# Imagination

Imagination Technologies Group plc
Annual Report 2016



COMPANY NUMBER : 02920061

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# Strategic report

# Chairman's statement

The last year has seen significant change in the business at a time of difficult trading conditions. The Group's disappointing financial performance led the Board to review its strategy and specifically the parts of the business that Imagination would focus on in future. This resulted in FY16 becoming a year of considerable change and transition of both the Group's strategy and operational management team.

The financial results for the year reflect the difficult trading conditions and transitional nature of the year for the business. Revenues are down in all areas which resulted in materially reduced profitability.

We announced a number of restructuring initiatives in February and March as well as an operational review. The first, in February, stated that we would sell or close the Pure business and make annual cost savings in the rest of the business of £15 million. In the second, in March, we announced a further £12.5 million of cost reductions, resulting from the sale, or closure, of other consumer product-related investments and the refocusing and scaling back of the SoC (System on a Chip) design business.

Significant exceptional costs and write-downs have been required to restructure the business and position it for the future. These actions should enable the continuing business to trade profitably going forward.

The sale of Pure and other parts of the business are progressing well and we expect to announce deals in due course.

We also announced in February the initiation of an operational review, including a full analysis of R&D expenditure, to determine the areas on which to focus the business. The review is on-going but decisions taken so far include focusing Imagination back to its core IP licensing roots; concentrating on the businesses where there is a strong demand for our existing and new technologies and, essentially, where we can deliver attractive returns.

Over the last year we have seen two senior management changes with Sir Hossein Yassaie and Richard Smith leaving Imagination after 21 years and 4 years respectively. Following a thorough process, further details of which are included in the Nominations Committee Report, we appointed Guy Millward as Chief Financial Officer effective from 21 December 2015 and Andrew Heath as Chief Executive Officer, on an interim basis from 8 February 2016. Andrew became our permanent CEO on 26 May 2016. Ian Pearson also left the Board at the end of May 2016 after 18 years serving as a Non-executive Director. On behalf of the Board, we thank Sir Hossein, Richard and Ian for their many years of service to Imagination.

I would also like to thank all employees for their hard work and continued support and our shareholders for their patience during difficult and unsettling times. The business has excellent technology and a very capable team. We will look to turn these strengths in to better financial returns going forward. I am confident in our abilities and the market opportunities for Imagination to be a successful, focused IP licensing business.

**Bert Nordberg**
Chairman

# Business model, strategy and products

**"Over nine billion units containing our technology have been shipped in key markets such as mobile phone, computing, home electronics, hand held multimedia, automotive and networking."**

## What we do

Imagination's core, IP (intellectual property) licensing activities, involve the creation and licensing of semiconductor processor IP for graphics, video and vision processing, general purpose and embedded processing (CPU & MCU), and multi-standard communications to enable connectivity.

Our broad range of silicon IP, supported by extensive patent protection, includes the key processing blocks needed by our customers to create the Systems on Chips (SoC) that power electronic devices. These processing blocks are the core of our business and we have built strong brands around them: PowerVR in graphics and multimedia; MIPS in processors; and Ensigma in connectivity.

Over nine billion units containing our technology have been shipped in key markets such as mobile phone, computing, home electronics, hand held multimedia, automotive and networking. Our technologies are also enabling new kinds of devices across the Internet of Things (IoT), wearables and other emerging markets.

## Business model

Our business model is simple. We invest in research and development to create and provide physical IP, tools and software for our customers. We receive payments when we license our technologies to customers. They then take our IP and develop it within their products. Royalties are then received from customers when they ship products using our IP. Our licensees include many of the world's leading semiconductor manufacturers, network operators and OEMs/ODMs (Original Equipment/Device Manufacturers). Our current ecosystem partners include numerous application interface, operating system, standards and tools organisations, as well as many tier-one technology companies, game engine providers and silicon foundries.

## Strategy for the future

As announced in February 2016, we initiated a comprehensive operational review, including a full analysis of all R&D expenditure.

The objectives of our revised strategy are to build IP solutions of real scale with customers, across a wide range of markets, where we can provide differentiated offerings and build defendable positions; delivering long-term value to shareholders in the process. We will do this by focusing investment on our core IP businesses, providing outstanding service to customers, as well as rewarding careers to our employees.

**"Imagination's PowerVR ray tracing technology represents the next step in graphics technology evolution."**

# PowerVR

PowerVR's technology takes data from sensors or CPUs to a screen, delivering stunning images for entertainment, user interfaces and much more. It consists of a comprehensive range of multimedia IP, from graphics processing units (GPUs) for graphics and GPU compute, to video, imaging and vision processing.

These cores combine to create optimisable IP platforms that can incorporate customer IP to create highly differentiated, state of the art solutions for all forms of visual challenges from the latest games to smart IoT cameras.

The strategy for PowerVR will focus on consolidating Imagination's position and retaining leadership in high-end mobile, whilst striving to regain market share in the mid-range mobile market.

We also see opportunities to grow the Group's position in infotainment, maintain our strong position in digital TV/set top boxes and continue to identify opportunities in Advanced Driver Assisted Systems (ADAS) in the automotive sector.

We have identified strong opportunities in emerging and growth sectors related to ray tracing and vision and will be investing to leverage our technologies in these areas. In particular, we see clear opportunities for our ray tracing capabilities across a range of applications in augmented reality and virtual reality (AR/VR) and in vision for context-aware applications such as facial and gesture recognition.

# PowerVR graphics (GPU)

The PowerVR graphics processor family leads the market in technological capability, roadmap breadth and ecosystem, setting the benchmark for mobile and embedded GPUs. PowerVR graphics IP consists of a broad portfolio of the industry's leading graphics processors, supporting a large range of applications. Imagination's PowerVR graphics technologies are licensed by world-leading companies to power iconic products delivering the best in smartphone, tablet, TV and console apps, including the most advanced user interfaces and high performance gaming.

PowerVR uses a sophisticated and unique architecture. PowerVR achieves efficiency through tile-based deferred rendering (TBDR) that ensures the lowest possible bandwidth usage and the lowest amount of processing cycles per task. This results in high performance efficiency and the lowest power consumption per frame, outperforming other solutions.

# PowerVR ray tracing

Imagination's PowerVR ray tracing technology represents the next step in graphics technology evolution. PowerVR Wizard ray tracing graphics IP cores deliver high levels of realism and performance at mobile power budgets for the first time. This latest technology development will enable more immersive games and apps with real-life dynamic lighting models that enable advanced lighting effects, dynamic soft shadows, and lifelike reflections and transparencies, previously unachievable in a mobile form factor. PowerVR ray tracing IP is also highly scalable, reinforcing its capability to be truly disruptive to many other markets beyond mobile, such as game consoles and AR/VR.

# PowerVR video (VPU)

PowerVR video IP addresses video compression and decompression needs for customers in a diverse range of applications. Our differentiated, multi-standard approach has made PowerVR video the most deployed mobile video technology. Our flexible video architecture addresses a wide range of applications including IoT (the Internet of Things), wearables, ADAS (Advanced Driver Assistance Systems), mobile devices and cameras.

"Today's consumers all expect to be connected wherever they go and to whatever device they use."

## PowerVR vision

Our innovative PowerVR Raptor cores are low-power, highly-configurable camera image signal processor (ISP) cores designed for SoC integration that take camera-based image processing to the next level. Vision-aware technologies are increasingly incorporated in smartphones, IoT devices, automotive, robotics, and other products. The re-emergence of VR and a growing interest in AR are creating more opportunity in this space.

PowerVR vision platforms can be optimised to work with Imagination's other PowerVR graphics and video cores, as well as still image encoders and decoders, to form a complete, integrated vision platform that saves power and bandwidth for today's camera applications. They can also be used to provide the basis for next-generation context-aware applications such as facial and gesture recognition.

## MIPS

The MIPS family of CPU IP is a comprehensive portfolio of low-power, high-performance 32/64-bit processor architectures and cores, ranging from the ultimate high-performance cores for high-end applications processors down to extremely small cores for deeply embedded microcontrollers.

Our strategy for MIPS will focus on embedded processor markets where we can differentiate and maintain/build defendable positions, seeking partnerships to strengthen our offer further.

As part of this strategy we aim to maintain our stronghold in networking, home gateways and the DTV/STB markets, whilst leveraging opportunities in certain Internet of Things (IoT) growth segments.

MIPS cores come in three classes of performance and features. Warrior M-class: entry-level ultra low power and ultra small cores for embedded and microcontroller applications; Warrior I-class: highly scalable mid-range, feature-rich cores for mainstream Linux and Android devices; Warrior P-class: high-performance cores for demanding applications.

The MIPS architecture provides a number of differentiated features. Firstly it is the industry's most efficient RISC (reduced instruction set) architecture, designed to perform a limited set of instructions extremely quickly. As such it can deliver the best performance and lowest power consumption in a given silicon area. SoC designers can use this efficiency advantage for significant cost and power savings, or to implement additional cores to deliver a performance advantage in the same power, thermal and area budget.

MIPS is the only RISC architecture that provides multi-threading capability; the ability to effectively perform as multiple CPU cores within just one core. The MIPS architecture also provides hardware virtualization throughout its range of cores, providing for a much stronger security solution than a single trusted security zone within a SoC. Security is fast becoming one of the most significant differentiators for the future of the semi-conductor industry, where applications must be effectively and reliably isolated from each other as well as protected from non-secure applications, while still meeting required levels of functionality, performance, cost, and power consumption.

Imagination's OmniShield security technology is designed to provide the industry's most scalable and secure solutions for protection of next-generation SoCs. Imagination is ensuring that customers' SoCs and OEMs' products are designed for security, reliability and dynamic software management as use models and services evolve across a wide range of connected devices such as Internet of Things (IoT), gateway routers, DTVs, STBs, mobile and automotive.

**"We will seek partnerships to enhance the offering and expand routes to market, with a clear focus on ROI."**

With a strong position in home entertainment, embedded, and networking products, MIPS CPUs power billions of products around the globe, and are supported by an ecosystem of commercial and open source software, operating systems and tools.

## Ensigma

Today's consumers all expect to be connected wherever they go and to whatever device they use. Ensigma blends programmable and fixed function blocks to deliver a family of highly scalable multi-standard connectivity platforms that offer exceptional performance as well as outstanding silicon efficiency.

IP licencing in connectivity is an early-stage market today and as such is less certain. However, a significant opportunity, supported by a strong license pipeline, is emerging, particularly in the growth of the IoT market. We will seek partnerships to enhance the offering and expand routes to market, with a clear focus on ROI.

The Ensigma Explorer radio processing unit (RPU) family is focused on enabling high-performance on-chip communications with Wi-Fi and Bluetooth connectivity, as well as global DTV, digital radio, and FM receiver capabilities. Our RPUs address the ever-growing challenge of proliferating broadcast and connectivity standards by supporting them all on a single engine, and enabling them to be integrated onto SoCs for the lowest possible system cost.

Ensigma Whisper is a flexible ultra-low power sensor and cloud connectivity IP family, designed specifically to enable the integration of low power communications in SoCs targeting wearables, IoT and other connected devices that require exceptional battery life and low cost points.

## IMG Systems

The majority of the activities that were previously included in IMG Systems are in the process of being sold or closed down. These include Hellosoft (the voice over internet protocol business) and other activities associated with consumer products that previously supported Pure.

## IMGworks

IMGworks provides a system on chip (SoC) design service for customers, integrating Imagination's Ip from across its core families (PowerVR, MIPS, and Ensigma). These customised chips provide customers with chips optimised for their end use application. IMGworks has been re-scoped and is in the process of being cut back to make it commercially viable. The operational review has identified the SoC Design business (IMGworks) as non-core and the Group will sell the business.

# Chief Executive's review

**"We can build on our strengths and allocate the right capital to ensure growth and attractive returns."**

## Overview

FY16 has been a notably difficult year for the business which has seen a marked downturn in revenue and a significant restructuring of the business to enable it to grow and trade profitably in the future.

During the first half of the financial year, we saw a significant slowdown in the semiconductor market. This was driven by weaker smartphone sales and the general economic slowdown and build-up of inventory in China.

This resulted in lower license sales for Imagination, and this continued into the second half of the year. Royalty revenues were also down year-on-year, impacted by the ramp down in sales of a legacy chip manufactured by a significant customer. As a result, in February 2016, the Group announced that it expected to make a trading loss for the financial year.

Since my appointment as interim CEO in February I have focused on swiftly and decisively restructuring Imagination to put us back on a sound financial footing.

This will enable the Group to reinforce and build on the current strengths in its core three businesses; graphics and multimedia (PowerVR), processing (MIPS) and connectivity (Ensigma).

The restructuring process has required a number of difficult decisions, including the reduction in headcount and other cost reductions to a level that the Group can sustain, as well as decisions to sell or close parts of the business that are not core to the Group's future. A total of £27.5m of annualised cost reductions have been announced.

To enable the required level of investment in our core businesses, we are divesting non-core and cash-consuming business lines, such as the Pure radio business, and have re-scoped and scaled back our SoC design business to make it profitable. These changes to the business were necessary and over-due and there has been strong recognition of the need for change. The operational review has also identified the SoC Design business (IMGworks) as non-core and the Group will sell the business.

The cost reductions have been largely completed. The main areas impacted by the cost reductions were non-core engineering activities and central overheads including marketing and property. The core IP engineering activities have been protected. In total around 520 employees will leave the Group once all business disposals are completed. A significant proportion of the senior management team will also have been reduced or replaced.

Despite these reductions in headcount, we have committed to increase investment in the PowerVR business by hiring more than 50 more engineers. The cost reductions are enabling us to allocate capital in our core activity to ensure growth and attractive returns.

The sale of Pure and other non-core activities is proceeding well and we hope to have completed this activity before the end of the year. We have not seen any reduction in Pure's trading performance during the sale process.

On my arrival, I also initiated a full operational review covering all continuing activities, which are mainly the development and sale of the core IP families within the PowerVR, MIPS and Ensigma businesses.

The review has been completed and has identified those areas where we can build on our strengths and allocate the right capital to ensure growth and attractive returns.

**"The Board is confident that by re-focusing on Imagination's core IP licensing activities with disciplined capital allocation, the Group will deliver profitable growth and shareholder value."**

## Going forward Imagination will be focused as follows

Future R&D spend will be prioritised in PowerVR, particularly on retaining technology leadership and consolidating our position in mobile, automotive and DTVs/STBs. We also see good opportunities in emerging markets, such as AR/VR, vision systems and on monetising our ray tracing technology.

The MIPS business will be focused on the embedded processor market, in particular those market segments where we have strong positions today and where we can exploit our differentiation capabilities to build long-term, defendable positions into the future either alone or with partners.

While we recognise Ensigma is a longer-term play, a significant opportunity is emerging to license our connectivity IP, especially with the growth of IoT. We will continue to invest in MIPS and Ensigma and we will look to improve the prospects for these businesses through partnership arrangements aimed at building the necessary ecosystems and reaching scale more quickly.

## Outlook

The restructuring initiated in February has been progressing to plan and the Group will see the full benefits from it in the financial year to 30 April 2017.

The Board is confident that by re-focusing on Imagination's core IP licensing activities with disciplined capital allocation, the Group will deliver profitable growth and shareholder value.

The Group continues to see good demand for licences for its core technologies and expects revenues to improve in FY17. Some of this improvement is already contracted through re-negotiated licensing and services contracts, which are part of the Group's SoC design services activities.

Royalty unit shipments are expected to be in line with FY16 with growth from recent design wins offset by weakness in smart phone sales at the Group's biggest customer.

