ANNUAL REPORT AND ACCOUNTS

2017

GRAFENIA® plc

CONTENTS

IN SUMMARY

Grafenia creates software and systems which power the graphic arts industry. We license our brands and know-how in the UK and internationally.

We operate complex logistics, a SaaS platform and brands which sell print and web to business customers.

CONTINUING OPERATIONS

	Year ended 31 March 2016	*Year ended 31 March 2015*
	£000	*£000*
Licence Fees	**1,489**	1,403
Company Studios	**1,151**	1,425
Brand Partner Products	**3,762**	3,893
Online and Trade Products	**4,042**	4,045
Total Revenue	**10,444**	10,766
Gross Profit	**6,585**	7,135
EBITDA	**763**	1,213
Amortisations and Depreciation	**(1,746)**	(1,462)
Operating (Loss)/Profit Before Restructuring Costs	**(926)**	59
Restructuring Costs	**(57)**	(308)
Operating (Loss)/Profit After Restructuring Costs	**(983)**	(249)
Tax Income	**362**	270
Profit from Discontinued Operations	**-**	54
(Loss)/Profit for the Year	**(625)**	64
EPS – Continuing Operations	**(1.37)p**	0.02p
EPS – Discontinued Operations	**-**	0.12p
EPS – Total	**(1.37)p**	0.14p
Total Dividend per share	**Nil**	0.14p
Capital Expenditure	**£0.89m**	£1.82m
Net Funds	**£0.21m**	£0.36m

A Curve 24 ink-on-fabric display, inside Nettl of Birmingham Business Store. Each display comes in two parts – a lightweight aluminium frame, which clips together, and a fabric cover which stretches across the frame.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Grafenia plc is in transition. I am taking this Chairman's Statement as an opportunity to update you on efforts in the past year and on what comes next. The format and style of this year's statement will differ from prior years, in that, I offer more detail and explain more about why we did what we did.

Any transformation creates uncertainty. I strongly believe that transparency and an open-door policy helps all shareholders apply better judgment about our course of action. After all, it is your business we are running and you deserve fair and objective reporting.

Operational performance

Grafenia makes money from different business sectors, which have delivered varying performance over the last few years. Most importantly, our print revenues have been declining for some years and much of the decline has been driven by continued pricing pressure in the market.

In the recent fiscal year, this drove a decrease in turnover by 2.3% to £10.44m *(2016: £10.77m)* and in EBITDA by 50.0% to £0.76m *(2016: £1.52m)*. Operating loss increased to £0.99m *(2016: loss of £0.25m)* while we achieved an effective tax income of £0.36m *(2016: income £0.27m)*. As in the prior year, the tax income was mainly due to the Group gaining Research & Development Relief. After spending capital investment of £0.89m *(2016: £1.82m)* plus £0.06m for the acquisition of ADD Signs Limited, we finished the year with a net cash position of £0.52m *(2016: £0.69m)*.

Whilst the aggregated financial figures are incredibly frustrating, a higher granularity regarding areas of performance is appropriate to consider. In contrast to the decreasing profit contribution from print products, we have enjoyed a strong increase in license revenues from our partners' subscriptions, especially from our new concept under the Nettl banner. Nettl has been very well received

These fabric booths are dual purpose. They're great at exhibitions, since they pop up in under ten minutes and can be carried by hand. They're also perfect as secluded meeting booths for making office meetings more inspiring.

and we continue to expect increasing license fee contribution as we add new partners. To drive network growth, we have expanded our sales team to find more Nettl partners. This has had a negative impact on our profitability in the short term. However, we view this as an excellent investment as the cost of acquisition, relative to the customer lifetime value of signing new partners, have proven highly attractive. A similar logic applies to our continued spending on software development which is not all directed at maintaining the system, but rather considers adding new capabilities if our customers pay for them. We curtailed software investment significantly (as evidenced by a much lower current year capital expenditure in comparison to depreciation and amortization, which relates to past capital expenditures). We will continue to make our capital expenditure and sales investments according to the cash-on-cash return they create.

We find print revenues hard to predict and face challenges every day, although it remains an important part of the Group. Indeed, our team members are making incredible efforts to lower the current reliance on print. To that end, we are trying hard to enable our partners to offer a holistic suite of design and promotional services to their end clients, extending beyond print. These includes signage, ecommerce and expo display.

A main driver behind our weaker EBITDA and net loss figure is the impairment we applied to our receivables position. This year the Audit Committee insisted on management applying greater scrutiny to the age and profile of our receivables. These debts are old legacy balances from partners where we agreed payment schemes. For instance, partners would pay 20% on top of any invoice to reduce their outstanding balance with us. For that limited group of partners a more detailed estimation of collection time was carried out and our impairment provision increased to reflect a lower present value of collections. In plain English, we decided to value an estimated collection from a partner a year from now lower than a collection next week. I'd like to thank KPMG for their valuable input in assessing this exercise and the Audit Committee believes that the current balance sheet number is a prudent estimate of our receivables balance. In addition, this self-evaluation of collection practices has been used to refine systems to improve collection of receivables and we expect improvements in cash-conversion going forward.

Another important aspect of our financial reporting is the relatively high expense we incur as a public company. Most of our systems are designed to run a much larger operation and regulation requires us to retain a small army of advisers and compliance processes. While we are happy with them individually and value their advice, in aggregate they cause a perverse situation where most of our current operational profit is consumed by the cost of being a public company. This is clearly unacceptable and the core reason why I joined the board. The success of my tenure should be measured by whether we figure out a way to make better use of our public listing.

Ink-on-fabric isn't just for displays. We use it to make custom business furniture. Here's a foam cube. Every side can be customised and branded and the fabric is durable enough to be used outdoors.

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

As a non-executive director, there are only a few ways to influence the results of a business. I'll discuss below the measures we took during the last year and provide an update on future priorities.

The real work at Grafenia, however, gets done by our operational team members. I utterly believe that we have the right people at Grafenia to manage this transition. First and foremost, Peter is a terrific leader that inspires, motivates and creates what will be a transformed network of partners. We have a trusting relationship and he has impressed me with his willingness to learn and strive to achieve the best outcome for shareholders.

Any managerial effort is a team effort and, despite some less joyful moments every now and then, I believe the entire Grafenia family has worked incredibly hard in the last year. However, I'd like to specifically point out two individuals who drove many initiatives and achieved high performance in their roles.

Firstly, I'd like to thank our COO Gavin Cockerill for his relentless effort in driving sales performance. Gavin is a rare combination of a data-driven analytical mind and a great marketer. A large part of the scaling of Nettl can be ascribed to him. Make sure never to stand between him and a prospective Nettl partner!

Secondly, we can be lucky to have our Company Secretary Richard Lightfoot on the team. Richard has served Grafenia for many years as a central coordinator for everything legal and administration related. He is a thorough worker with a great eye for detail. Importantly, he has been leading various M&A efforts during the past year. You can rest assured that any sign business we might buy has been scrutinized by Richard.

So, what value did the Non-Executive Directors create?

I would like to group our efforts into three distinct fields:

1. Finding the right governance structure

Over the course of the last year, we conducted a self-evaluation exercise to find out what type of board we need to drive Grafenia forward. More specifically, we took a hard look at how many non-executive board members we should have and what their competencies need to be.

Given that Pavel and I have a high overlap in skills, Pavel decided to step down from the board at the upcoming AGM. I would like to thank Pavel for his contribution over time and his great help during the last year.

Conrad and I complement each other well. Together we are looking at various options to make better use of our public listing. Quite frankly, the engagement of non-executives has been intense during the last few months and we are working hard with the executive team to evaluate the company's opportunities for capital deployment.

Our new Nettl of Birmingham Business Store has different types of space. Clients are free to use our informal areas for their own meetings, or they can hire out a private boardroom for exclusive use.

2. Setting incentives right

We have started a long-overdue exercise to realign the compensation system for our CEO with shareholders' interests. Peter's bonus scheme is now a direct function of accumulated free cash-flow over rolling three year periods. We view this as an appropriate incentive to drive sales performance and cash generation and align management actions with shareholder interests. If the scheme proves effective, we'll expand the roll-out to a broader group of management.

Moreover, we have offered all our employees the opportunity to set aside part of their salary to buy stock in a new Grafenia "save-as- you-earn" (SAYE) scheme. 49 employees (over 40%), chose to participate and save substantial sums of money to become part-owners in Grafenia. I find this a very healthy indicator and was proud to see such a high uptake.

Last, but not least, Conrad and I proposed a significant reduction in our non-executive remuneration. Specifically, we are reducing non-executive director annual pay by 25%, from £20k to £15k, whilst reducing the Chairperson pay by 50%, from £30k to £15k. Performance of Grafenia and the non-executives has not been sufficient for some years now and we feel it is appropriate to first show we are worth any money before thinking about raising our compensation!

3. Driving capital allocation

As Directors of your company, we are your agents. It is our role to efficiently extract value from the capital we have a mandate to manage. Allocation of capital works best when it is based on an accepted, simple and rational framework. We have started to build such a framework to better allocate capital between the different options open to the company.

Our analysis started earlier in the year with Gavin creating a concise analysis, across our different channels, of customer acquisition cost versus customer lifetime value. Later, Richard led efforts to add a framework to evaluate acquisition opportunities in the sign space which was first applied to our acquisition of ADD Signs. Lastly, Alan improved our financial planning to provide better visibility in terms of valuation and when we should repurchase equity.

