TV

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