The Brexit vote has lead to a further degree of uncertainty over global economic conditions and forecasts and until the position is clearer we will not know how the business will be affected, if at all. However, the Group has few customers or employees in the European Economic Area outside the UK, even less when Pure is sold, so the exposure is small.

The Board remains confident that the Group is on track to deliver progress following a year of substantial transition.

**Andrew Heath**
Chief Executive

5 July 2016

# An Introduction to Andrew Heath

**"It is clear that we are highly regarded for both the quality of our IP and the capability of our team."**

## "A fresh perspective"

**Why did you want to become permanent CEO at Imagination?**
Imagination the business has great technology, very capable people and strong prospects. I have met with a large number of our customers over the past few months, and I am increasingly confident of our ability to profitably grow Imagination. I see plenty of opportunities for each of the core businesses by focusing on key end market segments where we can differentiate ourselves. There are clear opportunities for us in Mobile, AR & VR, Automotive, and broader vision systems, as well the connected home in digital TVs and set-top boxes, networking and the emerging IoT market. I am very much looking forward to working with the Imagination team as we take a strengthened and more focused business forward together.

**What are your initial impressions of the business?**
I remain hugely impressed by Imagination's technology and market leading capabilities and, most of all, by the calibre of my colleagues who translate this into great products for our customers. The operational review is already identifying those areas where we can allocate capital and deliver attractive returns. I am confident we have a bright future ahead.

**What have you spent your first few months as CEO focusing on?**
I have focused on three priorities: customer, cost and concentrating on the core business (PowerVR, MIPS and Ensigma). In the process I have spent a considerable proportion of the time meeting with customers and colleagues to understand their perspectives.

**What have customers told you?**
I have now met a large number of our key current and prospective customers. It is clear that we are highly regarded for both the quality of our IP and the capability of our team. They have been reassured by the actions we are taking. We are important to them and highly relevant to their future product strategies. They want us to be successful too.

**How is the restructuring progressing?**
I have been keen to accelerate the necessary restructuring required to put the business back onto a sound financial footing and to provide clarity for our customers, shareholders and colleagues alike. Acting swiftly and decisively will enable us to have the necessary resources to further strengthen our three core businesses. I fully appreciate that this has meant some difficult decisions have had to be taken. The actions that were initiated back in February and March are progressing to plan. The benefits will be delivered in full in this coming financial year.

**What do you mean by concentrating on the core?**
At its heart, Imagination is an IP licensing technology business. To be successful we need to focus on fewer things, build on our strengths and invest in those areas where we have, or can establish, a strong design-win position. The ongoing operational review is already identifying these areas where we can build on our strengths and allocate the right capital to ensure growth and attractive returns. We will do this by providing a differentiated and competitive offering that our customers value. We have taken the decision to divest or scale back the parts of Imagination that are non-core and/or cash consuming. This enables us to focus our resources on the areas of the business where we have a strong position. These are graphics and multimedia (PowerVR), processing (MIPS) and connectivity (Ensigma).

## “I am confident I can bring the necessary strategic clarity to Imagination and engage my colleagues in being a winning team.”

**How do you think that your past experiences are going to help you in this new role?**
I have many years of experience leading businesses, with technology at their heart, building long-term customer relationships and delivering shareholder value in the process. I am confident I can bring the necessary strategic clarity to Imagination and engage my colleagues in being a winning team.

**What is the main focus for the year ahead?**
I will be putting my energies into successfully building business with our customers, implementing the restructuring plan and executing on the outcome of the operational review.

**Are you confident that the business can be returned to profit and, if so, what is going to drive it?**
Imagination has great technology, very capable people and strong prospects. The market for our IP remains large, and continues to grow with exposure to both emerging and established customers. We have market leading position in graphics and multimedia. We will retain technology leadership and consolidate our position in mobile, automotive, and DTVs/STBs. I also see strong growth opportunities in emerging markets, such as, AR/VR, vision systems. We will focus our MIPS business on embedded processors and markets where we can exploit our multi-threading, and hardware virtualisation capabilities. While Ensigma is a longer-term play, there are a range of opportunities for connectivity IP licensing in IoT. We are making good headway across the business with a number of recent new customer wins and we will seek partnerships to build our supporting ecosystems and scaling the business more quickly.

# Financial Review

Following the change in management of the business in the second half of the year, an in-depth review of the Group's operations was carried out. A number of decisions have been made as a result of this review, including to reduce the Group's cost base and close or sell parts of the business. The financial impact of these decisions and of actions taken to improve the Group's financial position and ensure its viability going forward are reflected in the figures presented here.

The decision to sell or close Pure and other business lines has resulted in these parts of the Group being classified as discontinued operations at 30 April 2016. We have also changed the segmental analysis of the business this year to increase the visibility of the Group's performance – the Technology segment is now split into PowerVR, MIPS, Ensigma, IMGworks and IMG Systems.

The format of the income statement has been changed this year as, following the decision to sell Pure and IMG Systems, gross profit is no longer a useful measure of the Group's continuing operations. In addition, the Group has included a separate column on the face of the income statement to disclose significant items that have impacted the operating results (termed separately disclosable items or SDI).

## Revenue

Group revenue from continuing operations for the period ending 30 April 2016 decreased by 23% to £120.0m (2015: £156.8m).

Within this, licensing revenue decreased 55% to £17.1m (2015: £37.8m); this is after a one-off adjustment being made to reverse £5.7m of revenue related to two contracts where decisive action has been taken to improve the commercial outcome for the Group. In this context, one contract has been extended in scope, with materially higher revenues expected; however, this has resulted in a change in the IP being delivered and the reversal of previously recognized revenues. In the second instance, the Group has agreed to cancel a contract; as a consequence, revenue recognized in FY15 has been reversed and exit costs associated with the cancellation have been recognized in full this year. The revenue reduction was spread across the segments it impacted.

Royalty revenue from continuing operations decreased by 13% to £102.7m (2015: £118.4m). Partners' chip shipments (excluding MIPS) were down at 464m (2015: 530m) units, primarily because of a reduction in shipments of one specific legacy chip. MIPS' partner shipments decreased by 4% to 764m units (2015: 797m), although in the second half of the year shipments returned to year-on-year growth of 2%. These reductions resulted in lower royalty revenues in both PowerVR and MIPS. Royalty revenues in Ensigma were up year-on-year because of increasing digital radio sales – the majority of Ensigma royalties come from RPU sales to chip providers for digital radios. The average royalty rate, excluding MIPS, was in line with the prior year. Total Partner chip unit shipments fell to 1,228m units (2015: 1,327m).

Revenue from discontinued operations increased by 6% during the year primarily due to concerted efforts to reduce Pure's stock holdings. These sales were at very low margins, sometimes below cost, as the business attempted to secure some value for obsolete and slow moving items.

The average sterling / dollar rate during the year improved by 7%, resulting in a similar gain in revenue. Total revenues were down 20% to £141.4m (2015: £177.0m).

## Operating expenses

Group operating expenses included in adjusted operating loss, associated with continuing operations, increased year-on-year to £136.5m (2015: £127.0m) as R&D investment continued to grow. We have taken action to reduce costs and £27.5m have been taken out of the cost base for FY17. The cost savings are made up of a combination of headcount reductions, as well as savings in overheads including marketing, property, third party software and hardware rental, travel and contractors. The cost savings were completed early in FY17, and we expect the full value of these savings to be realised in the current year.

As noted above, we have specifically highlighted the impact of the restructuring by showing certain specific costs as SDI. We have, however, included some significant items in continuing operating expenses that are not expected to recur in future periods; this includes £2.5m of bad debt provision and write-offs and a £0.9m charge in respect of employee holiday liabilities that had not previously been accounted for (c.£0.6m of this should have been recognised at 30 April 2015).

We have set out a more detailed segmental analysis than previously reported in note 2 to the accounts, showing revenues and operating costs for the six operating businesses that the Group reports internally and uses to manage the business. PowerVR and MIPS make profits after taking into account direct engineering costs, PowerVR makes profits after allocating central overheads, MIPS did not. The other 4 units (Ensigma, IMGworks, Pure and IMG Systems) make substantial losses before any central costs are allocated. IMGworks is being re-scoped and re-scaled to address its losses and will be divested in FY17. Activities associated with Pure and IMG Systems are being sold or shut down.

# Adjusted operating profit

On a statutory basis, the Group made an overall operating loss before tax of £87m (2015: loss of £12m).

Consistent with prior periods, adjusted profit is used by the business to measure its performance year on year by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions and investments, non-cash based share incentive charges, and amortisation of intangible assets acquired from acquisitions. This year, adjusted operating loss* for continuing operations was £16.5m (2015: profit of £29.8m). A reconciliation of this to the statutory operating loss is given in note 2. The key adjustments made to operating losses from both continuing and discontinued operations were to add back:

- non-cash share-based incentives charge of £7.8m (2015: £12.0m);
- amortisation of intangibles from acquisitions of £8.7m (2015: £9.1m), £1.8m of which relates to discontinued operations;
- loss on disposal and impairment of investments of £11.4m (2015: £5.1m) – we have sold almost all of the Group's holdings of publically traded investments and have written down the value of all others, except Atomos, which is currently a profitable growing business, and Netspeed, which are likely to have value should a buyer become available;
- acquisition related costs of £1.1m (2015: £1.4m) arose in both FY16 and FY15 from on-going payments relating to the Posedge acquisition, these costs will end in FY17;
- onerous contract provision of £6.7m (2015: £2.5m) – this reflects the losses that will be made on various SoC design contracts;
- onerous property lease provision of £1.9m (2015: nil) for the offices closed as part of the cost reductions;
- goodwill impairment from the decision to sell IMG Systems businesses of £11.1m (2015: nil), all included in discontinued operations;
- Group restructuring costs of £6.6m (2015: £0.7m) – mainly redundancy costs of over 200 staff;
- fixed asset write-downs of £6.9m (2015: nil), this relates to one of the three office buildings at Kings Langley that the Group owns. The building is likely to become empty and surplus to requirements once the business disposals are completed. The property is therefore reclassified as an investment property and written down to the market value of this building which is well below cost; and
- a credit relating to releases of contingent acquisition consideration of £1.7m (2015: £0.4m).

Adjusted operating loss* for discontinued operations was £8.9m (2015: £8.7m), most of which related to Pure, where on top of on-going trading losses, a large stock provision was required for obsolete or slow-moving stock.

The Group's adjusted loss per share was 9.2p (2015: earnings of 6.3p). The Group's reported loss per share is 29.8p (2015: loss of 4.9p).

# Taxation

Net tax was a credit of £6.6m (2015: charge £1.1m) reflecting the losses made in the year, particularly in the UK, and the deferred tax impact of using these losses in future years. The credit is net of overseas withholding tax the Group is required to pay on customer remittances from various jurisdictions. It is also net of taxes payable in various jurisdictions outside the UK and US where Imagination's offices provide R&D, customer support and sales and marketing services for the Group.

There are significant losses available in both the UK and the US to offset future year's taxable income. During the year the IRS in the US audited the tax returns of the MIPS legal entity for periods prior to and including the acquisition by Imagination. A significant multi-million dollar assessment has been raised and may lead to significant tax payments being required in future. A provision has been recognised to account for the anticipated settlement.

# Balance sheet and cash flow

The balance sheet at 30 April 2016 shows the impact of poor trading in FY16 and of the actions taken to improve the position going forward.

Goodwill at 30 April 2016 was £48.8m (2015: £59.8m) reflecting the impairment in a previous acquisition (Hellosoft, part of IMG Systems, a discontinued operation).

The Group's trade investments was £4.6m (2014: £19.9m); the significant reduction reflects the sale of stakes in Toumaz and Onkyo, the partial sale of the stake in 7Digital and the movement in share price of the remaining holding in 7Digital, which will be sold as soon as the shares are removed from escrow. The balance also reflects the impairment of the stakes in privately held businesses, some of which are in financial difficulty.

Property, plant and equipment was £69.7m (2015: £69.0m) reflecting capital expenditure during the year of £20.0m (2015: £12.2m) less the value of the building we are likely to sell in Kings Langley that is now surplus to the Group's requirements. This has been re-classified as an investment property and held at cost less impairment. The primary element of the capital expenditure is the redevelopment of the Group's property facilities in Kings Langley which has now concluded but also includes spending on computer hardware required for the Group's operations. Previously some of this equipment was paid for by renting it under an operating lease; this equipment is now paid for under a finance lease whereby the Group will own the hardware at the end of the lease. The change in type of lease used requires the hardware to be shown as a fixed asset addition even though the hardware was in use previously in the Group's data centre and was not shown as a fixed asset.

Trade and other receivables and accrued income were reduced to £54.1m (2015: £81.8m), because of lower revenues and the bad debt provision and write-offs.

Cash generated by operations improved to £16.7m (2015: out flow of £4.0m) because of tight management of all receipts and payments. Receipts from sales of publically traded investments were £4.4m.

Net debt at the year-end was £33.0m (2015: £27.2m) and reflects close attention paid to conserving cash despite the losses made in the year, net debt at the half-year (31 October 2015) was £35.4m, worse than the year end position.

The Group's banking facilities with HSBC were re-negotiated during the year to increase the facility available by £15.0m. As is usual with such facilities, certain covenants (conditions) were attached to the facility and security of a charge over the Group's assets including the property owned was given. At 30 April 2016, the Group breached the requirement to keep net debt at or less than 3 times EBITDA (Earnings before interest, tax, depreciation and amortization). The breach has been waived by HSBC and a fee has been paid by the group for this waiver. The debt facility remains in place and HSBC remains supportive of the Group – practically, the bank has good security for the debts outstanding. However, due to the breach, the loans are classified as current liabilities at year end. Further information is given in the Group's going concern and viability statements.

* Adjusted profit / (loss) is used by management to measure the performance of the business year on year by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions and investments, non-cash based share incentive charges, and amortization of intangible assets acquired from acquisitions. The reconciliation from reported results to adjusted results is set out in note 2.

# Key Performance Indicators

| Business Units | Year to 30 April 2016 | | | Year to 30 April 2015 | | | Year/Year % | | |
|---|---|---|---|---|---|---|---|---|---|
| | PowerVR | MIPS | Ensigma | PowerVR | MIPS | Ensigma | PowerVR | MIPS | Ensigma |
| Licensing Revenue (£m) | 10.2 | 6.4 | 2.0 | 18.8 | 9.2 | 4.6 | (46%) | (30%) | (57%) |
| Royalty Revenue (£m) | 77.7 | 23.5 | 1.5 | 92.3 | 24.9 | 1.2 | (16%) | (6%) | 25% |
| Partner Chips Shipped (units, millions) | 456 | 764 | 9 | 522 | 797 | 5 | (13%) | (4%) | 59% |
| Adjusted operating profit / (loss)* (£m) | 58.2 | 7.9 | (5.4) | 82.0 | 13.8 | (3.0) | (29%) | (43%) | 78% |

| Group | Year to 30 April 2016 | Year to 30 April 2015 | Year/Year % |
|---|---|---|---|
| Revenue (£m) | 141.4 | 177.0 | (20%) |
| Loss before tax (£m) | (87.5) | (12.0) | 629% |
| Adjusted operating profit / (loss)* (£m) | (25.4) | 21.1 | (220%) |
| Net debt (£m) | (33.0) | (27.2) | 21% |
| Cash outflow on Capex (£m) | 20.8 | 13.7 | 52% |

* The reconciliation from reported profit (loss) to adjusted profit (loss) is set out in note 2.

# Principal risks and uncertainties

The Group places great importance on the identification, assessment and effective mitigation and monitoring of our risks. Our approach to risk management helps us to deliver our objectives and maximise the returns of the Group.