All of this structure is a good improvement and sets the standard for future board work.

A result of our capital allocation framework and analysis is that we have less desire to pay out dividends in the future. We find dividends to be a tax-inefficient way to reward shareholders and currently see numerous accretive opportunities for internal reinvestment. Furthermore, it does seem that Grafenia is better off scaling up rather than reducing size by returning money to shareholders.

Nettl marketing aims to inspire clients to talk to us about their ideas. This Curve 30 display features a movie misquote and a stunning image, which is more than six square meters in size.

Outlook & current priorities

The outlook for print products is uncertain and current trading has been tough. Nevertheless, our efforts in scaling up Nettl bode well and we are increasingly encountering potential partner opportunities to sell the concept in international markets.

One of our past mistakes has been in providing overly optimistic guidance to the market which was subsequently not met. Our quarter to quarter results are incredibly hard to predict and we have decided to provide less frequent, but more detailed, updates to the market as and when applicable. For example, in the past we updated on trading in Mid-October and would then publish our interim results in Mid-November. This seems like a lot of noise relative to the pace of change in our business. This year, we'll provide you with one informative Interim Update on November 6th, notwithstanding ad hoc events or changes in forecast trading.

A key focus area for the non-executive team is to continue improving our internal controls, forecasting function and reporting. All of the above are necessary to drive successful M&A as we strike out to acquire more sign businesses. In that context, we decided to tender our audit mandate and find an auditor that is the most effective business partner for our finance team. We have enjoyed working with KPMG, but after engaging them for 10 years we felt it is the time to obtain fresh eyes. They have been, quite literally, your eyes and ears into Grafenia and I'd like to thank KPMG for their valuable contribution over those 10 years. Moving ahead we are looking forward to working with the Manchester team of RSM, a large UK auditor with more than 3,000 professionals.

We are hosting our AGM on Friday, July 28th and invite all our shareholders to visit us. In addition to attending the formal meeting, you will get the opportunity to meet more of our team members and see our production operations and company owned Nettl store. We hope you come as a shareholder and leave as a proud Nettl website owner!

Jan-Hendrik Mohr
Chairman
7 June 2017

This year we relocated our Nettl of Birmingham company-owned studio to a new part of town. The lobby glows from two enormous fabric lightboxes. We make and sell a variety of flags, like the Empire flag shown here.

Peter Gunning
Chief Executive

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT

Things have changed

This year we've continued to execute our transformation plan. Not everything has gone the way we would have liked, but we have made progress.

I've altered the format of this year's CEO report. We've made a lot of changes since I permanently took over as CEO. One of those changes is the way we communicate with our teams and our partners. Our style is open and inclusive. We believe in keeping things to the point. We use clear and simple language. We present information in a format that's easy to understand.

We think it's important to extend this to the way we communicate with our shareholders.

In this report, I'd like to explain in more detail where we've come from and the challenges we face. Then, I'll share our vision of where we're trying to get to. You might know some of this stuff already, so apologies if you reach for the fast forward button.

Let's start from the top. We generate revenue from two main sources: licensing brands and software, and manufacturing product.

We license our brands, software and technology to partners in the UK and internationally. They pay us subscription fees in exchange. That bit is growing. We're putting our effort into scaling it more quickly. This is where we have the strongest competitive advantage. We think this is where our future lies. I'll talk about why in more detail a little later on.

Every month we provide a new marketing campaign for our partners. This is from a printing.com campaign, focusing on new soft-touch business cards and flyers, which feel like suede.

We also directly manufacture a range of printing, signage, promotional items and expo displays in the UK. Overall, this bit declined this year. But it's a mixed story. Some bits are growing, some are flat and some are contracting.

The majority of our printing is sold via resellers. We split those into two types: Brand Partners and Trade Partners. With Brand Partners, our brands are exposed to the end client. With Trade Partners, the end client is unaware that we are manufacturing under 'white-label'. Both are important to us and I'll explain why in this report.

We also sell directly to some end clients in our own stores. We think that's really important. We do this to learn first-hand what clients want and what our partners need to deliver for their clients. We adapt and develop our offering, to ensure it fits those needs.

Our products are used by all sizes of business - from startups to large corporates. Our different channels tailor their message and service to address different parts of the market. More on that later.

A time to listen

Let's rewind. We grew up by franchising printing.com stores in the UK.

Over the past decade, as high street print began to decline, we tried many things to reshape our business. Our DNA is to innovate, try new things, move quickly and live test. Not everything we do works. Some things get killed before release. Some things fail fast. In some things, we see potential, we refine and iterate.

We've done things in the past which created conflict with our partners. That's an inevitable part of the change process and innovation cycle, but at times, our relationship with the then franchisees was more fractious than it should have been.

When I took over as CEO, we wanted to reset what it meant to be part of our network.

Our team immediately embarked on a listening exercise. We asked our partners what was grinding their gears. We encouraged them to be open and brutal. To tell us the things we did which added friction to their lives. To share stories of where we were unnecessarily difficult to do business with.

And they did. They shared. Lots. They made many suggestions. Their feedback was frank and honest.

As the notes came in, we assigned and prioritised the comments. We made some quick fixes and set to work on the larger problems. In particular one big, hulking elephant in the room.

We manufacture a wide range of printing products from our Manchester Hub. Our economies of scale mean we can efficiently mass produce even fancy finishes like Opuleaf gold foil (top) and Embossini embossed cards (bottom).

The elephant in the printer

Time and time again, the same issue arose.

Straight in at number one. Pricing. Over and over, they complained about our product pricing. We were selling the same or similar products across our different channels at different prices. Some channels had everyday low pricing, others had deep, short-term vouchered discounts.

Some partners had the best of both worlds. Or so we thought. They could choose which price to sell at – everyday low, or list price with discount vouchers. Whilst this sounds fair in principle, the reality is different. It meant that partners were forced, every time, to make a comparison, before they could even give the client a price. That created noise and confusion.

There were also occasions where we were selling some products to end clients, below the price that partners could buy at.

We were doing this to respond to competitor discounting. As these competitors have sprung up, many from overseas, they've sought to grab market share by selling well below our historic pricing. Tempted by the lure of cheap print, partners were sometimes straying outside of our supply chain.

We had to fix this.

In April 2016, we embarked on Project OnePrice. This was a substantial and comprehensive exercise to simplify our pricing. We had two objectives. The first, to cut out the noise. Our Brand Partners should have a single, competitive price to buy at. Secondly, we should reward our Brand Partners' loyalty by ensuring they always had access to our best prices.

The macro effect of this is that we produced more orders overall than the previous year – over 120,000 individual jobs – but at a lower price.

The end of franchisees

As the suggestions piled in, something surprising happened. People started sharing positive comments. They told us the things that we did that they valued. They reminded us why they joined with us in the first place.

We wondered if there was a way to reboot printing.com. To refresh it and reinvent it. So we simplified the model. We kept the bits which people valued and discarded the constraints that were designed for a different time. And we packaged it at £299 per month.

We set fire to the hundred page franchise agreement. We replaced it with a simple one page software subscription and a brand licence.

And we changed the way we thought of printing.com owners. No longer would we call them franchisees. We would not behave as franchisor/franchisee. We didn't want them to think of us as suppliers and we didn't want to treat them as customers. We are in business together. To achieve the same aim. To help local businesses to promote themselves better.

Our clients want help growing their businesses, so our marketing is focused on helping them achieve that. This campaign from last year talked about ways that end clients can attract more customers themselves.

Today, they are our partners. This may seem like a small change, but culturally, it is significant.

We tested the new model with a small presence at a private event. Imagine our delight when we signed a new partner. And then another.

By the end of the year over 30 new partners had signed and there are currently over 90 printing.com branded locations. We expect to add more new locations this year.

Existing printing.com's were invited to switch to the new subscription. So far over 80% have switched and we expect the remainder will make the transition in due course.

The journey from printer to trusted adviser

We opened the first printing.com studio in Edinburgh in 1998. The world was a very different place back then. In those days, the first thing a small business startup wanted was business cards. We'd design and print for local businesses, then we'd help them with marketing as they grew. Our efficient central production meant we had a better product at a lower price than local competitors.

Now, the first thing a small business wants is a website. The person who designs the website, often gets to keep the whole creative relationship. Clients want the same person to design their print, their signage, their exhibition displays as well as their digital marketing.

We've sold websites via printing.com stores for over 10 years, and many of our partners continue to offer them as part of their service. However, clients sometimes struggle to reconcile the thought of buying web design, or an ecommerce web shop, from their printer. They just print, don't they?

That's why we launched the Nettl formula back in September 2014. Nettl puts web and ecommerce first, because that's what clients are doing. Today, the majority of revenue in most Nettl studios still comes from the sale of print and display. However, to win new clients and retain existing ones, we've got to take care of all their creative and marketing needs. Those needs now start with web. So that's where we start.

I'll talk in a bit about the four studios we own. However, most Nettl locations are independent. We partner with print shops, design agencies, web designers and sign companies. They "bolt-on" Nettl to their business.

The Nettl solution is a suite of training, marketing and software which helps a graphics business to deliver higher value web projects, with their existing team's skillset. We show them how. We train them in sales and tech. The Nettl marketing collateral, updated monthly, gives them the tools to connect with existing clients and win new ones.