The following table describes the risks that the Board considers to have a potential material impact on the Group. They are specific to the nature of our business notwithstanding that there are other risks that may occur and may impact the achievement of the Group's objectives.

The Board discussions on risk have focused on these items and the actions being taken to both manage and review them regularly.

| Risk or uncertainty and potential impact | How we manage it |
|---|---|
| **Competitive Position** | |
| The business operates in a highly competitive market and needs to be able to respond rapidly to competitive threats as well as customer requirements.<br>A change in the business environment or business models employed by our customers could have a detrimental impact on our financial performance. | Drive and deliver new product developments and enhancements which differentiate us competitively<br>Establish trusted relationships with customers to ensure we fully understand their strategic direction<br>Monitor and understand our competitors<br>Focus on being responsive to customers and improving the quality and delivery of our products<br>Seek out new market opportunities and pioneer unexploited sectors<br>Adapt a flexible approach to different business models<br>Obtaining advice on critical underpinning technologies and developments relevant to our core products from the Technology Advisory Committee |
| **Intellectual Property** | |
| Patent-related threats from third parties seeking to use patents as an alternative way of generating revenue.<br>Infringing others patents. | Build a portfolio of strategically important patents<br>Regularly screen relevant third party patents to avoid infringement<br>Track industry movements, particularly involving standardisation bodies, to predict and avoid patent risks<br>Build strong relationships with external counsel to enable us to act quickly and defend our position<br>Work closely with customers to respond quickly to potential threats<br>File more patents in key markets like China and India |

| Risk or uncertainty and potential impact | How we manage it |
| --- | --- |
| **Customer Concentration** | |
| The business currently has a large portion of revenue related to a small number of customers and technologies. Consolidation within the industry could drive this further and increase Imagination's dependence on a limited number of customers. | Build a portfolio of technology that appeals to a broad range of customers and market segments<br>Develop relationships with a wider number of customers spread across different sectors and jurisdictions<br>Monitor trends and changes in the semiconductor industry<br>Develop business models that reflect the changing industry landscape<br>Develop sales strategies to broaden our customer base<br>Increase marketing activity to highlight the breadth of markets that we target and operate |
| **Cyber Risk** | |
| Cyber risk causes disruption to the business or loss of IP following a cyber-attack. This could cause interruption of internal or external facing systems, including; interruption to the business caused by a loss of data and reputational damage from a loss of personal or confidential data. The cost or effort to reconstitute data that has been stolen or corrupted and commercial loss from the theft of commercially sensitive data, including IP. | Establish a defence by deploying the latest generation of firewall protection<br>Ongoing improvement in the rigour of authentication processes including wider use of single sign on<br>Improve protection of confidential data on portable computers<br>Improve process of system patching to close security loopholes<br>Use of third party audits |
| **Products Meeting Customer Requirements** | |
| Unable to deliver new products on time or achieve performance that does not meet market requirements in terms of specification, quality or timeliness could result in loss of market share with a corresponding impact on financial performance. | Put in place resources to manage and monitor customer requirements<br>Close project management, including using project management systems<br>Checks throughout the project to ensure the expected outcomes including specification and timing will be achieved<br>Thorough roadmap planning process including discussion with key customers for each business unit<br>Additional R&D resources allocated to key projects<br>Management training programme<br>Change customers perception that we offer smart solutions beyond mobile |
| **Macro-Economic Developments** | |
| Changes in global economic conditions can have a significant impact on our partners and customers and therefore may affect the financial performance of the business. | Broad customer, engineering and products base to balance risk<br>Effective forecasting of business performance<br>Foreign exchange hedging strategy implemented |

| Risk or uncertainty and potential impact | How we manage it |
| --- | --- |
| **Effective Management of People** | |
| In a complex, geographically diverse and fast moving business it is critical that we retain and attract the skills and capabilities needed in sufficient numbers to deliver our objectives and maintain an entrepreneurial and dynamic culture.<br><br>Internal control failure such as an employee committing fraud or bribery due to lack of integrity or awareness. | Ensure competitive remuneration package is designed to attract, retain and reward employees with ability and experience to execute group strategy<br><br>Invest in management development training<br><br>Ensure adequate succession planning is performed and documented for all key personnel<br><br>Identify behaviours to support the development of Company culture<br><br>Increase frequency and quality of communications |
| **Debt Facilities** | |
| After difficult trading conditions in FY16, the Group breached covenants on its banking facilities. HSBC has agreed to waive the breach and waive or reset FY17 covenants but the risk remains that further breaches could result in the withdrawal of the facility. | Costs have been reduced to reduce cash out flows.<br><br>Businesses are being sold and proceeds will reduce or eradicate debts.<br><br>Property assets are used as security for the bank facility and could be sold to pay back the facility if required<br><br>Net debt has already been reduced by April 2016 from the position left by previous management at the end of October 2015. Cash is managed on a daily basis with detailed monitoring |

# Corporate and social responsibility report

**"All of the buildings are designed along the principles of sustainable design and will exceed the building regulations requirements for buildings of this nature"**

## Corporate and social responsibility

The Group recognises that it has responsibilities to all stakeholders, including the interests of employees and their families, the need to foster the Group's business relationships with partners, customers, suppliers and others; and the impact of the Groups operations on the local communities and surrounding environment where it operates. Our employees are highly regarded and valued, and their employment and rights are respected. All employees are required to act honestly, fairly and with integrity. The Group is committed to the important principle of equal opportunity which is reflected in the Group's recruitment, disciplinary and grievance policies. The Group is dedicated to supplying products of the highest quality to meet its customers' requirements in a manner that is consistent with high environmental and ethical standards. The Group makes a contribution to local charities and communities in areas where it operates its business.

## Environmental impact and energy use

As a Group we feel our environmental impact on the whole is low, with our main business being the development of intellectual property which helps customers develop the most power efficient products possible. Our emissions come mainly from the use of electricity in our offices and business travel. In the UK we currently have seven offices, three at Group headquarters in Kings Langley, one data centre and three offices at other locations in the UK. We also have a number of overseas sites.

## Redevelopment of site and environmental impact

The Group began redeveloping its headquarters site in Kings Langley in 2011. All three buildings are now complete enough to occupy and use although there are still some items that require finishing by the builders. All of the buildings are designed along the principles of sustainable design and will exceed the building regulations requirements for buildings of this nature; each building should achieve a BREEAM rating of 'Excellent' when the builder has completed their contracted work.

As part of the redevelopment of the headquarters the Company focused on the core functions required of a high quality office development whilst being conscious of its environmental responsibilities, in this vein we are promoting the ecology of the area by introducing a native boundary structure and new habitats within the canal area. Where applicable, native tree shrub and herbaceous plants have been introduced to encourage indigenous species in the more decorative areas of the scheme.

## Data centre

To meet the Group's considerable IT requirements, a dedicated data centre was constructed and became operational in 2014. It contains two highly efficient data halls, the first of which is in current use and the second hall will come online in the future to meet business needs as the Group grows. The data halls are supported by a highly efficient electrical distribution system that utilises state of the art static UPS systems that have multiple modes of operation to maximise energy efficiency. A low energy cooling solution has also been adopted that provides both a water and air cooled solution that makes use of free cooling when ambient conditions allow.

**"Our Pure division has spent considerable time looking into ways to reduce their environmental impact and it remains committed to ethical and environmentally sustainable design and manufacture"**

## Pure division

Our Pure division has spent considerable time looking into ways to reduce their environmental impact and it remains committed to ethical and environmentally sustainable design and manufacture as encapsulated within EcoPlus (www.pure.com/ecoplus). Pure recognises that its main environmental impact comes through the products themselves in manufacture, transport and predominantly in use by consumers, and so it continues to reduce the power consumption of its products, with a programme in place to exceed the requirements of the tightened Energy-Using Products ('EuP') Directive which came into force in January 2013.

The Pure division also ensures through its own due diligence programme that all third-party factories comply with the following health, environmental and ethical requirements:

- EC Regulation on chemicals and their safe use (EC 1907/2006), known as Registration, Evaluation, Authorization and Restriction of Chemical substances ('REACH');
- Use of Certain Hazardous Substances in Electrical Equipment Regulations 2005 (RoHS);
- Batteries & Accumulators directives; and
- SEDEX or SA8000 – Pure is committed to the ethical treatment of its staff and contractors, and to that end all third-party factories are audited via the SEDEX or SA8000 programmes to ensure compliance with local and national laws, particularly on: working hours and conditions, health and safety, rates of pay, terms of employment and minimum age of employment.

The Pure division through their own functions ensures compliance with the following:

- The EC Directive on Waste Electrical and Electronic Equipment ('WEEE') through the producer compliance scheme REPIC – this is aimed at minimizing the impact of electrical and electronic goods on the environment; and
- The EC Directive on Packaging and Packing Waste (94/62 EC) obligations through their membership of the compliance scheme Biffpack.

The Pure division use a compliance solutions company to meet their obligations under the Packaging Waste Regulation obligations.

## Recycling

We encourage our employees to recycle their day to day waste. We do this by ensuring there are recycling bins for cardboard and non-confidential materials and separate confidential bags in every office, all of which are recycled. There are also recycling bins in each kitchen area. Energy saving measures are also in place for recycling components, such as printed circuit boards, toner cartridges, surplus packaging and paper. All cardboard, wooden boxes, drink cans and plastic bottles are currently recycled.

## Greenhouse gas emissions

Imagination is required to report the quantity of greenhouse gas (GHG) emissions from activities from which the Group is responsible, in accordance with the GHG emissions reporting requirements of The Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013 for GHG emissions.

We have adopted a financial control approach to defining our organisational boundary and therefore the data used reflects our material global operations. The methodology used to compile this data is in accordance with the requirements of the following standards: DEFRA's Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance (June 2013). Our reporting period for GHG emissions is in line with our financial reporting year to 30

"Employee share ownership is encouraged across the Group to align the interests of our employees and our shareholders and to enable our employees to share in the success of the Company."

April 2016. This marks our baseline year and will be used for comparative purposes in the future.

Our gross carbon emissions have decreased by 1,460 t/ CO2e from 2015, due to a more efficient use of energy.

Our material GHG emissions from our business activities in FY16 amounts to 4,573 tonnes of CO2e, consisting of:

| Carbon emissions | 2016 Tonnes of CO2e | 2015 Tonnes of CO2e |
|---|---|---|
| Scope 1: CO2e from the Combustion of fuel and the operation of any facilities | 523 | 305 |
| Scope 2: CO2e from the purchase of electricity, heat, steam or cooling by the Company for its own use | 4,050 | 5,728 |
| **Total** | **4,573** | **6,033** |

| Our Group chosen intensity measurement is square foot | 2016 Emissions intensity | 2015 Emissions intensity |
|---|---|---|
| Scope 1: Tonnes of CO2e per Sq. ft. | 0.00 | 0.00 |
| Scope 2: Tonnes of CO2e per Sq. ft. | 0.01 | 0.01 |

Where data was incomplete GHG emissions were extrapolated from the available information.

## The Group's employees

The Group recognises that its reputation and success depends upon the efforts, integrity and commitment of its people. Employee engagement with the whole Group is a priority and there are a number of communication channels in place to help employees develop their knowledge of the business. These channels include regular presentations by the CEO and CFO to staff covering the Group's performance, strategy, vision and operational developments.

Employee share ownership is encouraged across the Group to align the interests of our employees and our shareholders and to enable our employees to share in the success of the Company. The Group runs an employee share plan under which all employees globally are eligible to receive share awards on an annual basis. There and no performance conditions on share awards below the Executive Management Board (EMB) and Board.

## Graduate recruitment and internship programme

We remain focused on bringing people into engineering: the Group runs a graduate recruitment and internship programme with universities and colleges throughout the UK. We have developed strong relationships with a number of universities including the University of Southampton, Imperial College of London, the University

**"The Group invites young people from the local community annually for structured work experience to learn more about and experience some of the careers available in our sector."**

of Bristol and the University of Manchester. As a direct result of our programme we have welcomed around 40 undergraduates on internship each year, most of whom convert into permanent graduate hires.

## Academic outreach and sponsorship

We have linked up with universities which reflect our technical skillset and are supporting and developing these into centres of excellence for students in line with our intellectual property activities around the Group. The Group offers a wide range of other incentives to young people varying from the sponsorship of electronic courses at local schools; giving scholarship awards to students at University to promote opportunities at the Group and financial awards to exceptional successful interns with the intention that the students come to work for the Group in the future. The Group invites young people from the local community annually for structured work experience to learn more about and experience some of the careers available in our sector. We regularly attend and sponsor events focused on promoting Science and Engineering with our university partners.

## Diversity

The Group acknowledges the importance and contribution of its employees and as a global business, values people from all cultures, nationalities, religion and ethnicities irrespective of characteristics such as age, gender, marital status, sexual orientation or physical or mental disability. The Group is committed to building a diverse organisation to maximise the skills available to us in the jurisdictions in which we operate. We ensure that we follow best practice and have adopted employment policies across the jurisdictions, based on equal opportunities for all employees these are implemented from the point of recruitment and continue throughout the employees' career with Imagination. The Group has a strong demand for highly qualified staff and disability is not seen to be an inhibitor to employment or career development. Disabled people are given full consideration for employment and subsequent training (including, if needed, retraining for alternative work where employees have become disabled), career development and promotion on the basis of their aptitudes and abilities. The Group considers diversity as an important issue across the Group, not just at Board level.

We have marginally increased the percentage of senior females in the Group and recognise that we must continue to work to increase the proportion of female staff within the Group.

| | **Board of Directors** | **Senior Managers** | **Employees** |
|---|---|---|---|
| **Male** | 5 | 153 | 1,231 |
| **Female** | 1 | 16 | 200 |
| **Total** | **6** | **169** | **1,431** |

# Approval

Following the change in management of the business in the second half of the This Strategic report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The directors, in preparing this Strategic report, have complied with section 414c of the Companies Act 2006.

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Imagination Technologies Group plc and its subsidiaries undertakings when viewed as a whole.

This report was approved by the Board of directors on 5 July 2016 and signed on its behalf by:

**Guy Millward**
5 July 2016

# Directors' report

# Board of Directors

## Bert Nordberg

Chairman
Appointment Date: from March 2015 to present
Nationality: Swedish

### Skills and Experience

Bert is the Chairman of Imagination. He was president of Sony Mobile until May 2012 and was its chairman until 2013. His engineering background and his extensive experience in the mobile and computing fields includes executive and non-executive roles at Ericsson, Blackberry Limited, DEC and others. He is currently Chairman of Vestas Wind Systems A/S and is a non-executive director of SAAB AB, AB Electrolux and SCA – Svenska Cellulosa Aktiebolaget.

### Other current appointments

Vestas Wind Systems A/S – Chairman

AB Electrolux (SE) - Non-executive director

SAAB AB – Non-executive director

Sigma Connectivity AB (SE) – Executive Chairman

Svenska Cellulosa Aktiebolaget SCA (SE) – Non-executive director

### Board Committees

Nomination Committee (Chairman)

Remuneration Committee

## Andrew Heath

Chief Executive Officer
Appointment Date: 26 May 2016 as Chief Executive Officer. Joined the board as a non-executive director in August 2012 and was appointed Interim Chief Executive Officer on 8 February 2016.
Nationality: British

### Skills and Experience

Andrew is the Chief Executive Officer of Imagination. He joined the Group's Board in August 2012 as a non-executive director. He has a wealth of international business experience gained through executive roles at Rolls-Royce and more recently as Chief Executive Officer of Alent plc. He was previously a Non-executive Director of LG Fuel Systems Inc. and Oxford BioSignals. Andrew has a BSc in engineering from Imperial College London and an MBA.

### Board Committees

Remuneration Committee (Chairman) (stepped down 8 February 2016)

Audit Committee (stepped down 8 February 2016)

Nomination Committee

## Guy Millward

Chief Financial Officer
Appointment Date: 21 December 2015 to present
Nationality: British

### Skills and Experience

Guy has previously held a number of senior finance positions with both publicly listed and privately held technology companies. Guy's previous roles include; Group Finance Director at Morse Plc from 2009 to 2011 and Alterian plc from 2011 to 2012. He was also CFO at Advanced Computer Software Group plc from 2013, until its sale to Vista Equity Partners in mid-2015. Guy has held positions at Kewill plc, General Electric plc and Ernest and Young LLP.

Guy has no other current appointments and is not a member of any board committees.

## David Anderson

Non-executive director and Senior Independent Director
Appointment Date: November 2010 to present
Nationality: British

### Skills and Experience

David has over 30 years' investment banking experience including 17 years at Lazard including two years heading up the Lazard business in Asia and six years at JP Morgan Cazenove. He spent two years at Vodafone as group corporate finance director from 2000 to 2002. Since 2008 he has run his own corporate finance business, EPL Advisory LLP, and also built up a portfolio of board roles. He has specific skills in mergers and acquisitions (both domestically and cross-border), restructuring and capital raising. He also chairs audit committees at Bibby Line Group Limited and Hibu (previously Yell). He chairs the trustees of the Lazard pension schemes.

### Other current appointments

Bibby Line Group Limited

Hibu Group 2013 Limited

### Board Committees

Audit Committee (Chairman)

Nomination Committee

Remuneration Committee (Interim Chairman 8 February 2016 – 19 April 2016)

## Gilles Delfassy

Non-executive director
Appointment Date: June 2012 to present
Nationality: French

### Skills and Experience

Gilles is a highly experienced and respected international figure in the semiconductor and mobile/wireless industry with 35 years of highly relevant experience, including almost 30 years at Texas Instruments, Inc (TI). He was a key pioneer and driving force behind the mobile/wireless initiative within TI, which helped to shape the industry. He has also held the position of Chief Executive Officer of ST-Ericsson SA.

### Other current appointments

Kalray – Chairman

Sequans Communications - Director

### Board Committees

Audit Committee member

Nomination Committee member

Remuneration Committee

# Ian Pearson

Non-executive director (retired)
Appointment Date: April 1998 to May 2016
Nationality: British

### Skills and Experience

Ian has over 30 years' experience with companies specializing in semiconductor design, manufacturing and management, with industry Director level responsibilities. These companies include Inmos and SGS Thompson.

Ian has no other current appointments and is not a member of any board committees.

# Kate Rock

Non-executive director
Appointment Date: August 2014 to present
Nationality: British

### Skills and Experience

Kate has many years of experience in corporate communications. She was at College Hill for 12 years from 1996, where she provided strategic counsel and business communication strategies to both public and private companies, including several technology businesses. She was Vice-Chairman of the Conservative Party with responsibility for business engagement from 2015 to July 2016. Kate is also is a non-executive director of First News (UK) Limited, publishers of First News.

### Other current appointments

First News (UK) Limited – Non-executive director

### Board Committees

Audit Committee (appointed 11 February 2016)

Nomination Committee

Remuneration Committee (Chairman from 19 April 2016)

# Changes to the board

Sir Hossein Yassaie resigned as Chief Executive Officer with effect from on 8 February 2016 and Richard Smith resigned as Chief Financial Officer on 31 December 2015. Ian Pearson retired as a non-executive director of the Company on 31 May 2016.

The appointments of Andrew Heath and Guy Millward are disclosed in this section.

There were no other changes to the board during the financial year and up until the date of this annual report.

# Directors' report

The Directors present their report and audited financial statements of the Group for the year ended 30 April 2016. The following additional disclosures are made in compliance with the Companies Act 2006, the Disclosures and Transparency Rules and the 2014 UK Corporate Governance Code.

The Board has prepared a Strategic Report, including the Chairman's statement (page 3) and the CEO's review (page 8), which provides an overview of the development and performance of the Company's business to 30 April 2016. Certain information required to be included in the Directors report can be found in other sections of the Annual Report as described below. All information presented in these sections is incorporated by reference into this Directors' report and is deemed to form part of this report:

Review of the performance and future development of the Group, Strategic Report, pages 3 to 23.

Principal risks and uncertainties, Strategic report, pages 16 to 18.

Disclosures concerning greenhouse gas emissions, Strategic Report, page 20.

Employment matters, Strategic report, pages 21 to 22.

The Corporate Governance Report set out on pages 34 to 40, Audit Committee Report, pages 41 to 45, Nominations Committee Report, pages 46 to 47 and the Remuneration Committee Report, pages 48 to 65 form part of this report.

Sgnificant events since the balance sheet date are disclosed in note 27 in the notes to the consolidated financial statements.

## Research and development

The continuing cost of research and development expenditure and advanced technology projects charged directly to the income statement was £78,308,000 (2015: £72,270,000). An indication of likely future developments in the business of the Group and details of research and development activities are included in the Strategic report.

## Political donations

No political donations were made during the year. Imagination has an established policy of not making donations to any political party, representative or candidate in any part of the world.

## Financial instruments

Details of the Group's financial risk management objectives and policies are set out within note 22 to the financial statements along with details of the Group's exposure to market risk, credit and liquidity risk.

## Share capital

Details of the issued share capital, together with details of the movements in the Group's issued share capital during the year are shown in note 19, which is incorporated and deemed to be part of this report. The Group has a single class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Group. As at 30 April 2016, there were 276,626,851 ordinary shares in issue listed on the London Stock Exchange of which 1,867,924 (2015: 2,122,071) were held in trust. No person has any special rights of control over the Group's share capital and all issued shares are fully paid.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provision of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Group's shares that may result in restrictions on the transfer of securities or on voting rights.

With regard to the appointment and replacement of directors, the Group is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

## Authority to allot

At the Annual General Meeting in September 2015, shareholders approved a resolution to give directors the authority to allot ordinary shares up to an aggregate nominal amount of £9,085,061. In addition, shareholders provided approval to directors to allot up to an aggregate nominal amount of £18,170,122 in connection with an offer by way of a rights issue in accordance with Investment Management Association guidelines The directors have no present intention to make use of the authority sought under this resolution except to satisfy share awards under employee share schemes. The authority will expire on the earlier of the 31 October 2016 or at the conclusion of the AGM in 2016 and will be proposed for renewal again at this year's AGM.

## Purchase of own shares

At the Annual General Meeting in September 2015, authority was granted to the Company to purchase its own shares in the market up to a maximum aggregate number of 27,255,183 shares, being approximately 10% of the issued share capital as at 1 August 2015. The current authority will expire the earlier of the 31 October 2016 or at the conclusion of the AGM in 2016. The Group would like to retain the flexibility offered by this resolution and it will therefore be proposed again at this year's AGM.

## Dividends

The directors do not recommend the payment of a dividend.

## Directors

The membership of the Board and biographic details of the Directors are provided on pages 25 to 27 and are incorporated into this report by reference.

Sir Hossein Yassaie stepped down as Chief Executive Officer of the Company in February 2016 and Andrew Heath was appointed as the Interim Chief Executive Officer on Sir Hossein's resignation. Andrew was appointed Chief Executive on 26 May 2016. As a result of his appointment, Andrew stepped down from the Remuneration and Audit committees. Andrew will seek election as Chief Executive at the 2016 AGM to be held on 6 September 2016. Richard Smith resigned as Chief Financial Officer in December 2016 and Guy Millward was subsequently appointed to the role with effect from 21 December 2015. Guy will seek election as a director of the Board for the first time at the 2016 AGM to be held on 6 September 2016. Following the resignation of Anthony Llewellyn as the Company Secretary in June 2016, Guy assumed the role of the Company Secretary in addition to his duties as the Chief Financial Officer. Ian Pearson retired as a non-executive director of the Board on 31 May 2016.

The rules for the appointment and replacement of directors are set out in the Company's Articles of Association. Each new appointee to the Board is required to stand for election and the next Annual General Meeting following their appointment. In addition, the Company's articles of association require each director to stand for re-election at least one every three years. However, in accordance with the UK Corporate Governance Code, all directors wishing to serve again will submit themselves for re-election at the next Annual General Meeting and are recommended for re-election.

The Company maintains directors' and officers' liability insurance and all directors of the Company benefit from qualifying third party provisions which were in place during the financial year. Article 130 of the Group's Articles of Association provides for the indemnification of directors of the Group against liability incurred by them in certain situations, and is a 'qualifying indemnity provision' within the meaning of section 236 of the Companies Act 2006. The qualifying indemnity was in force during the financial year and up to the date of signing the annual report.

## Directors' interests

Interests of the directors in Group shares and share options are set out in the Directors' remuneration report on pages 48 to 65, together with details of directors' remuneration and service contracts.

## Change of control

The Group's share based incentive plans contain provisions relating to a change of control. The Long-Term Incentive Plans, share awards and performance share awards for the CEO and CFO would vest and become exercisable on a change of control of the Group, subject to the satisfaction of the performance conditions.

There are no significant agreements to which the Group is a party that take effect, alter or terminate upon a change of control.

# Substantial shareholdings

As at 30 April 2016, the Group has been notified under Rule 5 of the FCA's Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

| | Ordinary Shares of 10p | Percentage of issued ordinary share capital (%) |
|---|---|---|
| Baillie Gifford & Co Ltd | 32,853,113 | 11.99% |
| M&G Investment Management Ltd | 29,699,893 | 10.84% |
| Standard Life Investments (Holdings) Limited | 24,730,552 | 9.04% |
| Apple Inc, | 23,047,770 | 8.48% |
| Newton Investment Management Ltd | 22,274,326 | 8.20% |
| Neptune Investment Management Limited | 14,640,981 | 5.34% |

Save for the above, the Group has not been notified, as at 30 June 2016, of any interest exceeding 5% of the issued share capital of the Company.

# Essential contracts

There are a large number of agreements in place with the Group's customers and partners. There are no parties with whom the Group has contractual or other arrangements which are essential to the business of the Group except the contract with Apple Inc.

# Annual General Meeting

The 2016 AGM of the Group will be held at the offices of Jefferies, 68 Upper Thames St, London EC4V commencing at 9 am on 6 September 2016. The Notice of Annual General Meeting with full description of the business to be conducted is set out at www.imgtec.com.

# Information presented in other sections

For the purposes of compliance with LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

| Section | Requirement | Location |
|---|---|---|
| 1 | Interest capitalised | Not applicable |
| 2 | Publication of unaudited financial information | Not applicable |
| 4 | Details of long-term incentive schemes | Remuneration Report, pages 48 to 65 |
| 5 | Waiver of emoluments by a director | Not applicable |
| 6 | Waiver of future emoluments by a director | Not applicable |
| 7 | Non pre-emptive issues of equity for cash | Not applicable |
| 8 | Non pre-emptive issues by a major subsidiary undertakings | Not applicable |
| 9 | Parent participation in a placing by a listed subsidiary | Not applicable |
| 10 | Contracts of significance | Directors Report, page 30 |
| 11 | Provision of services by a controlling shareholder | Not applicable |
| 12 | Shareholder waivers of dividends | Not applicable |
| 13 | Shareholder waivers of future dividends | Not applicable |
| 14 | Agreements with controlling shareholders | Not applicable |

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

The directors are responsible for preparing the Annual Report and the group and parent company 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. Under that law 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 in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework.

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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; 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, Directors' Remuneration Report and Corporate Governance Statement 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.

### Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

# Going Concern

The Group's net debt at the year-end was £33.0m (2015: £27.2m) and reflects close attention paid to conserving cash despite the losses made in the year. Details of the group's borrowing facilities are given in note 22.

As is usual with such facilities, the group is required to meet certain financial covenants (conditions) and provide security in the form of a charge over the Group's assets, including the freehold property. At 30 April 2016, the Group breached one of the conditions of the facility relating to the requirement to keep net debt at or less than 3 times EBITDA (Earnings before interest, tax, depreciation, and amortization) generated from continuing operations in the past 12 months (the "leverage ratio"). As is required by the accounting standards, the loans are therefore classified as current liabilities at year end because, as a result of the covenant breach at the balance sheet date, the Group required agreement of the lender to extend payment over 12 months. Subsequent to 30 April 2016, the group secured a waiver of the condition by the lender.

Furthermore, due to the significant level of restructuring costs incurred in the year and the reduction in licensing income, the lender has agreed to reset the conditions of the loan, including increasing the leverage ratio for the next nine months (financial covenants are tested on a quarterly basis). Compliance with future covenant calculations will benefit from the reduced cost base of the Group. In addition, while the receipt of proceeds from the divestment of any of the discontinued operations is not required for ongoing compliance with the conditions, any proceeds received will be used to reduce the amount of the facility outstanding.

Based on the financial forecasts for the group's continuing operations, which exclude the forecast results of Pure and IMG Systems which are classified as discontinued operations at 30 April 2016, and the results of IMGworks which, following the decision to divest the business, will now be classified as a discontinued operation, the group expects to meet the revised conditions for the next 12 months.

Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

# Viability statement

In addition to the going concern consideration above, the Board has assessed Imagination's viability over a longer period than 12 months by considering cash flow projections over which the directors have made assumptions regarding the Group's revenues, operating costs, and cash requirements.

This assessment was conducted for a period of three years to April 2019. In selecting three years, consideration was given to the ability to forecast royalty and licensing revenues; in the case of licensing revenues, there is a reasonable degree of forecasting uncertainty, as identifying the opportunities and the timing of their successful negotiation is inherently more difficult to predict in years 2 and 3 than in the case of royalty revenue.

In assessing the Group's prospects and resilience, the directors considered the Group's current business position and risk appetite. The group has assessed severe but plausible scenarios over each of the principal risks that may crystallise over the assessment period. In the directors' view the following principal risks are the most likely to impact the group's revenues, cash flows and profitability.

- a change in the group's competitive position or customer base; and
- failure to meet customer's product requirements.

In making the assessment, the following assumptions have been made:

- that in the event of multiple risks occurring and having a particularly severe effect on the Group's revenue, all potential actions, such as constraining capital spending and reducing costs, would be taken on a timely basis;
- that implausible scenarios, whether involving multiple risks occurring at the same time or the impact of individual risks occurring that cannot be mitigated by management actions to the degree assumed, do not occur.

The impacts of these scenarios were overlaid on the forecasts to assess how the Group's liquidity and solvency would be affected. In particular, the group assessed whether these scenarios would lead to a further breach of the conditions attached to the group's facilities or to a lack of liquidity.

Based on this assessment and the mitigating actions described, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to April 2019. In doing so, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

# Disclosure of information to auditors

Each director confirms that, at the date this Annual Report and Accounts was approved, so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

# Independent auditor

The Group's independent auditor, KPMG LLP (KPMG) have expressed their willingness to continue in office and resolutions for their reappointment and to authorised the directors to determine its remuneration will be proposed at the forthcoming AGM.

KPMG has been the Group's external auditor since 1994. Whilst the Group has not formally tendered the audit since then, the Audit Committee undertakes an annual review of the independence, objectivity and effectiveness of the audit firm in considering whether to recommend the reappointment of the external auditors at the AGM. The current partner at KPMG was appointed as Group Audit Partner in 2015 after completion of the 30 April 2015 financial year audit engagement, in compliance with the requirement to rotate this position every 5 years. Further information on the Group's approach to audit tendering can be found in the Audit Committee report on page 45.