Ink-on-fabric production has opened up a whole new range for our partners to sell. Printed gazebos are perfect for farmers' markets and festivals. Parasols provide branded shade in beer gardens and outdoor dining areas.

As we've developed the Nettl formula, we've designed nine distinct training courses. These cover sales, graphics, tech and operations at levels from beginner to expert. We've delivered over 2,000 individual classroom training seats to partners and our own team members since Nettl started. More than 1,250 training days in the last year alone.

Nettl partners pay a monthly subscription of typically £399. That gives them access to our systems and marketing. They also access our supply chain and can buy printing and display products from our hub, as well as third party suppliers.

Last year, the Nettl network doubled in size. The year ended with 108 locations *(2016: 53)* and we have continued to add partners since. Many Nettl partners were previously printing.com partners. We're grateful to have them add Nettl capability and we expect a few more to switch over this year.

If our talent pool was restricted to former printing.coms, you'd be forgiven for thinking the upside to Nettl was limited.

However, over one third of Nettl partners are either trade partners, or businesses we had no previous trading relationship with.

Over the last year, we redeployed people into Nettl partner acquisition and now have a scalable acquisition process. We expect the Nettl network to continue growing and aim to scale beyond 300 locations in the UK.

Since most Nettl locations also sell the printing.com product range and are listed on the website, we combine their sales. In the year product revenues produced by our brand partners were £3.76m *(2016: £3.89m*). Our overall licence fee income grew to £1.49m *(2016: £1.40m)* of which Nettl and printing.com subscriptions grew to £0.80m *(2016: £0.61m)*.

Our Company Studios

Back in 2014, over a series of weekends, we rebranded the printing.com studios we own as Nettl. Whilst this was an essential step in our transformation, not all of our people had the right skills to be effective 'Nettlings'.

In a studio, revenues are made up from the sale of print and sale of web design, ecommerce and hosting. Project OnePrice means we're selling print at lower prices than before.

We've changed the dynamic in our company studios to have more focus on individual sales performance. That's meant that in each studio, we've changed team members and our performance management.

In the previous year, we closed an underperforming, company-owned studio. The lease was ending, so we thought it made sense to migrate the client base to another studio, less than 50 miles away. Despite regular contact, by the end of the following year, almost all of the revenue from the closed studio's client base was gone. Whilst this was a hard lesson to learn, we believe this demonstrates the necessity for a neighbourhood studio and that clients value a local creative relationship.

Last year we brought people together at a series of Expoganza events around the country. These events are for graphic professionals and our partners. This one at our hub was in conjunction with the BPIF, an industry body.

The overall effect is that this year, revenues from our Company Studios dropped to £1.15m *(2016: £1.42m)*, although website sales increased to £0.15m *(2016: £0.14m)*.

Since our new teams have been assembled and structure has taken effect, early results are positive and we anticipate stronger performance this year.

We had to relocate our Birmingham studio last year. It's become our first Nettl Business Store and we're experimenting with meeting space rental and coffee sales to drive footfall. We are refining the experience and are encouraged by the team recently achieving their highest monthly sales and margin since 2006.

Spreading Nettl around the world

We license our systems and brands internationally. Master Licensees typically have print hubs and reseller networks and use our software and, in some instances, marketing in their country. Each agreement is structured slightly differently, however we are either paid a share of local licence fees, transaction fees, or both. Master licence fees increased slightly to £0.53m *(2016: £0.51m)*.

We are currently experimenting with ways of launching Nettl in other countries. In June 2017, we signed four 'founding' partners in The Netherlands. They'll help us to adapt the Nettl formula for the Dutch market. We'll talk about those in more detail when they move into roll-out. If you spot a Nettl abroad, pop in for a brew.

Building out our partner funnel

As volumes from our printing.com business reduced, we looked for other ways to utilise capacity at our Manchester production hub. We tried a few different channels before launching and scaling Marqetspace.com.

Marqetspace sells print and display to graphic professionals. To date, we've sold to 3,000 resellers. Our scalable marketing activity is attracting new trade partners each month. The sale of printing via Marqetspace.com and other online channels was £4.04m *(2016: £4.05m)*.

More important than the volume, Marqetspace acts as our funnel for new brand partners. They try us. They buy stuff. We deliver on time. They like our quality. And we start a relationship. We ask them about their challenges. Then we try to help. It's easier to have that conversation once we've got to know each other. Our aim is to turn Marqetspace clients into brand partners. So far over 20 have made the leap.

As well as providing some printing on a white label basis, we also license specialist ecommerce and web design software on a white label basis too. Licence fees were £0.3m *(2016: £0.42m)*.

We wrapped one of ADD Signs' vans to promote our new Nettl Now same day printing service, launched in Manchester this year. Clients can order a range of print online and get it delivered in as little as four hours.

Whilst volumes in the traditional print market have been in steady decline, automation has increased overall capacity in the market. Add an influx of overseas capacity and the result is a market driven by price wars and over supply. We are forecasting further margin erosion on the sale of trade print and do not expect prices to increase in the short term. However, we're seeing a growing trend across Europe of "offline" print migrating online and our focus is on delivering a reliable service to capture our share.

Last year we diversified our product mix and invested in direct-to-textile printing kit. We call it ink-on-fabric. Because that's what it is. We now sell a range of expo display and custom furniture through Marqetspace and other channels. And that's growing well. Clients are choosing these next generation fabric displays because they're lighter and look better than the alternatives. Across all channels, May 2017's annualised monthly run rate ("AMRR") for ink-on-fabric was £0.86m. We expect this to grow and become a bigger share of our revenues.

Outlook

Our market is tough. We have many much larger competitors attacking us in different areas.

Except one.

Nettl.

Sure, there are independent web designers. Of course there are online web design tools. And yes, there are print shop chains who advertise websites in their windows. But there isn't a direct competitor to Nettl. Yet.

We believe we have a moment to grow Nettl into the world's largest network of web and design studios. A place where business can do business. A place where entrepreneurs can come for help with tricky things like e-commerce, online bookings and websites. Where they can see expo displays and signage in action. Merchandised to inspire them. Where they can talk about marketing. Print and digital. That's Nettl.

We'll work with partners to scale organically, in this country and others. But we want to grow faster.

In January 2017 we made our first small acquisition. ADD Signs in Liverpool. That started with a "100 day plan" for integration to bring our businesses together. We're pleased with ADD's performance so far. Now we're looking for a second business to roll together and exploit economies of scale.

We look at the signs sector and we think, well, we already sell some signage to our clients. Sign companies already sell some print. The market has converged. It's highly fragmented. We think there's an opportunity to roll up sign businesses and create value.

One of the networking events we held at a Nettl Business Store this year. Our aim is to be a place where business does business. The studio team are located near the front and help clients with design, tech and marketing.

We're evaluating businesses for sale in other cities. These could be smaller or larger. Each is a different shape and size. Perhaps there could be a future national sign hub to support our brand partner network, in the same way we centrally supply print.

We figure that together, we can achieve more. By putting Nettl's marketing and systems together with an established client base and local manufacturing and installation teams.

This year, we aim to organically grow the Nettl network, both here and overseas. And we aim to make further acquisitions in the signs sector.

We're determined to make this happen.

Peter Gunning
Chief Executive
7 June 2017

An oversize outdoor beanbag, printed onto waterproof tent fabric. Customised entirely in a client's brand and perfect for chill-out areas and lazy summer days.

STRATEGIC REPORT

FINANCIAL REVIEW

Revenue

Group Revenues decreased by 3.0% to £10.44m *(2016: £10.77m)*. Revenues from the Eurozone were 4.1% of the total *(2016: 5.02%)*, as disclosed in the Segmental Analysis note.

Gross Profit

The Group's definition of Gross Profit is revenue less direct materials (including the cost of distribution when made direct to customers). Gross Profit decreased as a percentage from 66.3% to 63.1%, reducing in monetary terms to £6.59m *(2016: £7.14m)* as margins on the sale of printing were eroded.

EBITDA / Operating Profit

The year showed a decrease in EBITDA, which is operating (loss)/profit before interest, tax, depreciation and amortisation, to £0.76m representing a margin of 7.3% *(2016: £1.52m, 14.1%)* to turnover. EBITDA represents an indicator of the Group's potential to generate cash. There was an Operating Loss for the year of £983k *(2016: £249k)*.

Pre-Tax Loss

The Group recorded a pre-tax loss of £0.99m *(2016: £0.26m)* being 9.5% (*2016: 2.3%)* of Group revenue.

Staff costs reduced in the year to £3.72m *(2016: £3.78m)*, although rose as a percentage of revenue to 35.6% from 35.1%. Other operating charges included a receivables impairment of £0.21m. The depreciation and amortisation charge from continuing operations for the year was £1.75m *(2016: £1.46m)*. The amortisation of software development was 76.0% of the total *(2016: 69.2%)* as we increased the speed of write-off from 5 years to 3 years

Interest Received and Charged

Interest received and charged in the period were negligible.

Taxation

As in the prior year the Group gained Research & Development Relief and have accrued for the current year claim which contributed to a Tax income of £0.36m *(2016: £0.27m)*.

Earnings Per Share (EPS)

There is no dilution of continuing EPS in either year 1.37p *(2016: 0.14p)*, based on a weighted average number of shares in issue of 45,500,884 *(2016: 46,369,156)*.

Cash Flow

At the year end the Group had cash balances of £0.52m *(2016: £0.69m)*. Net Funds were £0.21m *(2016: £0.36m)*. Operational cash generated was £0.84m *(2016 outflow: £0.1m)*. Working Capital movement included a reduction in Trade Creditors of £0.36m.

Capital Expenditure

The total capital expenditure for the year was £0.89m *(2016: £1.82m)* plus £0.06m for the acquisition of ADD Signs Limited. Capital expenditure reflected investment in the development of the Group's systems the major item being Software Development for Nettl and the Group's SaaS platforms totalling £0.77m *(2016: £1.01m)*.

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

Share-based Save as You Earn (SAYE) Scheme

The Company launched a SAYE Scheme commencing 1 March 2017. The Scheme offered all employees the opportunity to participate in the future growth of the Company through the granting of share options. The scheme requires employees to commit to making a monthly payment of between £5 and £500 for 36 months. These instalments are paid into a savings account, operated by Royal Bank of Scotland plc, held independently from the Company.

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

A total of 49 employees elected to participate in the SAYE Scheme and were granted options over 4,359,460 Ordinary Shares on 23 February 2017, equating to 9.6 per cent of the current total voting rights in the Company.

During the year the Company purchased 240,000 of its own shares at an average price of 9.99p.

Principal Risks and Uncertainties

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

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

Treasury Policies

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

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

Alan Q. Roberts
Finance Director
7 June 2017

DIRECTORS AND SENIOR MANAGERS

Jan Mohr
Chairman

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

Jan was appointed to the Board in March 2016. Age 28.

Peter Gunning
Chief Executive

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

Peter was appointed to the Board in June 2001. Age 41.

Alan Q Roberts
Finance Director

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

Alan joined the Group in June 1999. Age 61.

Richard Lightfoot
Company Secretary

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

Richard was appointed Company Secretary in October 2015. Age 45.

Pavel Begun
Non-Executive Director

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

Pavel was appointed to the Board in November 2012. Age 38.

Conrad Bona
Non-Executive Director

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

Conrad was appointed to the Board in October 2015. Age 48.

Gavin Cockerill
Chief Operating Officer

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

Gavin joined the Group in 2000 and was appointed COO in October 2015. Age 38.

DIRECTORS' REPORT

The Directors present their report and the financial statements of Grafenia plc and its subsidiary companies for the financial year ended 31 March 2017. The Directors have proposed that no final dividend will be paid *(2016: nil).*

RESEARCH AND DEVELOPMENT

All research costs are written off as incurred.

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

Individual projects have to satisfy the following criteria:

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

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

DIRECTORS

The following Directors have held office since 1 April 2016:

J-H Mohr	Non-executive Chairman
P Begun	Non-executive Director
C C Bona	Non-executive Director
P R Gunning	Chief Executive
A Q Roberts	Finance Director
L A Wheatley	Non-executive Director – Resigned 15 August 2016

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

P R Gunning retires by rotation in accordance with the Company's Articles of Association. P R Gunning being eligible, offers himself up for re-election.

Details of Directors' interests in the share capital of the Company as shown in the register, together with details of share options granted and awards made to the Directors, are included in the Report on Directors' Remuneration on pages 38 to 40.

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

EMPLOYEES

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

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

HEALTH AND SAFETY

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

SOCIAL, ENVIRONMENTAL AND ETHICAL ISSUES

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

Through the period the Group maintained its ISO14001 environmental accreditation.

PRINCIPLES OF CORPORATE GOVERNANCE

As the Group is AIM listed it is not required to comply with the Combined Code. However, the Directors' Statement of Corporate Governance can be viewed on the Company's web site at www.grafenia.com.

SUBSTANTIAL SHAREHOLDERS

In addition to the Directors' interests noted in the Directors' Remuneration Report, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 7 June 2017:

Registered holding	**Number of shares**	% of issued share capital
Langfristige Investoren TGV	10,872,001	22.86%
Axion SA	3,500,000	7.36%
3G Capital	2,740,000	5.76%
Scherzer & Co SA	3,280,000	6.90%
R G Hardie	1,674,574	3.52%
Executors of P Gordon	1,546,050	3.25%

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 28 July 2017 at the Company's offices Focal Point, Third Avenue, The Village, Trafford Park, Manchester M17 1FG. In addition to the ordinary business, the Company will also propose a number of resolutions, which will be dealt with as special business. Details are contained in the Notice of the Annual General Meeting.

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

AUDITOR

Following a tender conducted during the year, RSM UK Group LLP were selected as Auditor of the Group. Accordingly, a resolution will be proposed at the AGM on 28 July 2017 for appointment as Auditor of Grafenia plc. KPMG LLP's appointment will end at the conclusion of that AGM.

By order of the Board

A Q Roberts
Director
7 June 2017

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

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

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Directors' Remuneration Report that complies with that law and those regulations.

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

DIRECTORS' REMUNERATION REPORT

DIRECTORS' REMUNERATION REPORT

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

REMUNERATION COMMITTEE

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

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

REMUNERATION POLICY

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

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

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

BASIC ANNUAL SALARY

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

ANNUAL CASH BONUS

The Committee establishes the objectives which must be met for each financial year if a cash bonus is to be paid. The purpose of the bonus is to reward Executive Directors and other senior employees for achieving above average performance which also benefits shareholders. The maximum performance related bonus that can be paid is 30% of basic salary. No incentive payments have been made for the financial year ended 31 March 2017.

PENSION ARRANGEMENTS

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

DIRECTORS' CONTRACTS

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

NON-EXECUTIVE DIRECTORS

The fees of each Non-executive Director are determined by the Board as a whole, excluding the Non-executive being reviewed, having regard to the commitment of time required and the level of fees in similar companies. Non-executive Directors' contracts are subject to three months written notice.

ELEMENTS OF REMUNERATION

Year ended 31 March 2017 (audited):

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

Year ended 31 March 2016 (audited):

	Basic salary £	Fees £	Benefits £	Bonuses £	2016 Total £	2016 Pension £
L A Wheatley	-	30,231	-	-	302	30,533
P Begun	-	20,154	-	-	-	20,154
C C Bona	-	9,846	-	-	48	9,894
J- Mohr	-	1,000	-	-	-	1,000
A Rafferty	281,374	-	1,290	-	11,362	294,026
P R Gunning	171,559	-	867	-	15,525	187,951
A Q Roberts	85,503	-	20,756	-	9,338	115,597
	538,436	61,231	22,913	-	36,575	659,155

DIRECTORS' INTERESTS

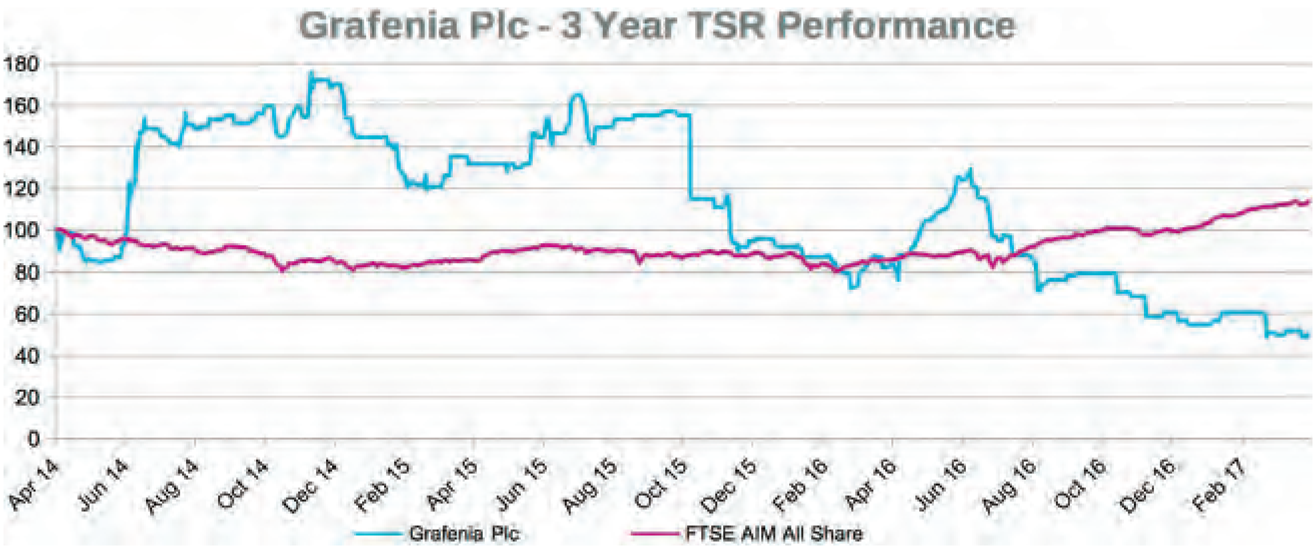
At 31 March 2017, the Directors had the following beneficial interests in the Company's shares.