For and on behalf of the Board

**Guy Millward**
Chief Financial Officer and Company Secretary

5 July 2016

Company number: 2920061

# Corporate governance report

## Chairman's introduction

In my statement on page 3 I explained how the Board's focus is on realizing the significant potential of the business going forward after a period of transition over the last year. The Board recognises that excellent corporate governance is fundamental to delivering this strategy and protecting the interests of our employees, shareholders and all other stakeholders.

During the year, the Board continued to consider the overall framework of governance which included the composition and duties of the Board and its committees. As Chairman of the Board, I am pleased that there is a sound culture of constructive challenge and matters are discussed in an open and transparent environment whereby all directors have unrestricted access to information and management. We have open and frank discussions on the structure of our meetings to ascertain how we utilise the time of the Board to improve the business operationally and to deliver the strategy of the Group. I believe that our strong collective vision of the Company's purpose, its values and culture is critical to strong corporate governance.

In 2014 we used Independent Audit Limited to perform a Board effectiveness evaluation and there were some positive actions from this process to engage the Board and ensure smooth operation going forward. During the year we continued to build on the outcomes of this evaluation and, in conjunction with our annual board evaluation assessed the performance and functioning of the Board, the effectiveness and execution of the sub-committees and the opportunities to develop our governance practices. As part of this review we have also considered how the Board and its committees engage with shareholders, how we respond promptly to any matters raised by shareholders and explain how we are going to deliver our strategy to shareholders. For further details on the board evaluation process carried out this year see page 39.

As part of the continuing evolution of the Board there have been a number of changes to the Board and our committees. The changes reflect the key skills and experience that has been identified by the nomination committee as important for driving the business forwards and the value that each director could each bring to the particular work of the committees. We have embraced the new provisions and guidelines from the Companies Act 2006, the Disclosure and Transparency Rules and the UK Corporate Governance Code 2014. More information on the experience of our directors and the changes made to the Board can be found on pages 25 and 27 contained in this report.

While all Board appointments are made on merit, the Board believes in the importance of a diverse Board and has always been actively supportive of measures to achieve this without putting quotas in place. The Board notes the publication of Lord Davies' Review into Women on Boards in February 2011 and the proposals published by the European Commission in November 2012, and recognises there is a gender imbalance among the Group's employees, as there are with many organisations in the science, engineering and technology sectors. Diversity is important for a successful Board and we seek to attract the right talent and skills irrespective of gender or ethnicity whilst considering all appointments on merit. We believe that diversity should be considered broadly and should not just focus on gender. We will continue to select candidates based on their relevant skills, experience and knowledge and in keeping with the business' needs The Board will continue to monitor diversity and take such steps as it considers appropriate to reflect our meritocratic and diverse business. Further information on the Group's diversity can be found on page 22.

The Group's significant financial and business matters were considered by the Audit committee. This included a robust assessment of the principal risks, as set out in the table on pages 16 to 18, with considerable input from the Executive Management Board (EMB) as well as the new requirements to prepare a viability statement.

Reports from the various Board committees and details of their current composition are also covered in more detail in their respective section of this report. The Board is satisfied that the committees are working effectively to deliver strong oversight and governance over their respective areas of responsibility, and are reporting appropriately to the Board, in accordance with their terms of reference.

The Group is still consolidating its position after going through enormous change both organically and by acquisition in recent years as part of the Group's strategy. During 2015/16, the Board played an important role in managing the Group through a time of consolidation after a number of years of acquiring companies, and in monitoring the performance of the Group in the challenging and competitive economic environment. The Board also provided clear strategic direction and ensured that the Group's standards of conduct met its expectations. All executives and employees are required to comply with the Group's Code of Conduct. The Company's Anti-Corruption and Bribery Policy is communicated to all employees to ensure all employees worldwide are aware of the UK Bribery Act 2010 and carry out their duties with honesty and integrity.

I believe that the Group benefits from a strong Board and we will continue to look for opportunities to further strengthen it, as discussed on page 46. It is early days for me at the Company and I am continuing to meet institutional shareholders and more of our key employees, we need to maintain our focus on risk management and continue to review and develop our governance. We will continue to review our governance framework annually to ensure shareholders are clear of how we will deliver our strategic objectives.

**Bert Nordberg**
Chairman

5 July 2016

# Corporate governance compliance

## Statement of compliance with the UK Corporate Governance Code

The Group has complied with the provisions of the UK Corporate Governance Code 2014, both the main principles and the supporting principles, throughout the year and to the date of this report. We explain in the reports below how we applied the provisions and principles of the Financial Conduct Authority Listing Rules, the Disclosure and Transparency Rules, and the UK Corporate Governance Code 2014. Further explanation on how the main principles have been applied is set out below and in the Audit Committee Report and the Directors' Remuneration Report.

## The role of the Board

The Board is accountable to shareholders for the proper conduct of the business and ensuring its long-term success. It has ultimate responsibility for the activities of the Group including its overall direction, strategy, risk management, governance and performance. In order to meet that responsibility it ensures that the necessary financial and human resources are in place, and that it is supported in its activities by its various Committees, EMB and senior managers. The authority delegated by the Board to the Audit, Remuneration and Nomination Committees to carry out certain tasks, are defined in each Committees' Terms of Reference. Further information on the responsibilities of the Audit, Nomination and Remuneration Committees are set out in their respective reports on pages 41 to 65.

Matters specifically reserved for the Board to make decisions on include, but are not limited to, the following:

- Group long-term strategy;
- Group major business decisions;
- Group-wide business and financial review including annual budget;
- major capital expenditure, acquisitions, disposals and investments;
- review of the internal financial control and risk management systems;
- consider recommendations of the sub-committees of the Board,
- the approval of interim and annual financial statements; and
- treasury management.

The Board will delegate other operational matters to the EMB for its review with other senior managers of the business to enable them to make appropriate divisional decisions.

## The composition of the Board

The Board currently consists of six members; the non-executive Chairman, the CEO, the CFO and three non-executive directors.

## Board and Committee meeting attendance

| | Tenure (years) | Board* | Audit Committee* | Remuneration Committee* | Nomination Committee* |
|---|---|---|---|---|---|
| Bert Nordberg | | 9/9 | n/a | 3/4 | 1/1 |
| Andrew Heath[1] | | 7/9 | 4/4** | 4/4** | 1/1 |
| Sir Hossein Yassaie[2] | | 6/6 | n/a | 1/1** | n/a |
| Guy Millward[3] | | 5/5 | 2/2** | n/a | 1/1** |
| Richard Smith[4] | | 5/5 | 3/3** | | n/a |
| Gilles Delfassy | | 9/9 | 3/4 | 3/4 | 1/1 |
| David Anderson | | 9/9 | 4/4 | 4/4 | 1/1 |
| Kate Rock | | 9/9 | 1/1 | 4/4 | 1/1 |
| Ian Pearson[5] | | 7/9 | n/a | n/a | n/a |

* Number of scheduled meetings attended/maximum number of meetings that the director could have attended.

** Denotes attendance by a director, who is not a member of the Committee, at a Committee meeting, as requested by the Chairman of the Committee.

[1] Andrew Heath was unable to attend two board meetings in his capacity as non-executive director. He received copies of board papers for each meeting and was able to comment on the matters to be discussed in advance of the meetings. He stepped down from the Audit and Remuneration committees on the 8 February 2016 and attended one Audit and Remuneration committee meeting after this at the request of the Chairman of the Committee.

[2] Resigned on 8 February 2016

[3] Appointed on 1 December 2015

[4] Resigned on 21 December 2015.

[5] Resigned on 31 May 2016. Ian did not attend Board meetings following notice of retirement to the Company.

## Activities of the Board

The Board holds regular scheduled meetings throughout the year which are supplemented by unscheduled meetings which are held when urgent business decisions are required, such as relating to acquisition activity. At each meeting certain regular reports are presented which are:

- CEO delivers a full business update with focus on the semiconductor market, a business summary for each division, the Group's relationships with current and potential partners, licensing updates, units shipped, potential acquisitions and key business issues and actions;
- CFO gives the year to date financial results, latest financial projections including cash flows and funding requirements, investor relations activity and market forecasts;
- The Board reviews the status of the Group's long-term strategy, and
- Company Secretary provides updates covering governance, share price data, share schemes management, risk management reporting and shareholder analysis.

In addition the Board meets periodically with senior management from each of the Group's segments in order to review the strategic direction of the business. The main objectives of the strategy session are to assess and decide upon the key technologies, products and markets for the business to develop by assessing the potential returns against the risks. The result is a common vision of the future aspirations of the business and an understanding of the function and goals that each division has to achieve the strategy. Divisional business plans are built around executing the strategic plan.

The CEO and CFO attend weekly and monthly meetings of the EMB, where each member provides an up to date operational report in which progress against plan is reviewed to ensure that this is in line with the Group's strategic and business targets. They will then provide feedback to the Board at the next scheduled meeting on any areas of significant interest.

## Activities during the year

During the year in addition to the above the Board discussed the following:

- the key issues affecting the business and industry trends;
- restructuring initiatives which include the sale of the Pure division and other non-core cash consuming activities;
- current progress as the business transitions from a period of heavy investment in strategic product lines to a position where the core products are able to generate income;discussed the Group risk management process, risk tracking and mitigation;

- an operational review to assess efficiency, cost allocation and the portfolio strategy of the Group;
- maintained oversight of the financial position of the Group and its performance against budget, forecast and market expectations;
- the recruitment of a new Chief Financial Officer and Chief Executive;
- the establishment of a new Technology Advisory Committee;
- discussed and considered the requirements and content of the viability statement and reviewed the principal risks identified by the Group;
- the re-negotiation of licensing and services contracts; and
- opportunities to work more extensively with our customers and market entry strategies for our technology.

# Division of responsibilities and Board Committees

In accordance with the Code there is a clear division of responsibilities between the Chairman and the CEO, which have been set out in writing and agreed by the Board. The written roles are available to view on the Group's website.

The Group has a traditional Board structure with a unitary Board comprising the non-executive Chairman, executive and non-executive directors. The Audit and Remuneration Committees are made up of independent non-executive directors and they, together with the Nomination Committee, report to the Board. During the year it was determined that a new Technology Advisory Committee (TAC) be established to provide independent and impartial advice to the Board on the appropriateness of current technology roadmaps, to identify any gaps in technology roadmaps and confirm required technology and engineering skills for the future. The establishment of the TAC is underway and it is expected that it will be operational during the next financial year. The EMB reports to the CEO and the divisions and functions report to the EMB.

# Role of Chairman

Bert Nordberg is the non-executive Chairman. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. He sets the agenda for the Board and ensures that the Board receives accurate, timely and clear information, giving sufficient time to review all agenda items thoroughly including strategic issues. He promotes a culture of openness, debate and facilitates constructive relations between executive and non-executive directors. He is also responsible for ensuring that the views of shareholders are communicated to the Board as a whole. In order for him to effectively discharge his duties he works closely with the Company Secretary. He is Chairman of the Nomination Committee. During the year Bert's appointment as non-executive director of SAAB AB was reported to the board. He confirmed that no conflict arose from that role and that the appointment will have no adverse impact on his time commitment to Imagination. The Chairman's other professional commitments are listed on page [x] and the Board are satisfied that they do not interfere with the performance of his duties for the Group.

# Role of Chief Executive Officer

Andrew Heath became the Chief Executive in May 2016. He is responsible for proposing, developing and implementing the Group's strategy and commercial targets as agreed by the Board. He is responsible for the day-to-day management of the business. He carries out his duties in consultation with the Chairman, the Board and EMB which in turn are responsible for the commercial and operational activities of the Group. He holds weekly meetings with the CFO and EMB to ensure the Group is actively managing the overall strategy of the business. He is undertaking an operational review of the business and regularly holds meetings with the Group's customers, potential customers and partners for executive discussions on current and future business. He is also responsible, with the EMB, for implementing the decisions of the Board and its Committees.

# Role of the Senior-Independent Director ('SID')

David Anderson acts as a sounding board for the Chairman and serves as an intermediary for the other directors when necessary. He is also the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. He also makes himself available to shareholders if they have concerns where contact through the normal channels of Chairman, CEO or CFO has failed to find a resolution, or where such contact is inappropriate. During the year he met with some of the larger institutional shareholders of the business.

## Role of the Company Secretary

Guy Millward is the Company Secretary under the direction of the Chairman he ensures good flow of information within the Board and its Committees and to senior management. He is also responsible for advising the Board on all governance matters and is on hand to offer advice and services should any director require it. The Company Secretary attends all Board and Committee meetings. The Board as a whole decides on the appointment or removal of the Company Secretary.

## Role of non-executive directors

The non-executive directors have a wealth of experience, business knowledge and are appointed to constructively challenge senior management and provide input to meet agreed goals, objectives and to ensure the integrity of financial information. The role is described in more detail within the Financial Reporting Council Code.

During the year the Board considered the independence of each on the non-executive directors against the criteria specified in the Code and took particular care to assess the independence of Ian Pearson. Ian was appointed as non-executive director of the Company in 1998, and has therefore been connected with the Group for more than 9 years. The Board acknowledged that he does not meet the independence criteria specified by the Code but agreed that he continued to contribute significantly through his individual skills and considerable knowledge of both the Group and the industry. The Board believes that he provided continuity and overall balance whilst continuing to demonstrate a strong independence of management in the manner in which he discharged his responsibilities as director. Accordingly, the Board considered Ian Pearson an independent non-executive director until his retirement from the Board on the 31 May 2016. The Board agrees that the remaining non-executives meet the independence criteria specified in the Code. Furthermore, no institutional investor has raised concerns over their independence.

## Development, information and support

Formal board meetings are held during the year and the chairman and the company secretary ensure that, prior to each meeting, the directors receive accurate, clear and timely information which helps them to discharge their duties. The directors receive their board papers through an electronic portal and are able to reference and mark the electronic papers in the board meeting.

All newly appointed directors participate in a formal internal induction programme that is designed to enhance the directors' knowledge of the industry in general and their understanding of the Group's operations and performance, and importantly the Group culture.

The induction programme consists of the following:

- one-to-one meetings with the Chairman, CEO and CFO and meetings with the remaining Board members;
- meetings with EMB and senior management to discuss Group operations;
- meeting with shareholders, where appropriate
- attendance of strategy meetings; and
- visiting regional and international offices.

In accordance with the Code the Chairman regularly reviews and discusses the development needs with each director. Each director is fully aware that they should take responsibility for their own individual development needs and take the necessary steps to ensure they are wholly informed of regulatory and business developments.

## Appointment to the Board

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. More detail is given In the Nomination Committee Report on page 46.

## Commitment

During the year, the directors committed sufficient time to the Group to discharge their responsibilities effectively.

## Board evaluation

The directors accept that the Board evaluation process is an important opportunity to review the practices and performance of the board, its committees and its individual directors, and implement actions to improve the board's focus, effectiveness and ability to contribute to the Company's success on an ongoing basis. An externally facilitated performance evaluation of the Board was last conducted in 2014 carried out by Independent Audit Ltd.

The Chairman and Company Secretary agreed the scope of a Board evaluation which took place earlier this year and was designed to best appraise and gather useful information on the functioning of the Board whilst it is undergoing a transition period. It took into account the performance and functioning of the board, the effectiveness and execution of the sub-committees and the opportunities identified in the 2014 performance evaluation. Directors were asked to complete a questionnaire which was reviewed and scored. The Chairman met with each director to discuss their views on the effectiveness of the board and obtain open and constructive feedback.

The SID is responsible for performance appraisal of the chairman and presents the feedback from this process and his recommendations to the Nomination Committee.

An externally facilitated Board evaluation will be scheduled next year in accordance with the UK Governance Code.

## Conflicts of interest

All directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Group. The Group has put in place procedures for the disclosure and review of any conflicts or potential conflicts of interest which the directors may have and for the authorization of such conflict matters by the Board. In deciding whether to authorise a conflict, or potential conflict, the directors have regard to their general duties under the Companies Act 2006. The authorization of any conflict matter, and the terms of authorization, may be reviewed at any time and are reviewed formally by the Group on an annual basis. There have been no conflicts of interest raised in the year.

# Audit Committee report

## Dear Shareholder

I am pleased to present the report for the Audit Committee for 2015/6. The Audit Committee is appointed by the Board and is established to monitor the integrity of financial information and to provide assurance to the Board that the Group's internal financial controls and risk management systems are appropriate and regularly reviewed. Its terms of reference are agreed annually by the Board and are set out on the website www.imgtec.com.

The Audit Committee continues to focus on ensuring that the Group's systems and controls are operating effectively and are evolving in line with the Group's changing structure. A fuller insight into the role, activities and composition of the Audit Committee is provided below.

**David Anderson**
Chairman of the Audit Committee

5 July 2016

## Role of the Audit Committee

The main duties of the Audit Committee include but are not limited to the following:

- to ensure that the financial statements of the Group are fair, balanced and understandable;
- consider annually whether there is a need for an internal audit function;
- review the Group's internal financial controls and risk management systems;
- develop and implement the policy on the engagement of the external auditor;
- make recommendations to the Board in relation to the external auditors regarding approval of their remuneration, terms of engagement, appointment, re-appointment or removal;
- review and monitor the external auditors' independence and objectivity and effectiveness of the audit process;
- to report to the Board on how it has discharged its responsibilities;
- monitor the Group's whistleblowing procedures to ensure that appropriate arrangements are in place for employees to be able to raise in confidence matters of possible impropriety, with suitable subsequent follow-up action; and
- ensure director's expenses are of a reasonable business nature and authorised appropriately.

In the financial year, the Audit Committee fulfilled its duties under its terms of reference and discharged its responsibilities primarily by:

- reviewing the Groups draft half-yearly and full year results prior to Board approval;
- reviewing the draft trading updates during the year;
- assessing the external auditors' independence and objectivity;
- reviewing the external auditors' plan for the audit of the Group's financial statements, which include key areas of scope of work, terms of engagement and fees;
- reviewing the external auditors' report on the results of their year-end audit;
- reviewing the Group's arrangements for the security and patent protection of its intellectual property;
- reviewing the Group's system to identify and manage risk;
- reviewing the effectiveness of the Group's internal risks over financial reporting; and
- reviewing and updating the Audit Committee's terms of reference.

## Committee composition

The composition of the Audit Committee changed during the year following Andrew Heath's appointment as CEO – Kate Rock was appointed to the Committee in his place. The committee consists exclusively of independent non-executive directors.

The Audit Committee comprised the following directors:

- David Anderson (Chairman)
- Gilles Delfassy
- Kate Rock

The Audit Committee met four times in 2015/6. The primary purpose of each of the meetings was to plan the annual audit process, to discuss the changes required in financial reporting, to review the half-year accounts and to review the full year accounts. Other matters were dealt with as necessary. Attendance at meetings is shown on page 37. The external auditors KPMG, the Chairman of the Board, the Chief Executive, the Chief Financial Officer and key members of the Group finance team are also invited to attend meetings.

In accordance with UK Corporate Governance Code provision C.3.1 the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Board has considered this requirement and, taking into account the financial background of the Chairman of the Audit Committee, David Anderson, it is satisfied that this requirement has been met and that the Audit Committee has sufficient experience to fulfil its obligations in an effective manner.

## Significant issues that the Audit Committee considered in relation to the financial statements

The Audit Committee considered the key accounting judgements underlying the preparation of the financial statements focusing specifically on:

**Significant Issues**

| Issue | Description | Work performed by Audit Committee |
|---|---|---|
| Revenue recognition including non-cash revenue | Judgement is involved in determining how many components are in a licence agreement and how to allocate fair value to the components. Revenue recognition on undelivered components is determined by percentage of completion, achievement of milestones and schedule of invoicing. Some contracts are signed in exchange for equity in the customer's business rather than cash. | The Audit Committee reviewed the internal procedures performed by management to ensure revenue is recognised appropriately and in accordance with applicable standards. |
| Valuation and classification of investments | The Group holds investment for resale. | The Audit Committee has considered the classifications and any need for impairment at the year-end based on current factors. |
| Viability and going concern | The Board is required to consider and report on the longer-term viability of the business, as well as assess the appropriateness of applying the going concern assumption. | The Audit Committee has considered the cash flow projections and the downside scenarios prepared by management and has focused both on liquidity and on expected future covenant compliance. |

**Other Issues**

| Issue | Description | Work performed by Audit Committee |
| --- | --- | --- |
| Valuation of inventory | The Pure division holds significant stock balances at the year end. The inventory needs to be assessed for risk of obsolescence. | The Audit Committee has satisfied itself with the internal procedures performed by management to ensure stock provisioning at the year end is appropriate and has reviewed stock movements since the year end to validate the level of provision held. |
| Accounting for share based payments | Share based payments is a complex and technical area which we engage specialists to assist in calculating the fair values to attribute to the awards granted. | The Audit Committee has reviewed the findings of the specialists engaged to perform the current year share based payment work. |
| Recoverability of debtors | The nature of the Group's business means that the Group continues to hold significant debtors at any point. | The Audit Committee has satisfied itself with management's regular assessment of outstanding debtors and how they manage the relationship with those outstanding debtors as required. The Audit Committee has also reviewed the history of collection of overdue debts to validate the position. |
| Restructuring costs including onerous lease provisions | Significant provisions were required following the substantial cost reductions undertaken in the second half of the year. | The Audit Committee has reviewed disclosure of provisions made. |
| Onerous contract provisions | Certain contracts for SoC design work have incurred significant losses. | The Audit committee has considered management's calculations of each contract's financial position. |
| Building valuations | In the light of the headcount reductions and sale of businesses the Group's property is likely to be reduced. | The Audit Committee has reviewed classification and impairment of buildings owned by the Group in the financial statements. |
| Segmental reporting | External reporting of the business is to be brought into line with the way the business is now reported to the board. | The Audit Committee has reviewed the segmental analysis for compliance with accounting standards. |
| US tax liabilities | The IRS have assessed a tax liability on the MIPS business relating to a sale of patents prior to its purchase by Imagination. | The Audit Committee have reviewed accounting for the potential tax liability. |
| Discontinued operations | Certain businesses are being sold by the Group. | The Audit Committee have reviewed the classification of businesses in the financial statements. |
| Vacation accruals | The Group had previously failed to account for UK holiday liabilities and had not known it had such liabilities. | The Audit Committee have reviewed the treatment of the holiday liabilities in the financial statements and the controls put in place to capture such liabilities in future. |
| Valuation of goodwill | Goodwill is material to the Group and require impairment reviews regularly. | The Audit Committee has reviewed the forecast and the assumptions used in the impairment review when considering the need for impairment. |

## Risk management and internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The Audit Committee assists the Board in discharging its responsibilities in this regard. The Board is not aware of any significant failings or weaknesses in the system of internal control. The risk management process and system of internal control can only manage rather than eliminate risk and the Board recognises that this system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has a clearly defined organisational structure. Managers assume responsibility for running day-to-day operational activities, with performance regularly reviewed, and employees are required to follow procedures and policies appropriate to their position within the business.

The Group's assessment of its principal risks and uncertainties is set out on page 16 and 18.

The Board is responsible for identifying, evaluating and managing all major business risks facing the Group. To facilitate the assessment of risks, monthly reports on non-financial matters are compiled by all business units covering such matters as sales performance, project progress, compliance, health and safety, environment, product quality, customer support metrics and human resource issues.

The Group has a comprehensive system for reporting financial results to the Board. Monthly accounts for each business unit, with a financial commentary comparing current year performance with budget and forecast, together with key performance metrics, are prepared in accordance with the Group accounting policies and principles for Board consideration.

The Board monitors the Group's funding requirements, treasury function and banking facilities and approves capital and significant investment expenditure.

The Board considers that there have been no substantial weaknesses in internal financial controls that have resulted in material loss, contingency or uncertainty which require dislcosure in the accounts.

The Audit Committee have conducted a review of the effectiveness of the Group's risk management and internal control systems, as well as internal financial controls as part of the annual risk review. The Audit Committee reviewed the process to identify the risks and mitigating actions and performed a detailed review of the findings. The findings were then presented to the Board for further consideration. The Audit Committee was satisfied that the Group's systems, risk identification and mitigating actions complied with the relevant regulations and allowed the Board to reasonably estimate residual risk as acceptable and within normal parameters for a company operating in Imagination's sphere of business.

## Internal audit

In addition under the Code the Audit Committee is required to monitor and review the effectiveness of internal audit activities. The Group does not have a separate internal audit function and the Audit Committee reviewed whether this was still suitable in the financial year. During this review the Audit Committee determined that the Group was now of sufficient size and complexity to warrant an internal audit function. As such since the year end the Group has appointed Grant Thornton to provide outsourced internal audit services.

## External audit process

At the start of the audit cycle, KPMG presented their audit strategy, identifying their assessment of the key risks for the purposes of the audit and the proposed scope of their work.

KPMG reports to the Audit Committee at both the half and full-year setting out their assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting. The Audit Committee meets with KPMG in private at least once a year.

The Audit Committee is satisfied that the scope of the audit is appropriate, all significant accounting judgements have been challenged robustly and the audit has been effective.

The Audit Committee is responsible for overseeing the Group's relations with the external auditor. During the year the Audit Committee approved the terms of engagement and remuneration to be paid to the external auditor and agreed the scope and approach of the audit.

## Non-audit services and maintaining auditor independence

The Group currently has a policy in place for the provision of non-audit services provided by the external auditor. The policy highlights the importance of independence and objectivity and states that non-audit services can only be provided where these are guaranteed. In the financial year KPMG provided services related to the sale process for Pure and reported to the Board on working capital matters as the Board felt KPMG were best placed to assist the group.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered the auditor's overall work plan including the role of the senior statutory auditor and key audit staff and the overall extent of non-audit services. In order to assess effectiveness the Audit Committee reviewed the arrangements to maintain auditor independence and the auditor's fulfilment of the agreed audit plan including that the proposed resources to execute the plan were consistent with the scope of the audit engagement. The Audit Committee has reviewed and is satisfied with the effectiveness and independence of the external auditor.

## Audit tendering and proposed re-appointment of auditor

KPMG has been the Group's external auditor since 1994. Whilst the Group has not formally tendered the audit since then, the Audit Committee undertakes an annual review of the independence, objectivity and effectiveness of the audit firm in considering whether to recommend the reappointment of the external auditors at the AGM.

The Audit Committee has been monitoring the debate on external audit tendering and has noted the changes to the UK Corporate Governance Code introduced by the FRC in September 2012 and, in particular, the requirement contained in the Guidance on Audit Committees to put the external audit contract out to tender at least every ten years. The new Code became effective for the Group on 15 September 2013. The Audit Committee has also considered the subsequent proposals of both the UK Competition Commission and the European Commission, in particular the transitional arrangements which require KPMG to stand down in 2020. The Audit Committee will continue to monitor developments in this area.

Aside from the Commission rules above there are no contractual obligations currently restricting the current or future choice of external audit firm.

Tudor Aw was appointed as Group Audit Partner in 2010, and under the requirement to rotate this position every 5 years, rotated off the Group's audit after completing the 30 April 2015 financial year audit engagement. John Bennett has been appointed as Group Audit Partner.

Having considered all these matters the Audit Committee concluded that it would recommend to the Board that KPMG should be re-appointed as auditors at the forthcoming AGM.

# Nomination Committee report

## Dear Shareholder

This financial year has been a period of transition for the Board. The Committee has ensured that a review of the skills, experience and attributes of the current directors was given robust consideration when determining the qualities to be sought when making director appointments in the year.

During the year, we concluded the appointment of our new Chief Financial Officer and Chief Executive Officer. In July 2015, the search for a replacement for Richard Smith as CFO commenced. Having entered into discussions with a number of external search firms, we appointed Zygos Partnership to lead the search and after a rigorous search process we recommended the appointment of Guy Millward to the Board. Guy's extensive international technology expertise was of particular significance for the appointment and when evaluating the current experience of the Board.

Following the resignation of Sir Hossein Yassaie on 8 February 2016, Andrew Heath, one of the non-executive directors was appointed Interim Chief Executive and we started the search for a new Chief Executive immediately, assessing both internal and external candidates in the process. Zygos Partnership led a comprehensive search process to determine the best CEO for the business and worked closely with the Chairman in order to shortlist potential candidates. In May 2016, Andrew Heath was appointed Chief Executive with immediate effect. We decided Andrew was the best candidate to take the business forward based on his extensive experience, his knowledge of the Company and the leadership he displayed in his short time as Interim Chief Executive.

Following the retirement of Ian Pearson, the Committee identified the need for a greater degree of technology expertise amongst the independent non-executive directors and a process for a replacement non-executive with the requisite skills, knowledge and experience to maximise effectiveness in discharging the duties of the Board is underway supported by Zygos Partnership. In this regard the Nominations Committee is taking account of the intended formation if a Technology Advisory Committee.

There is no connection between the Group or any individual director and Zygos Partnership.

## Roles and responsibilities of the Nomination Committee

The role of the Nomination Committee is to lead the process for new appointments to the Board, to ensure there is a formal procedure for the appointment and induction of new directors for the Group.

During the year, the Committee continued to develop its succession plans for executives and non-executive directors. The Committee initiated the recruitment process for the two appointments, mentioned above. As part of this process we have taken into account the respective tenures of office, analyzing the skills which were either missing or could be missing in future and how different personalities would fit the Board.

The Nomination Committee has, during the year, reviewed and confirmed to the Board that it remains satisfied, that all of the non-executive directors are independent in that they have no business or other relationship with the Group that might influence their independence or judgment.

The main duties of the Committee include but are not limited to the following:

- Review the size, composition and structure of the Board and the Board committees;
- Review succession planning for the Board and senior levels within the Group and ensure an appropriate balance of skills, knowledge, experience and diversity;
- Oversee induction plans for directors;
- Evaluate the balance of skills, experience, independence and knowledge of the Board; and
- Consider diversity issues.

**Composition of the Committee**

Bert Nordberg – Chairman

Andrew Heath

David Anderson

Gilles Delfassy

Kate Rock

The Committee had one meeting during the year, the attendance of which is given on page 37.

The Committee continues to support the Group's management and leadership development programme for the executives and senior management. It is considered essential in support of the Group's strategy and continued development. Andrew Heath is a Committee member in order to ensure that the Nominations Committee is fully aware of relevant views of the executive directors.

We are satisfied with the current composition of the Board and ensure we will continue to assess that the Board has the requisite skills and experience as our markets develop.

## Bert Nordberg

Chairman of the Nomination Committee

5 July 2016

# Directors' remuneration report

## Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for 2016. This report outlines the Directors' Remuneration Policy (the Policy) applied by the Board for the executives and non-executive Directors of the Company. With changes that have taken place over the past year, the Chair of the Remuneration has moved from Andrew Heath to David Anderson as an interim arrangement and now resides with Kate Rock. The changes have been necessary given the changes to Executive employees during this period, which will be covered in detail throughout the relevant sections of this report.

The remuneration report is divided into two sections. A policy report which sets out the approach to remuneration and a remuneration report which details what have been paid to the directors during 2015/16. When considering remuneration for our senior executives, the Remuneration Committee has used the policy framework approved by shareholders at the AGM in September 2014.