	Ordinary shares of 1p each	
	31 March 2017	31 March 2016
J-H Mohr	-	-
P Begun	2,740,000	2,740,000
C C Bona	540,000	450,000
P R Gunning	1,250,000	1,000,000
A Q Roberts	500,000	500,000
L A Wheatley	N/A	-

From the end of the year until 7 June 2017 there have been no changes in the above interests. No Directors, or other family members, had any interests in the deferred share capital of the Company.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

The Group's share price performance for the period under review charted with the AIM all share is shown below. The market price of shares as at 31 March 2017 was 6.38pence *(2016: 10.75pence*). The range during 2017 was 6.25pence to 16.50pence. At 31 May 2017, the price was 9.78pence.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAFENIA PLC

We have audited the financial statements of Grafenia plc for the year ended 31st March 2017, set out on pages 34 to 71. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

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

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

WILL BAKER (SENIOR STATUTORY AUDITOR)

FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
KPMG LLP
7 June 2017
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017	*Note*	**2017**	2016
Continuing Operations		**£000**	£000
Revenue	3	**10,445**	10,766
Raw materials and consumables used		**(3,860)**	(3,631)
Gross profit		**6,585**	7,135
Staff costs	5	**(3,716)**	(3,776)
Other operating charges		**(2,049)**	(1,838)
Depreciation and amortisation		**(1,746)**	(1,462)
Restructuring costs		**(57)**	(308)
Total expenses		**(7,568)**	(7,384)
Operating loss		**(983)**	(249)
Operating (loss)/profit analysed as:			
Operating (loss)/profit before restructuring costs		**(926)**	59
Restructuring costs		**(57)**	(308)
Operating loss		**(983)**	(249)
Financial income		**17**	5
Financial expenses		**(21)**	(16)
Net financing expense		**(4)**	(11)
Loss before tax	4	**(987)**	(260)
Tax income	7	**362**	270
(Loss)/profit from continuing operations after tax		**(625)**	10
Profit from discontinued operations after tax	6	**-**	54
(Loss)/Profit for the year		**(625)**	64
Other comprehensive income		**-**	-
Total comprehensive income for the year		**(625)**	64
EPS – Continuing Operations	16	**(1.37)p**	0.02p
EPS – Discontinued Operations	16	**-**	0.12p
EPS – Total (1)	16	**(1.37)p**	0.14p

(1) Earnings per share suffers no dilution

The notes on pages 47 to 71 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONSOLIDATED AND COMPANY

GROUP – YEAR ENDED 31 MARCH 2016

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance at 31 March 2015	475	-	838	(69)	4708	5,952
Profit and total comprehensive income for the year	-	-	-	-	64	64
Own shares acquired	-	-	-	(168)	-	(168)
Dividends paid	-	-	-	-	(586)	(586)
Total movement in equity	-	-	-	(168)	(522)	(690)
Balance at 31 March 2016	475	-	838	(237)	4,186	5,262

GROUP – YEAR ENDED 31 MARCH 2017

Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**(625)**	**(625)**
Own shares acquired	**-**	**-**	**-**	**(24)**	**-**	**(24)**
Total movement in equity	**-**	**-**	**-**	**(24)**	**(625)**	**(649)**
Balance at 31 March 2017	**475**	**-**	**838**	**(261)**	**3,561**	**4,613**

COMPANY – YEAR ENDED 31 MARCH 2016

	Share Capital	Share premium £000	Merger reserve £000	Treasury Shares £000	Retained Earnings £000	Total £000
Balance 31 March 2015	475	-	627	(69)	4,465	5,498
Profit and total comprehensive income for the year	-	-	-	-	791	791
Own shares acquired	-	-	-	(168)	-	(168)
Dividends paid	-	-	-	-	(586)	(586)
Total movement in equity	-	-	-	(168)	205	37
Balance at 31 March 2016	475	-	627	(237)	4,670	5,535

COMPANY – YEAR ENDED 31 MARCH 2017

Loss and total comprehensive income for the year	**-**	**-**	**-**	**-**	**54**	**54**
Own shares acquired	**-**	**-**	**-**	**(24)**	**-**	**(24)**
Total movement in equity	**-**	**-**	**-**	**(24)**	**54**	**30**
Balance at 31 March 2017	**475**	**-**	**627**	**(261)**	**4,724**	**5,565**

The notes on pages 47 to 71 form part of these financial statements.

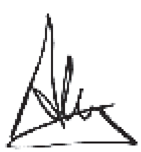
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2017

	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Non-current assets					
Property, plant and equipment	9	1,333	1,513	-	-
Investments in subsidiaries	10	-	-	637	574
Intangible assets	10	2,305	2,893	-	-
Other receivables	11	50	27	-	-
Total non-current assets		3,688	4,433	637	574
Current assets					
Inventories	1	369	316	-	-
Trade and other receivables	11	2,386	2,608	4,983	4,996
Current tax repayable	11	138	231	-	-
Cash and cash equivalents	12	524	686	1	-
Total current assets		3,417	3,841	4,984	4,996
Total assets		7,105	8,274	5,621	5,570
Current liabilities					
Other borrowings	13	(83)	(66)	-	-
Trade and other payables	14	(1,370)	(1,363)	(20)	(6)
Accruals and deferred income	14	(389)	(699)	(36)	(29)
Other liabilities	14	(118)	(108)	-	-
Total current liabilities		(1,960)	(2,236)	(56)	(35)
Non-current liabilities					
Other borrowings	13	(216)	(264)	-	-
Deferred tax liabilities	8	(316)	(512)	-	-
Total non-current liabilities		(532)	(776)	-	-
Total liabilities		(2,492)	(3,012)	(56)	(35)
Net assets		4,613	5,262	5,565	5,535
Equity attributable to equity holders of the parent					
Share capital	16	475	475	475	475
Merger reserve		838	838	627	627
Treasury shares		(261)	(237)	(261)	(237)
Retained earnings		3,561	4,186	4,724	4,670
Total equity		4,613	5,262	5,565	5,535

The notes on pages 47 to 71 form part of these financial statements.

These financial statements were approved by the board of directors on 7 June 2017 and were signed on its behalf by:



A Q ROBERTS

Director

CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 MARCH 2017

	Note	**Group 2017 £000**	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Cash flows from operating activities					
(Loss)/Profit for the year		**(625)**	64	**54**	791
Adjustments for:					
Depreciation, amortisation and impairment (continuing operations)		**1,746**	1,462	**-**	-
(Surplus)/Loss on sale of subsidiary	6	**-**	(279)	**-**	114
Net finance expense/(income)		**4**	11	**11**	(902)
Foreign exchange gains/(loss)		**14**	-	**(11)**	(8)
Tax income		**(362)**	(223)	**-**	-
Operating cash flow before changes in working capital and provisions		**777**	1,035	**54**	(5)
Change in trade and other receivables		**235**	(322)	**13**	(1,884)
Change in inventories		**(45)**	(114)	**-**	-
Change in trade and other payables		**(361)**	(632)	**21**	4
Cash generated/(used) from Operations		**606**	(33)	**88**	(1,885)
Interest paid		**(21)**	(16)	**-**	-
Income tax received/(paid)		**259**	(20)	**-**	-
Net cash inflow/(outflow) from operating activities		**844**	(69)	**88**	(1,885)
Cash flows from investing activities					
Proceeds from sale of subsidiary		**-**	1,728	**-**	1,728
Interest received		**3**	5	**-**	-
Acquisition of plant and equipment	9	**(119)**	(438)	**-**	-
Capitalised development expenditure	10	**(442)**	(513)	**-**	-
Acquisition of other intangible assets	10	**(327)**	(500)	**-**	-
Acquisition of Subsidiary net of cash		**(26)**	-	**(63)**	-
Dividends received		**-**	-	**-**	910
Net cash (used in)/generated by investing activities		**(911)**	282	**(63)**	2,638
Cash flows from financing activities					
Proceeds from the issue of share capital	16	**-**	-	**-**	-
Purchase of own shares		**(24)**	(168)	**(24)**	(168)
Payment of finance leases		**(69)**	(40)	**-**	-
Dividends paid	16	**-**	(586)	**-**	(586)
Net cash used in financing activities		**(93)**	(794)	**(24)**	(754)
Net decrease in cash and cash equivalents		**(160)**	(581)	**1**	(1)
Exchange loss on cash and cash equivalents		**(2)**	(10)	**-**	-
Cash and cash equivalents at start of year		**686**	1,277	**-**	1
Cash and cash equivalents at 31 March 2017	12	**524**	686	**1**	-

The notes on pages 47 to 71 form part of these financial statements.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS)

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

STATEMENT OF COMPLIANCE

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

The financial statements were approved by the Board of Directors on 7 June 2017.

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

BASIS OF CONSOLIDATION

The Group financial statements comprise the financial statements of the Company and all of its subsidiaries made up to the financial year end. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

GOING CONCERN

Information regarding the Group's business activities together with the factors likely to affect its future development, performance and position is set out in the Chief Executive's Statement on pages 13 to 27. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 29 to 31. In addition, note 16 to the financial statements includes details of the Group's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has the financial resources and opportunities to grow. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, including a consideration of reasonable sensitivities, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Cash flow forecasts indicate cash inflows to ensure that sufficient cash is available for future trading and investment. The Group's external funding is made up of finance leases and a small loan totalling £299,000 against cash balances of £524,000 at the year end and the Company's bank provides a £250,000 overdraft facility. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

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

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

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

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

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

INVESTMENTS

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

INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and is valued at purchased cost. Net realisable value is based on estimated selling price less additional costs to completion and necessary costs to make the sale. Inventories are made up of raw materials of £366,000 *(2016: £311,000)* and work in progress of £3,000 *(2016: £3,000)*.