We continue to listen and take into consideration shareholders' and institutional views regarding our Policy. Following the appointment of the new CEO, the Remuneration Committee looked at the terms of the LTIP scheme and the notice periods of executive directors and employees. We concluded that they should be brought into line with other schemes and market practice. The proposed changes were then discussed and agreed with major shareholders at meetings held in June 2016, attended by both Kate Rock as Chair and the Senor Independent Director, and will be put to all shareholders at the AGM for approval. We will ask shareholders to approve the extension of notice periods for the Executive Directors from 6 months to 12 months. This change aligns executive remuneration with the interests of shareholders and will deliver greater certainty for the business going forwards. Any major changes to the Policy would only be made after consultation and approval from shareholders. The Policy is designed and produced to comply with the principles of the UK Corporate Governance Code and amendments to the Companies Act 2006 regarding remuneration.

We will also be seeking approval from shareholders for a revised Employee Share Plan ('ESP') and Long Term Incentive Plan ('LTIP'). The ESP was approved in 2006 and expires on 26 July 2016. We will be seeking renewal of this Plan which will incorporate minor changes for more efficient administration of our share plans and to reflect market best practice. The LTIP includes an amendment to the vesting provisions which would provide the Committee with discretion in the event of a change of control. This discretion would only be exercised in circumstances where a formulaic application of the vesting rules would produce an inappropriate result. This is common practice for most LTIP arrangements and will align the two plans to ensure executive directors are treated in the same way as the general employee population.

The Remuneration Committee (the Committee) will continue to monitor the market competitiveness of the remuneration policy, in order to ensure we are able to retain and attract the best talent. During the year the Committee had reason to again review the overall remuneration package of the executive directors to ensure that the newly appointed directors were appropriately paid and motivated to promote and achieve the strategic objectives of the Group.

## Executive director salaries

With the transition of Executives over the past year, it has been necessary to review the salary levels in line with external data. In order to retain the calibre of management necessary to deliver the Group's long-term strategy, our policy is to ensure that base pay for executive directors is competitive with the market, and where length of service permits, recognises personal performance. The Committee had reason to review the salaries of both executive roles over the last year given the change in both the CEO and CFO. Detail of the previous Executive pay and the appointed Executives are provided on page 55 of this report. The executive directors received no pay rise in FY16.

## Annual bonus outcome

With the change of Executive directors, we have maintained the annual bonus plan which is intended to measure both in-year business performance targets and progress against personal and strategic objectives. An important principle of the annual bonus plan is that no bonus can be paid unless the entire Group has achieved a base level of business performance. The Group's performance resulted in no FY16 bonus payments being made. The committee noted comments on the clarity of the bonus disclosures in the 2015 annual report and will endeavor to improve them next year.

## Long-Term Incentive Plan (LTIP) outcome

The LTIP takes into consideration the performance of both the Group and its share price, and is designed to act as an incentive to motivate executives to achieve the long-term growth plans of the Group. Under the LTIP the performance period is three years and executives are required to retain a percentage of shares after vesting in order to build up a shareholding value worth more than their annual salaries. The LTIP will be tested on the third anniversary of grant. No payments were made to the executives under the LTIP in this financial year.

## Activities of the Remuneration Committee during 2015/16

During the last financial year, amongst other things, the Committee:

- considered and agreed the potential outcome for the cash bonus for 2015/16 financial year, confirming no bonus is to be paid;
- set 2015/16 and 2016/17 annual bonus targets. Bonus targets were set for the new executive directors in February 2016 following the appointment of the new executive directors.
- considered a benchmarking report in support of the appointment of new executive members and how their salary packages would should be valued;
- reviewed executive directors' base salary levels for the appointment of new executive directors;
- advised on salary adjustments, share awards and LTIP options for the senior management reporting to the Executive Directors;
- agreed the remuneration terms for the appointment of Guy Millward and Andrew Heath appointed as CFO and CEO respectively;
- considered and agreed revised remuneration terms for committee chair and SID roles;
- reviewed appropriateness of all current employee share schemes, in particular share dilution limits under all plans;
- Commenced work to review the statutory reporting regulations in respect of executive remuneration policy, gender pay and future transparency in remuneration reporting;
- recommended the approval of the 2015/16 remuneration report to the Board; and
- reviewed its own terms of reference.

We believe our current remuneration practices are set out in line with the current reporting regulations and we welcome the structure and transparency this brings. Overall we believe that our remuneration policy is aligned with delivering the Group's strategy and long-term value to shareholders.

I look forward to the on-going support of the Imagination shareholders on both the advisory vote for the executive remuneration arrangements as they were operated this past year, as well as the resolutions on the remuneration report, the remuneration Policy and the minor amendments to the Policy to initiate a 12 month notice period and a change to the LTIP rules to reflect any future change of control that may occur which is the subject of approval at the AGM in September 2016.

Yours sincerely

**Kate Rock**
Chairman of the Remuneration Committee

5 July 2016

# Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting in September 2014 which applies for three years from that date. We will be making minor amendments to align executive remuneration with the interests of shareholders (further details are given in the table below) and asking shareholders for approval to the revised Remuneration Policy at the AGM in September 2016. The Policy applies to the executive directors at the date of this report and has been applied to the new executive directors appointed during this year and for the remainder of the policy period.

## Remuneration Policy Table

A summary of remuneration policy is set out below:

| Alignment with strategy and purpose | Operation | Maximum potential value | Performance framework |
|---|---|---|---|
| **Base salary** | | | |
| Recognises experience, responsibility and performance. Supports recruitment and retention to deliver the Group's strategy. | Salaries are reviewed annually. Salary levels on appointment and paid during this year are set out on page 62.<br><br>Increases historically have been applied from April each year. To fall in line with reporting and employees, this is to move to July of each year.<br><br>In its annual review the Committee considers the following:<br><br>Pay levels at companies of a comparative size and technology sector (by reference to market capitalization and revenue) on a geographical basis<br><br>External market conditions<br><br>Market median salaries<br><br>Pay increases for all employees in the Group<br><br>Individual performance, skills expertise and potential<br><br>Corporate performance on social, environmental and corporate governance matters. | Base salaries are set at an appropriate level for each role taking into account the factors illustrated in this table. Generally salaries are no higher than market median, although higher salaries may be paid, if necessary to recruit externally or to retain key executives.<br><br>In normal circumstances base salary increases will be no more than the average increases for employees across the Group.<br><br>Greater increases may be approved if there is a substantial change in a director's role or responsibilities or if the salary is significantly below the current market rate. In such circumstances, increases may be phased over a number of years and be conditional on performance. | The overall performance of each executive director is considered by the Committee when reviewing base salaries.<br><br>No recovery provisions apply. |
| **Pension** | | | |
| To provide pension contributions to enable directors to plan for retirement. | Defined contribution plan (with Company contributions set as a percentage of base salary) or cash equivalent allowance.<br><br>There are no special arrangements for executives. | The Company will make a pension contribution of up to a maximum of 7.5% of base salary which may require an equivalent executive contribution.<br><br>Alternatively a cash equivalent allowance can be paid in lieu of a pension contribution reflective of the market. | None.<br><br>No recovery provisions apply. |

| Alignment with strategy and purpose | Operation | Maximum potential value | Performance framework |
|---|---|---|---|
| **Other benefits** | | | |
| *To provide competitive* benefits in line with market practice to enable the Group to recruit and retain high-calibre executive directors. | *Other benefits are provided as* appropriate to the location of the executive director and include car allowance, or car and fuel allowance, long-term sickness and disability insurance, death in service benefit, and private health and travel insurance for the executives and family. | *Reasonable market cost of* providing benefit.<br><br>The Committee reserves its discretion to provide such situation-specific benefits as may be required in the interests of the Group's business, such as relocation. | None.<br><br>No recovery provisions apply. |
| **Annual bonus plan** | | | |
| Delivery of in-year financial performance and key business imperatives. | Bonus, if earned, is paid wholly in cash after the post year-end Preliminary Announcement.<br><br>Bonus payments are not pensionable.<br><br>Individual performance measures are focused on objectives that are *specific to each executive director,* and relate to clear strategic, operational, or relationship imperatives. | The target award level is 100% of salary for the CEO and 75% of salary for the CFO.<br><br>For performance in excess of target a maximum bonus of target can be paid.<br><br>The bonus is self-funding.<br><br>No bonus is paid if the Group does not achieve 85% of the adjusted operating profit target. | Performance is assessed by the Committee using financial and non-financial measures.<br><br>The targets are:<br><br>1. Group revenue budget (25%)<br><br>2. Adjusted operating profit (50%), and<br><br>3. Individual performance (25%).<br><br>The measures (1) & (2) have the following linear calibration:<br><br>**% of budget achieved** / **% of target bonus payable**<br>85% / 25%<br>100% / 50%<br>115% / 125%<br><br>The Committee will apply judgement in assessing individual performance based on quantitative and qualitative results.<br><br>*The Committee retains discretion* to adjust bonus targets to reflect intervening events, such as acquisitions or disposals. These will *be disclosed accordingly.*<br><br>The Committee has the discretion to apply the malus provision on an individual or group basis and amend or withdraw the bonus before payment. If the Company can demonstrate that individuals have acted in an improper manner. Malus and/or clawback provisions may apply in exceptional cases such as: material misstatement of results; a material failure of risk management; serious reputational damage; serious individual wrongdoing such as gross misconduct. |

| Alignment with strategy and purpose | Operation | Maximum potential value | Performance framework |
|---|---|---|---|
| **Long-Term Incentive Plan** | | | |
| To incentivise executive directors to achieve performance objectives directly linked to the Group's long-term financial and strategic goals.<br><br>To align executive directors' interests with those of our shareholders through the performance conditions and share retention obligation. | LTIP awards may take the form of nil-cost options, conditional share awards, or restricted shares at the discretion of the Committee. Additional shares may be accrued in lieu of dividends and awarded on any shares which vest.<br><br>Awards vest on the third anniversary of grant subject to the performance conditions and provided the Director remains in office with the Company. | The maximum award level is 250% of salary for the CEO and 175% of salary for the CFO.<br><br>In exceptional circumstances the maximum opportunity is 600%. This was put in place in case there is a need to recruit a highly experienced executive. To date we have not used the 600% and there are no plans to increase the opportunity levels for the current executive directors. | The vesting of share awards under the LTIP will depend on three performance conditions:<br><br>1. Adjusted earnings per share (50%),<br><br>2. TSR growth relative to the FTSE All World Technology Index constituents (25%) and<br><br>3. TSR growth relative to the FTSE 350 Index constituents (25%).<br><br>The Committee retains discretion to adjust LTIP targets to reflect intervening events, such as acquisitions or disposals. These will be disclosed accordingly.<br><br>**Malus:** The Committee has discretion to reduce a share award, including to zero, prior to vesting where there are exceptional circumstances, which include a material mis-statement in the Company's published results, misconduct by the executive director that is deemed to have initiated or contributed to a material loss as a result of reckless, negligent or wilful actions, or inappropriate values or behaviour.<br><br>**Clawback:** The Committee has discretion to clawback shares and executive directors have an obligation under the rules of the LTIP to transfer shares or pay over the proceeds of a share sale in exceptional circumstances (as described above). If sold at less than market value, the obligation is to pay market value at the date of disposal. Clawback would be less any income tax and national insurance paid or due to be paid. The Committee has discretion to set the length of the clawback period, which would normally be two years from acquisition of the shares. |
| **Save As You Earn (SAYE)** | | | |
| To encourage share ownership across the broader employee population. | Executive directors may participate on the same terms as other employees. The option price may be discounted by up to 20%.<br><br>Accumulated savings may be used to exercise an option to acquire shares. | The maximum savings amount is currently £250 per month over a three year period. This may be increased in accordance with changes to UK legislation as applied to all participants in the plan. | No performance conditions are permitted by UK legislation for this type of plan.<br><br>No recovery provisions apply. |

| Alignment with strategy and purpose | Operation | Maximum potential value | Performance framework |
|---|---|---|---|
| **Share Incentive Plan (SIP)** | | | |
| To encourage share ownership across the broader employee population. | Executive directors may participate on the same terms as other employees. | Executive directors will be subject to the same maximums in place for all employees participating in the SIP. The above limits may be increased in accordance with changes to UK legislation. In addition the Company at its discretion may choose to award matching shares in any ratio of up to 2:1. | No performance conditions are permitted by UK legislation for this type of plan.<br>No recovery provisions apply. |

# Selection of performance measures and the target setting process

## Annual bonus plan

Performance measures for the Annual Bonus Plan are set annually. Each year the Committee considers the most appropriate metrics to apply for the following financial year. These metrics are currently Group revenue budget and adjusted operating profit. A performance multiplier is then applied related to the achievement of the financial elements. The annual bonus also includes a 25% element based on personal performance. Each executive director is set a number of personal objectives in relation to clear strategic, operational, or relationship imperatives aligned to the Group's overall strategy. The Committee is of the opinion that the financial targets and personal objectives for the Annual Bonus Plan are commercially sensitive and as such it would be detrimental to the Group to disclose them in advance of or during the relevant performance period. Business targets are set as predefined ranges around budget and individual targets are set taking account of strategic priorities under the control of the executive.

## Long-Term Incentive Plan

Performance measures for the LTIP were selected after careful consideration and following consultation with larger shareholders and advisory bodies. The Committee believes that the use of both TSR and EPS measures provides the best measure of the success of the execution of the Group's strategy and encourages, reinforces and rewards the delivery of sustainable shareholder value.

The TSR element (which accounts for 50% of awards) considers the Group's performance against two relevant comparator groups (sector and size-based) to reward sustainable shareholder value creation relative to alternative investment opportunities for our shareholders. Targets are in line with typical market practice, requiring ranking at median to deliver threshold vesting increasing on a straight-line basis to full vesting for ranking within the upper quartile.

The normalised EPS growth performance condition (which accounts for 50% of awards), has been set following independent analysis by the Group's advisors and brokers. Based on this analysis, the compound annual growth in EPS targets were set for 2015/16 as follows:

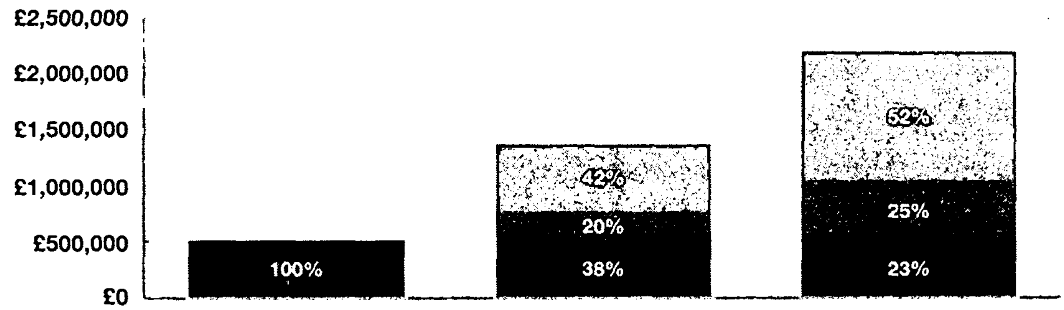
- 0% pay out below 10% growth;
- 25% pay out at 10% growth;
- 100% pay out at 20% growth or greater; and
- Linear progression between 25% and 100% thresholds.

The Committee intends to review the performance targets and best practice guidelines annually. Changes will be made only if the targets become inappropriate due to changing market conditions.