INTEREST BEARING BORROWINGS

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

IMPAIRMENT OF ASSETS

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

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

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

CALCULATION OF RECOVERABLE AMOUNT

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

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

OPERATING LEASE PAYMENTS

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

FINANCE LEASE PAYMENTS

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

FINANCING COSTS

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

FOREIGN CURRENCIES

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

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

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

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

TRADE AND OTHER RECEIVABLES

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

TRADE AND OTHER PAYABLES

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

1. ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

- IFRS 9 Financial Instruments – effective for periods starting on or after 1 January 2018 – Deals with the classification and measurement of financial assets.

- IFRS 15 – Revenue from contracts with customers – effective for periods starting on or after 1 January 2018 – Established a single comprehensive model to use in the accounting of revenue arising from customers.

- IFRS 16 – Leases – effective for periods starting on or after 1 January 2019 – Introduces a single lessee accounting model. The standard has not yet been endorsed by the EU.

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

2. ACQUISITIONS OF SUBSIDIARIES

Acquisitions in the current period

On 16 January 2017, the Company acquired all of the ordinary shares in Arthur Diamond Design Limited (ADD) for £63,000, satisfied in cash. The company designs, manufactures and installs building signage and vehicle graphics. This signage service is a logical extension of Grafenia's Brand Partners offering. In the three months to the period end the subsidiary contributed a loss of £327 to the consolidated result for the year. If the acquisition had occurred on 1st April 2016 Group revenue would have been £307,000 higher and an estimated net profit of £5,000 would have been added to Group results. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of accounting period.

Effect of acquisition

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

	Book and Fair values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	**36**
Intangible assets	
Inventories	**8**
Trade and other receivables	**37**
Cash and cash equivalents	**37**
Interest-bearing loans and borrowings	**(38)**
Trade and other payables	**(68)**
Net identifiable assets and liabilities	**12**
Consideration paid:	
Initial cash price paid	**63**
Equity instruments issued	**Nil**
Contingent consideration at fair value	**-**
Deferred consideration at fair value	**-**
Total consideration	**63**

Goodwill of £51,000 arose on the acquisition and recognises the value placed upon acquired customer revenues.

No equity instruments were used in the transaction.

The Company has agreed to pay the vendor an additional consideration if EBIT for the 12 months ended 31 December 2017 exceeds £30,000, capped at EBIT £200,000 this would potentially earn the vendor an additional £90,000. As any additional consideration is contingent on the vendor continuing to be employed by the Group it will be treated as remuneration when earned.

3. REVENUE AND SEGMENTAL INFORMATION

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

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

As in the prior year the Group's operating and reporting segments are geographic being UK & Ireland, Europe and others. The segmental analysis by nature of service now states Licence Fees, Company owned Studio revenue, Brand Partner print and Online sales plus Trade print. This disclosure correlates with the information which is presented to the Chief Operating Decision Maker, the Chief Executive (CEO), who reviews revenue (which is considered to be the primary growth indicator) by segment. The Group's costs, finance income, tax charges, non-current liabilities, net assets and capital expenditure are only reviewed by the CEO at a consolidated level and therefore have not been allocated between segments in the analysis below.

Of the Group revenue of £10,444,000, £9,342,000 was generated in the UK *(2016: £9,551,000)*. Revenue generated outside the UK is primarily attributable to France £385,000 *(2016: £427,000)* and Republic of Ireland £292,000 *(2016: £306,000)*. No single customer provided the Group with over 10% of its revenue.

In Licence Fees BrandPartners, Nettl and printing.com, amounted to £0.80m *(2016: £0.61m)*. White label fees reduced to £0.3m *(2016: £0.42m)*. Master Licensees increased to £0.53m *(2016: £0.51m)*. Company Studios achieved Website sales of £0.15m *(2016: £0.14m)*.

Of the Group's non-current assets (excluding deferred tax) of £3,688,000, £3,626,000 are located in the UK. Non-current assets located outside the UK are in France £12,000 *(2016: 12,000)* and the Republic of Ireland £49,000 *(2016: £27,000)*.

ANALYSIS BY LOCATION OF SALES	**UK & Ireland**	**Europe**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
Period ended 31 March 2017				
Segment revenues	**9,634**	**430**	**380**	**10,444**
Operating Expenses				**(11,427)**
EBITDA				**763**
Results from operating activities				**(983)**
Net finance expense				**(4)**
Loss before tax				**(987)**
Tax Income				**329**
Loss for the period				**(658)**
Unallocated net assets				**4,613**

	UK & Ireland	Europe	Other	Total
	£000	£000	£000	£000
Period ended 31 March 2016				
Segment revenues	9,857	540	369	10,766
Operating Expenses				(10,707)
EBITDA				1,213
Results from operating activities				59
Exceptional restructuring costs				(308)
Net finance income				(11)
Loss before tax				(260)
Tax Income				270
Profit from continuing operations after tax				10
Profit from discontinued operations after tax				54
Profit for the period				64
Unallocated net assets				5,262

ANALYSIS BY TYPE	**Licence Fees**	**Company Studios**	**Brand Partner Print**	**Online & Trade**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Period ended 31 March 2017					
Segment revenues	**1,489**	**1,151**	**3,762**	**4,042**	**10,444**
Operating Expenses					**(11,427)**
EBITDA					**763**
Results from operating activities					**(983)**
Net finance expense					**(4)**
Loss before tax					**(987)**
Tax Income					**329**
Loss for the period					**(658)**
Unallocated net assets					**4,613**

	Licence Fees	Company Studios	Brand Partner Print	Online & Trade	Total
	£000	£000	£000	£000	£000
Period ended 31 March 2016					
Segment revenues	1,403	1,425	3,893	4,045	10,766
Operating Expenses					(10,707)
EBITDA					1,213
Results from operating activities					59
Exceptional restructuring costs					(308)
Net finance income					(11)
Loss before tax					(260)
Tax Income					270
Profit for the period for continuing operations					10
Profit from discontinued operations					54
Profit for the period					64
Unallocated net assets					5,262

4. (LOSS)/PROFIT BEFORE TAXATION

Included in profit are the following:

	2017 £000	2016 £000
Operating lease rentals	**256**	306
Amortisation of intangible assets	**1,409**	1,139
Depreciation	**336**	379
(Gain)/Loss on foreign currency transactions	**(14)**	(39)

Restructuring costs

There were restructuring costs of £57,000 in the financial year *(2016: £308,000).*

Auditors' remuneration:

	2017 £000	2016 £000
Audit of these financial statements	**18**	18
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the company	**24**	27
Tax compliance services	**11**	11
Other tax advisory services	**12**	12
Review of interim financial statements	**8**	8
Other assurance services	**2**	2

The 2017 Auditors' remuneration for statutory audit services and non-audit services relate solely to amounts paid to KPMG LLP. Amounts paid to the Group's Auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5. STAFF NUMBERS AND COSTS

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

Number of employees	**Group 2017**	Group 2016	**Company 2017**	Company 2016
Administration	**14**	14	**3**	3
Sales and distribution	**50**	53	**-**	-
Production	**56**	57	**-**	-
	120	124	**3**	3

5. STAFF NUMBERS AND COSTS (CONTINUED)

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

	Group 2017 £000	Group 2016 £000	**Discontinued 2017 £000**	Discontinued 2016 £000	**Company 2017 £000**	Company 2016 £000
Wages and salaries	**3,275**	3,358	**-**	353	**79**	61
Social security costs	**385**	356	**-**	61	**3**	6
Other pension costs	**56**	62	**-**	18	**-**	-
	3,716	3,776	**-**	432	**82**	67

Defined contribution plan

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The amounts charged to the Consolidated Statement of Comprehensive Income represent the contributions payable to the scheme in respect of the accounting period. In the year ended 31 March 2017 £56,000 of contributions were charged to the Consolidated Statement of Comprehensive Income *(2016: £62,000)*. As at 31 March 2017 £3,000 *(2016: £3,000)* contributions were outstanding on the balance sheet.

KEY MANAGEMENT REMUNERATION:

	2017 £000	2016 £000
Key managements' emoluments	**278**	562
Company contributions to money purchase pension plans	**25**	36
	303	598

The Group considers the key management to be the Directors of the Group. Information covering Directors' remuneration is set out in full in the 'Elements of remuneration' section of the Directors Remuneration Report on page 38.

The aggregate of emoluments for the highest paid Director was £192,000 *(2016: £283,000)*, and Company pension contributions of £16,000 *(2016: £11,000)* were made to a money purchase scheme on their behalf.

Directors for whom retirement benefits are accruing under money purchase schemes 2 *(2016: 3)*.

6. DISCONTINUED OPERATIONS

The disposal of Grafenia BV was completed on 6 October 2015. The results for discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Revenue	**-**	2,551
Expenses	**-**	(2,729)
Operating (Loss)/Profit		(178)
Finance revenue	**-**	-
Finance expense	**-**	-
Surplus on disposal of discontinued operations	**-**	279
Profit before tax	**-**	101
Taxation		(47)
Profit for the period from discontinued operations	**-**	54

The above profit on disposal of business of £0.28m is calculated as proceeds of £1.73m less costs of disposal of £0.07m less net assets disposed of £1.38m. In addition to the disposal of Grafenia BV, other discontinued operations include the wind up of PDC SA and Grafenia France SA being reorganised into Grafenia France sarl, which have been included in the expenses of discontinued operations.

The net cash flows attributable to discontinued operations for the period and previous year were as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Operating cash flows	**-**	329
Investing cash flows	**-**	(15)
Financing cash flows	**-**	(386)
Net cash outflow	**-**	(72)
Exchange loss on cash and cash equivalents	**-**	(1)

7. TAXATION

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

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

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

Recognised in the income statement

	2017 £000	2016 £000
Current tax expense		
Current year	**(123)**	(219)
Foreign tax	**7**	54
Adjustments for prior years	**(50)**	(167)
	(166)	(332)
Deferred tax expense		
Origination and reversal of temporary differences (see note 8)	**(132)**	52
Movement due to change in rate of tax	**(26)**	(56)
Adjustment in respect of prior year	**(38)**	113
Total tax on continuing and discontinuing operations	**(362)**	(223)
The tax (credit)/expense in the income statement is disclosed as follows:		
Total tax in income statement on continuing operations	**(362)**	(270)
Total tax in income statement on discontinued operations	**-**	47
Total tax in income statement	**(362)**	(223)

7. TAXATION (CONTINUED)

Reconciliation of effective tax rate

Factors affecting the tax charge for the current period:

The current tax charge for the period is lower *(2016: lower)* than the standard rate of corporation tax in the UK of 20% *(2016: 20%)*. The differences are explained below:

	2017 £000	2016 £000
Loss on continuing operations	**(987)**	(260)
Profit on discontinued operations	**-**	101
Loss for the period	**(987)**	(159)
Tax using the UK corporation tax rate of 20% (2015:21%)	**(197)**	(32)
Effects of:		
Permanent differences	**13**	(87)
Overseas tax losses not recognised	**-**	-
Difference in overseas tax rate	**-**	10
Adjustments in respect of prior periods – current tax	**(50)**	(167)
Adjustments in respect of prior periods – deferred tax	**(38)**	113
Unrelieved losses carried into following year	**-**	75
Withholding tax	**9**	10
R&D losses surrendered	**46**	83
R&D super deduction	**(143)**	(171)
Movement due to the change in the tax rate	**(9)**	(57)
Total tax repayment	**(362)**	(223)

The Group Tax Debtor amounts to £138,000 *(2016 Debtor: £231,000)*. The deferred tax liabilities as at 31 March 2017 have been calculated using the tax rate of 17% which was substantively enacted at the balance sheet date.

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

8. DEFERRED TAX ASSETS AND LIABILITIES – GROUP

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

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

Recognised deferred tax assets and liabilities

	Assets 2017 £000	Assets 2016 £000	**Liabilities 2017 £000**	Liabilities 2016 £000
Property, plant and equipment	**-**	-	**313**	507
Intangible assets	**-**	-	**3**	5
Tax (assets)/liabilities	**-**	-	**316**	512

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

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

COMPANY

The Company had no deferred tax assets or liabilities as at 31 March 2017 *(2016: £nil).*

9. PROPERTY, PLANT AND EQUIPMENT – GROUP

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

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

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

Depreciation

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

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

	Land and buildings £000	**Plant and equipment £000**	**Motor Vehicles £000**	**Fixtures and Fittings £000**	**Total £000**
Cost					
Balance at 31 March 2015	576	6,888	57	781	8,302
Additions	-	556	-	252	808
Disposals	-	(730)	-	(255)	(985)
Effect of movements in foreign exchange	-	-	2	20	22
Balance at 31 March 2016	576	6,714	59	798	8,147
Balance at 31 March 2016	576	6,714	59	798	8,147
Additions	-	25	-	94	119
Acquisition of subsidiary	-	62	27	4	93
Disposals	-	-	-	(46)	(46)
Effect of movements in foreign exchange	-	-	-	3	3
Balance at 31 March 2017	**576**	**6,801**	**86**	**853**	**8,316**
Depreciation and impairment					
Balance at 31 March 2015	569	6,136	44	439	7,188
Depreciation charge for the year	2	218	8	151	379
Disposals	-	(730)	-	(212)	(942)
Effect of movements in foreign exchange	-	-	2	7	9
Balance at 31 March 2016	571	5,624	54	385	6,634
Balance 31 March 2016	571	5,624	54	385	6,634
Depreciation charge for the year	2	191	-	143	336
Acquisition of subsidiary	-	45	11	1	57
Disposals	-	-	-	(46)	(46)
Effect of movements in foreign exchange	-	-	-	2	2
Balance at 31 March 2017	**573**	**5,860**	**65**	**485**	**6,983**

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

	Land and buildings £000	Plant and equipment £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Net book value					
At 31 March 2015	7	752	13	342	1,114
At 31 March 2016	5	1,090	5	413	1,513
At 31 March 2017	**3**	**941**	**21**	**368**	**1,333**

LEASED PLANT, MACHINERY AND FIXTURE & FITTINGS

At 31 March 2017 Group had leased assets with a carrying value of £275,000 *(2016: £350,000).*

10. INTANGIBLE ASSETS AND INVESTMENTS

RESEARCH AND DEVELOPMENT COSTS

All research costs, which do not proceed to development, are written off as incurred, in the year £nil was written off *(2016: nil).*

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed. In such circumstances the costs are carried forward and amortised over three years. Impairment risk is reviewed by the Board.

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

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

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

SOFTWARE

External expenditure on computer systems and software is stated at cost less accumulated amortisation and impairment losses. Amortisation is on a straight-line basis over the useful economic life of the asset set at three year.

CUSTOMER LISTS

Intangible assets include customer lists purchased on the buy-back of Studios acquired. Applying IAS36 Stores customer lists are being amortised over three to five years and are individually tested bi-annually for indications of impairment.

GOODWILL

Goodwill arose on the acquisition of ADD Signs Limited in the period. The valuation is supported by a fair value assessment of the revenues expected to flow from customer relationships allowing for an appropriate level of attrition.

10. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

IMPAIRMENT TESTING – Goodwill

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

The Group prepares cash flow forecasts derived from budgets and two year business plans. For the purposes of impairment testing inflationary growth of 3% is assumed beyond this period. The sales growth relates to Nettl, printing.com and Marqetspace the key revenue streams principally in the UK and Ireland. The growth rates have been determined based on the experience to date of operating these sales channels and previous experience of launching websites.

A pre-tax discount factor of 12.5% *(2016: 10%)* was applied.

Group	**Domain name £000**	**Software £000**	**Development costs £000**	**Customer Lists £000**	**Goodwill £000**	**Other £000**	**Total £000**
Cost							
Balance at 31 March 2015	464	2,827	2,163	698	1,272	151	7,575
Acquisitions – internally developed	-	-	513	-	-	-	513
Acquisitions – purchased	-	498	-	-	-	2	500
Disposals	(108)	(320)	(68)	(135)	(1,253)	-	(1,884)
Foreign exchange movement	-	6	-	-	(6)	1	1
Balance at 31 March 2016	356	3,011	2,608	563	13	154	6,705
Balance at 31 March 2016	356	3,011	2,608	563	13	154	6,705
Acquisitions – internally developed	-	-	442	-	-	-	442
Acquisitions - purchased	-	329	-	-	-	-	329
Acquisitions of subsidiary	-	-	-	-	49	-	49
Disposals	-	-	(160)	(284)	-	-	(444)
Balance at 31 March 2017	**356**	**3,340**	**2,890**	**279**	**62**	**154**	**7,081**
Amortisation and impairment							
Balance at 31 March 2015	341	1,465	793	564	(12)	52	3,203
Amortisation for the year	28	597	417	78	-	19	1,139
Disposals	(98)	(249)	(68)	(135)	24	(8)	(534)
Foreign exchange movement	-	3	-	-	-	1	4
Balance at 31 March 2016	271	1,816	1,142	507	12	64	3,812
Balance at 31 March 2016	271	1,816	1,142	507	12	64	3,812
Amortisation for the year	18	701	627	46	-	17	1,409
Disposals	-	-	(162)	(285)	-	-	(447)
Foreign exchange movement	-	-	-	-	-	2	2
Balance at 31 March 2017	**289**	**2,517**	**1,607**	**268**	**12**	**83**	**4,776**

10. INTANGIBLE ASSETS AND INVESTMENTS (CONTINUED)

Group	Domain name £000	Software £000	Development costs £000	Customer Lists £000	Goodwill £000	Other £000	Total £000
Net book value							
At 31 March 2015	123	1,362	1,370	134	1,284	99	4,372
At 31 March 2016	85	1,195	1,466	56	1	90	2,893
At 31 March 2017	**67**	**823**	**1,283**	**11**	**50**	**71**	**2,305**

Amortisation and impairment charge

The amortisation charge of £1,409,000 *(2016: £1,139,000)* is recognised in profit and loss within depreciation and amortisation expenses. An impairment charge of nil *(2016: £nil)* was recognised during the year.

Investments - Company	Shares in Subsidiary undertakings £000	Total £000
Cost		
Balance at 31 March 2015	2,416	2,416
Balance at 31 March 2016	574	574
Balance at 31 March 2017	**637**	**637**

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

UK incorporated Subsidiary undertakings – wholly owned	Nature of business/status
Grafenia Operations Limited	Printing – trading
ADD Signs Limited	Sign Design, Manufacture and Installation – trading
Printing.com (UK Franchise) Limited	Franchise contracts – dormant
Printing.com Franchise Limited	Franchise contracts – dormant
Nettl UK Limited	Partner contracts – dormant
Grafenia Systems Limited	Licence agreements – dormant
Grafenia Technology Limited	Licence agreements – dormant
Creative Enterprise Support Limited	Enterprise Support – dormant
TemplateCloud Limited	Template Provision – dormant
W3P Limited	Software – dormant
W3P Platforms Limited	Licence agreements - dormant

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

11. TRADE AND OTHER RECEIVABLES

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Other receivables due from subsidiary companies	**-**	-	**4,678**	4,989
Trade receivables	**1,854**	2,051	**-**	-
Prepayments	**469**	477	**-**	-
Corporation tax	**138**	231	**-**	-
Other receivables	**63**	80	**6**	7
	2,524	2,839	**4,684**	4,996

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

At 31 March 2017 trade receivables are shown net of an allowance for doubtful debts of £415,000 *(2016: £212,000).*

An analysis of impairment losses recognised in the year is given in note 17.

Trade and other receivables denominated in currencies other than sterling comprise £167,000 *(2016: £192,000)* of trade receivables and £nil *(2016: £nil)* of other receivables denominated in Euro.

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

	Group 2017 £000	Company 2016 £000	**Company 2017 £000**	Company 2016 £000
Other receivables	**50**	27	**-**	-

12. CASH AND CASH EQUIVALENTS

	Group 2017 £000	Company 2016 £000	**Company 2017 £000**	Company 2016 £000
Cash and cash equivalents	**524**	686	**1**	1

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments. Cash denominated in currencies other than Sterling comprise £58,000 *(2016: £31,000*) all in Euro.

13. OTHER INTEREST-BEARING LIABILITIES

The Company had no interest bearing liabilities. The Group had interest-bearing liabilities from Finance Leases and loans amounting to £83,000 *(2016: £66,000)* as a current liability and £216,000 *(2016: £264,000)* as a non-current liability. For more information on the Group and Company's exposure to interest rate, foreign currency risk and finance leases, see note 17.

14. TRADE AND OTHER PAYABLES

	Group 2017 £000	Company 2016 £000	**Company 2017 £000**	Company 2016 £000
Other trade payables	**1,370**	1,363	**20**	6
Accruals	**375**	653	**36**	29
Deferred income	**14**	46	**-**	
Other liabilities	**118**	108	**-**	-
	1,877	2,170	**56**	35

Other trade payables denominated in currencies other than Sterling comprise £15,000 *(2016: £18,000)* denominated in Euro.

15. EMPLOYEE BENEFITS

Share-based Save as You Earn (SAYE) Scheme

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

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

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

A total of 49 employees elected to participate in the SAYE Scheme and were granted options over 4,359,460 Ordinary Shares on 23 February 2017, equating to 9.6 per cent of the current total voting rights in the Company.

16. SHARE CAPITAL

SHARE CAPITAL - GROUP AND COMPANY

In thousands of shares	**Ordinary shares 2017**	Ordinary shares 2016
On issue at 31 March 2016	**47,558**	47,558
Purchased by the Company and held in Treasury	**(2,150)**	(1,910)
Shares on the market at 31 March 2017 – fully paid	**45,408**	45,648

Total treasury shares purchased and held by the Company are 2,150,000 *(2016: 1,910,000)*

	£000	£000
Allotted, called up and fully paid		
47,557,835 (2016: 47,557,835) ordinary shares of £0.01 each	**475**	475
63 deferred shares of £0.10 each	**-**	-
	475	475

EARNINGS PER SHARE

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

	2017 £000	2016 £000
(Loss)/Profit after taxation for the financial year from continuing operations	**(625)**	10
Profit after taxation on discontinued operations	**-**	54

Weighted average number of shares

	Number of Shares	Number of Shares
For basic earnings per ordinary share	**45,500,884**	46,639,156
Exercise of share options	**-**	-
For diluted earnings per ordinary share	**45,500,884**	46,639,156

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

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

Dividends	**2017 £000**	2016 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**-**	471
Interim dividends paid in respect of the current year	**-**	115
Total dividend paid in the year	**-**	586

After the balance sheet date the Board proposed no final dividend would be made *(2016: £nil)*

17. FINANCIAL INSTRUMENTS

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found on page 29. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes. The financial instruments employed by the Group other than short term debtors and creditors are used to fund its operations and comprise cash, short term deposits and finance leases.

The Group's policy during the financial year ended 31 March 2017 and 31 March 2016 was to place the majority of its cash on short term deposit with its bankers and to finance the purchase of significant fixed assets through finance leases.

CREDIT RISK

Group

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

During the year the Group has continued to use the Pay As You Go (PAYG) model to manage debtors and mitigate the credit risk through structured payments. This model ensures that in most instances total debts do not increase while continuing to serve the customer base. Repayment plans have been entered into separately for certain PAYG debtors and make up £550,000 *(2016: £512,000)* of total gross debtors. The Group retains the right to charge interest on overdue balances and re-call debts ahead of the payment plans agreed.

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

	31 March 2017 Total £000	**31 March 2017 Impairment £000**	31 March 2016 Total £000	31 March 2016 Impairment £000
Not past due	**1,171**	-	1,106	-
Past due 0 – 30 days	**241**	-	326	-
Past due 31 – 90 days	**348**	-	363	-
Past due 90 days and over	**622**	**(415)**	555	(212)
	2,382	**(415)**	2,350	(212)

IMPAIRMENT

	£000
Balance at 31 March 2015	216
Impairment loss recognised	(48)
Increase in impairment allowance	44
Balance at 31 March 2016	212
Impairment loss recognised	(52)
Increase in impairment allowance	255
Balance at 31 March 2017	**415**

Of the total impairment provision £118,000 *(2016: £90,000)* relates to Partners that have ceased trading.

COMPANY

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

INTEREST RATE RISK

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

LIQUIDITY RISK

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

31 March 2017

	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000
Trade and other payables	**1,877**	**1,877**	**1,877**	**-**	**-**	**-**
Bank Loans	**24**	**31**	**4**	**4**	**8**	**16**
Finance lease liability	**275**	**310**	**47**	**47**	**91**	**125**
	2,176	**2,218**	**1,928**	**51**	**99**	**141**

31 March 2016

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

All trade receivables are contractually due within 6 months.

FOREIGN CURRENCY RISK

GROUP

The Group transacts some business in foreign currency, principally Euro, and therefore incurs some transaction risk. The risk does not warrant hedging activity by the Group to defend against the impact of exchange rate movements.
The Group's exposure to foreign currency risk denominated in GBP was as follows:

	31 March 2017 Euro £000	**31 March 2017 GBP £000**	31 March 2016 Euro £000	31 March 2016 GBP £000
Trade receivables	**167**	**2,567**	192	2,544
Cash and cash equivalents	**58**	**467**	31	655
Trade payables	**(15)**	**(1,356)**	18	(1,381)
	210	**1,678**	241	1,818

SENSITIVITY ANALYSIS

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

At 31 March 2017, it is estimated that a general increase of one percentage point in the value of the Euro would increase the Group's profit before tax by approximately £2,000 *(2016: £3,000)* with an equal adjustment to equity.

FAIR VALUES

There is a difference of £20,000 *(2016: £14,000)* between fair and carrying values on the balance sheet.

TRADE AND OTHER RECEIVABLES

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

TRADE PAYABLES

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

FINANCE LEASE LIABILITY / BANK LOANS

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

18. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	Group 2017 £000	Group 2016 £000	**Company 2017 £000**	Company 2016 £000
Plant and machinery				
Less than one year	**15**	16	**-**	-
Between one and five years	**8**	21	**-**	-
Land and buildings				
Less than one year	**259**	213	**-**	-
Between one and five years	**426**	511	**-**	-
	708	761	**-**	-

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

GROUP

During the year £256,000 *(2016: £306,000)* was recognised as an expense in profit and loss in respect of operating leases.

19. CAPITAL COMMITMENTS

The Group and Company have no commitments to incur capital expenditure at the yearend *(2016: £nil)*.

20. CONTINGENCIES

Neither the Group nor the Company had contingencies at the yearend *(2016: £nil)*.

21. RELATED PARTIES

The Company provides cross company guarantees to the Group's bankers in respect of the overdraft facility. The Company receives dividends from its subsidiaries Grafenia Operations Limited and Grafenia BV prior to its disposal. In the year ended 31 March 2017 no dividends were received *(2016: £910,000)*. Total sales to subsidiary undertakings were nil *(2016: £nil)* and total expenses incurred from subsidiary undertakings were nil *(2016: £nil)*. The amounts outstanding at the year-end from subsidiary undertakings are shown in note 11.

Transactions with key management personnel

Directors of the Company control 11.08 per cent of the voting shares of the Group.

The compensation of the Directors, who are the key management personnel, is disclosed in the Directors Remuneration Report see pages 38 to 39.

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WHO will you be
MEETING
IN our SPECIAL PLACE
THIS DAY?
BRING in your
COFFEE
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