# Illustration of the remuneration policy for 2016/17

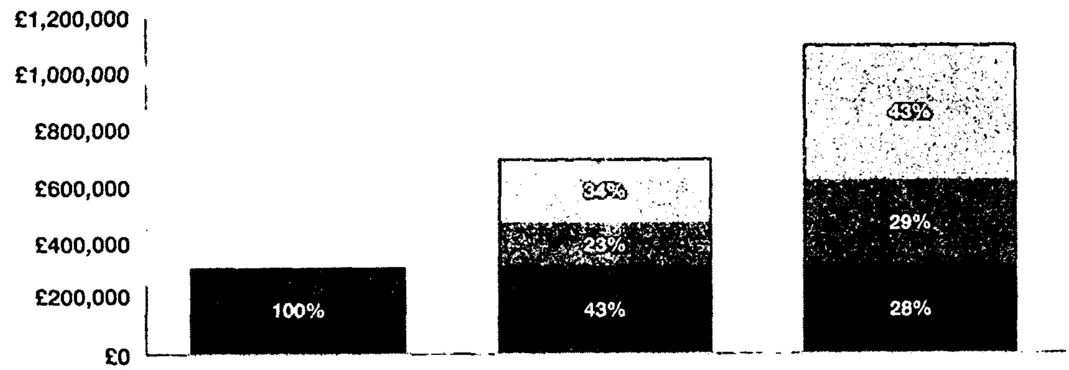
The graph below illustrates the level of remuneration that could be achieved by the newly appointed CEO and CFO through the operation of our remuneration policy for 2016/2017, extracting the exit arrangements for the previous CEO, and based on the remaining actual total remuneration paid in 2014/15 and 2015/16. The graph show the proportion of total remuneration made up of fixed pay (salary, pension and other benefits), annual bonus and the LTIP and the pay outcomes for three performance scenarios.

## Chief Executive Officer




| | Minimum | Target | Maximum |
|---|---|---|---|
| LTIP | £0 | £578,406 | £1,156,813 |
| Annual Bonus | £0 | £273,008 | £546,016 |
| Total Fixed Pay | £513,484 | £513,484 | £513,484 |

## Chief Financial Officer




| | Minimum | Target | Maximum |
|---|---|---|---|
| LTIP | £0 | £236,250 | £472,500 |
| Annual Bonus | £0 | £159,300 | £318,600 |
| Total Fixed Pay | £301,250 | £301,250 | £301,250 |

☐ No LTIP was due to vest in 2014/15.

The following assumptions have been used:

**Minimum:** this represents fixed remuneration consisting of current annualised salary, pension and an estimate of other benefits based on the 2015/16 disclosed value.

**Target:** this represents fixed remuneration as detailed above, plus 50% of the maximum bonus opportunity and vesting of 50% of the maximum LTIP award.

**Maximum:** this represents fixed remuneration together with the maximum annual bonus opportunity and vesting of 100% of LTIP award.

In accordance with the regulations, share price appreciation and dividend accrual are not taken into account. SAYE awards are also excluded.

As seen by the charts above, at target levels of performance, around 62% of the CEO's total pay, and around 57% of the CFO's total pay, arises from performance-related elements, rising to over 70% at 'stretch' levels, at which point total pay is capped. The Committee is satisfied that there is a strong incentive for the prudent management of risk, and that there are no perverse incentives created by the remuneration policy.

Andrew Heath's base salary is £462,725, his car allowance is £15,000 and he has opted to receive cash in lieu of his pension entitlement of £34,704. He is also entitled to private medical insurance, a relocation allowance of up to £8,000 and annual accommodation costs up to £36,000.

Guy Millward's base salary is £270,000, his car allowance is £11,000 and he has opted to receive cash in lieu of his pension entitlement of £20,250. He is entitled to private medical insurance.

# Development of the Group remuneration policy

## Consideration of executive remuneration with the wider Group

When making remuneration decisions for the executive directors the Committee considers the wider economic environment and conditions within the Group. In particular, the Committee considers pay and employment conditions across the wider workforce and carefully considers the broader employee salary increase budget when making reward decisions for executive directors. The Committee considers wider industry benchmarking material in the context of monitoring its overall position on director and employee pay.

## Consideration of shareholders views

The Committee welcomes an open and transparent dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The Committee will continue to engage with shareholders going forward and will aim to consult on any material changes to the application of the approved remuneration policy or proposed changes to the policy itself.

## Recruitment remuneration arrangements

When determining the appropriate remuneration package for the newly appointed Executive Directors, the Committee did take a number of factors into account in line with the policy already established. When evaluating the package for the appointments of both the CFO followed by the CEO, consideration was given to the candidate's experience and calibre, their personal circumstances, external market influences and arrangements for existing executive directors and how that balanced with the expectations of the appointees. The remuneration package offered to new directors only included those elements listed within the policy table, and did include relocation benefits in respect of the CEO appointment. Their on-going variable pay awards will continue to be subject to the limits as set out in the policy table. Full details of the recruitment package for the new executive directors are set out in the this section of the Annual Report.

In addition to the on-going elements of the remuneration package, the Committee, having reserved the right to 'buy-out' awards being forfeited elsewhere through accepting a role at Imagination can confirm that no such 'buy-out' tool place for either appointment. Should future appointments be necessary the Committee will continue to give consideration to any relevant factors when determining the value of such 'buy-out' awards, including the form of the award (e.g. cash or shares), the proportion of the performance/vesting period outstanding and the potential value of the forfeited remuneration, including performance conditions attached to the awards, the likelihood of those conditions being met, and the timing of any potential payments. It is the intention that such buy-out awards will be made through use of the exceptional LTIP limit. It is also noted that exceptional LTIP awards were made for the recent appointment of the Executive Directors and these are reflected in this reward statements found on page 64. The Committee has and may continue to rely on the relevant Listing Rule exemption if necessary for the purpose of making a buy-out award in the event that the Group hire an executive director and need to match or pay-off shares they held with their previous company. For clarity, where an executive director is appointed from within the organisation, the Committee has the power to honour legacy arrangements in line with the original terms and conditions.

In the event of the appointment of a new non-executive director, remuneration arrangements will be in line with those detailed on page 62.

## Service contracts

Our policy for notice periods for executive directors is subject to change, with a proposal to move from six month to twelve months on a reciprocal basis, if agreed each of the executive directors' service contracts will reflect this variation. These agreements would also see restrictive covenants for periods of twelve months following termination of employment relating to non-competition, non-solicitation of the Group's customers, no-dealing with customers, and non-solicitation of the Group's suppliers and employees. In addition, each service contract has an express obligation of confidentiality in respect of the Group's trade secrets and confidential information and provides for the Group to own any intellectual property rights created by the directors in the course of their employment.

The dates of the service contracts of each person who served as an executive director during the financial year are as follows:

| | **Contract Date** | **Notice period** |
|---|---|---|
| Sir Hossein Yassaie | 31 March 1998 | 6 months' notice by director or Company |
| Richard Smith | 3 May 2011 | 6 months' notice by director or Company |
| Andrew Heath | 26 May 2016 | 6 months' notice by director or Company |
| Guy Millward | 1 December 2015 | 6 months' notice by director or Company |

Andrew Heath's service as CEO began on 8 February 2016.

The non-executive directors do not have service contracts and are not eligible to participate in bonus or share incentive arrangements. Their service does not qualify for pension purposes or other benefits, and no element of their fees is performance related. No payments are due on loss of office. The committee Chairmen role and the Senior Independent Director role is eligible to receive an additional annual fee for their services.

Service contracts for the executive directors and Chairman, and appointment letters for the non-executive directors are available to view at the office of the Company Secretary at the registered office address.

It is the Group's policy to allow executive directors to hold non-executive positions at other companies and to receive remuneration for their services. The Board believes that experience of the operations of other companies and their Boards and Committees is valuable to the development of the executive directors.

## Termination of employment

The Committee maintains a discretionary approach to the treatment of leavers, on the basis that the facts and circumstances of each case are unique. When considering a departure event, there are a number of factors which the Committee takes into account in determining appropriate treatment for outstanding incentive awards. These include the listed points, all of which were applied to the recent changes at the Executive Director changes:

- the position under the relevant plan documentation;
- the individual circumstances of the departure;
- any mitigating factors that might be relevant;
- the appropriate statutory and contractual position;
- the performance of the Company/individual during the year to date;
- the nature of the hand,over process; and
- the requirements of the business for speed of change.

In some cases, the treatment is formally prescribed under the rules of the relevant plan. Where there are 'good-leaver' circumstances, awards which would otherwise lapse by default, will vest either on the normal vesting date or on cessation of employment. These circumstances include death, injury, ill-health, disability, redundancy or sale of the Company or business. If the executive dies or leaves due to ill health or injury, awards which have less than 12 months of the performance period remaining or LTIP awards which have less than 12 months of the deferred period to run, vest automatically on leaving. In other leaver circumstances the Committee has discretion to determine when, and to what extent, awards vest. The Committee considers the leaver circumstances along a continuum, ranging from 'bad leaver' scenarios such as termination of employment for gross misconduct or resignation, through to the 'good leaver' scenarios outlined above. Accordingly the Committee may apply (or dis-apply) such performance conditions or time pro-rating awards vesting in these circumstances, as it considers appropriate.

Details of the termination arrangements for each of the Executive Directors and their respective remuneration on departure is outlined on page 57.

## Annual bonus

In a departure event, the Committee will typically consider whether any element of annual bonus should be paid for the financial year. Any bonus, if paid, will be limited to the period served during the financial year in which the departure occurs.

Details of the arrangements for annual bonus and how thus was applied to the departing Executive Directors is outlined on page 57.

## Long-Term Incentive Plans

The default position is that an unvested ESP or LTIP award lapses on cessation of employment, unless the Committee applies discretion to preserve some or all of the awards. This provides the Committee with the maximum flexibility to review the facts and circumstances of each case, allowing differentiation between good and bad leavers and avoiding payment for failure.

Details of the arrangements applied in the case of ESP and LTIP for the departing Executive Directors can be found below.

## Use of discretion

The Committee will operate the annual bonus plan, LTIP and, where relevant, the SIP and SAYE scheme, according to their respective rules and in accordance with the Listing Rules. The Committee retains discretion, consistent with market practice, as to the operation and administration of these plans. This includes, but is not limited to, the following:

- selection of participants;
- deciding the amount of annual bonus or share awards, as well as the proportion of an award vesting or paying out;
- reviewing performance measures, the timing of assessment, their weighting and targets;
- the modification of performance measures;
- determining the timing of an annual bonus plan or share grant;
- deciding how to treat leavers, depending on their leaving circumstances;
- deciding the adjustments required in certain major corporate events such as rights issues, share buybacks, or corporate restructurings; and
- taking the necessary decisions in the event of a change of control .

The use of discretion in relation to the Company's SAYE and SIP will be as permitted under relevant legislation, HMRC guidance and the Listing Rules.

## Compensation for loss of office and past director payments (audited)

The following payments and termination arrangements were applied to the two Executive Directors on their departure.

| | Payment for loss of office (£) | Payment in lieu of notice (£) | Payment for accrued annual leave (£) |
|---|---|---|---|
| Sir Hossein Yassaie[1] | - | 130,577 | 129,029 |
| Richard Smith | - | - | - |

[1] Following the termination of his employment Sir Hossein will be paid his base salary in lieu of notice for the unexpired period of his notice for the period from 27 April to 7 August 2016 (£130,577 less deductions for legal fees and monies owed to the Company) and 50% of his accrued annual leave balance of 145 days (having accrued from previous years in accordance with the scheme in operation at the Company) as satisfying his entitlements in this respect (£129,029 less deductions).

1. No bonus was paid or will be paid to Richard Smith or Sir Hossein Yassaie. Sir Hossein Yassaie's nil cost share options over 1,366,378 ordinary shares (which were granted under the Imagination Technologies Group plc 2013 Long Term Incentive Plan on 23 September 2013 in respect of 305,444 shares, 24 October 2014 in respect of 546,223 shares and 30 October 2015 in respect of 514,711) will lapse in full. During his period of garden leave Sir Hossein Yassaie exercised his share award over 1,028,000 ordinary shares, which had already vested by 22 December 2012 (in respect of 750,000 shares) and by 22 December 2013 (in respect of 278,000 shares) and which did not require any discretion to be exercised by the Company in relation to such exercise.

## Relative importance of pay spend

The following table summarises the major distributions during the year (reductions of reserves) compared to the total pay spend for the Group.

| | 2015/2016 £'000 | 2014/2015 £'000 |
|---|---|---|
| Total pay spend | 94,808 | 95,818 |
| Retained Earnings and other reserves | (74,435) | (2,248) |

## Dividends and share buybacks

The Company has not paid any dividends or performed any share buybacks in either financial year.

# The Remuneration Report

## Composition

Andrew Heath commenced the year as the Chair of the Remuneration Committee, however as he was subsequently appointed interim CEO and permanent CEO the Chair of the Remuneration Committee was taken up by David Anderson, then moved to Kate Rock. The Remuneration committee continues to be made up of independent non-executive directors. Over the last year they have met four times during the year. The membership and meeting attendance for this past year are set out below. In addition to the Committee members the Chief Executive Officer and Chief Financial Officer may be invited to attend meetings, except in instances where their own remuneration or package arrangements were discussed, or other circumstances where their attendance would not be appropriate.

## Committee members

| | Meetings | |
|---|---|---|
| | **Eligible to attend** | **Attended** |
| Kate Rock (Chair) | 4 | 4 |
| David Anderson | 4 | 4 |
| Gilles Delfassy | 4 | 3 |
| Bert Nordberg | 4 | 3 |
| Andrew Heath | 4[1] | 4 |
| Sir Hossein Yassaie | 1[2] | 1 |

[1] Andrew stepped down from the Remuneration committees on the 8 February 2016 and attended one committee meeting after this at the request of the Chairman of the Committee.

[2] Resigned on 8 February 2016.

Given their diverse business experience, the independent non-executive directors who made up the Committee in 2015/16 offer a fair and balanced view in relation to remuneration matters for the Group and acted with due diligence and balanced actions in responding to the departure arrangements and appoints during this period.

## Responsibility

The Committee determines the remuneration policy and rewards for the executive directors and, in their absence the Chairman. The Committee also reviews the remuneration packages of those at the next most senior level of management and has regard to levels of pay across the Group.

## Salaries and fees

Our policy is to set salaries in line with market median, when comparing similarly sized companies, and individual performance. The Committee is of the view that the salary of the newly appointed CEO is consistent with this policy. The CEO received a salary on appointment reflective of the remuneration policy and market median. The newly appointed CFO package was also reflective of the market median and took account of the under stated value of the previous post holder. All elements of the package for both appointments were reflective of the policy and in line with the market positioning sought by the company.

## External Committee advisers

The Committee has access to independent professional advice on remuneration matters, Willis Towers Watson (recently renamed) were appointed by the Committee in 2012, and Committee members continue to be satisfied that their advice is objective and independent and their fees are in line with market practice. Access to their global database and expertise is an important factor in considering remuneration matters across the EMB and senior management team. Work undertaken by WillisTowers Watson in 2015/16 included advice on the salary benchmarking for executive directors to assist with the appointment of the new CEO and CFO along with benchmarking for the EMB roles within the business who are direct reports of the Executive Directors. Benchmarking for non-executive directors was followed up and the data used to evaluate and adjust the non-executives payments. Assistance to ensure the Remuneration policy remained compliant and amended as necessary all of which amount to a total fees cost to the business of £54,000 were paid. The Committee also received advice from JPMC who provided independent verification of the Total Shareholder Return (TSR) calculations for the LTIP.

## Voting at the 2015 Annual General Meeting

The key activities of the Committee during the year are set out in the letter to shareholders on pages 48 to 49 of this report.

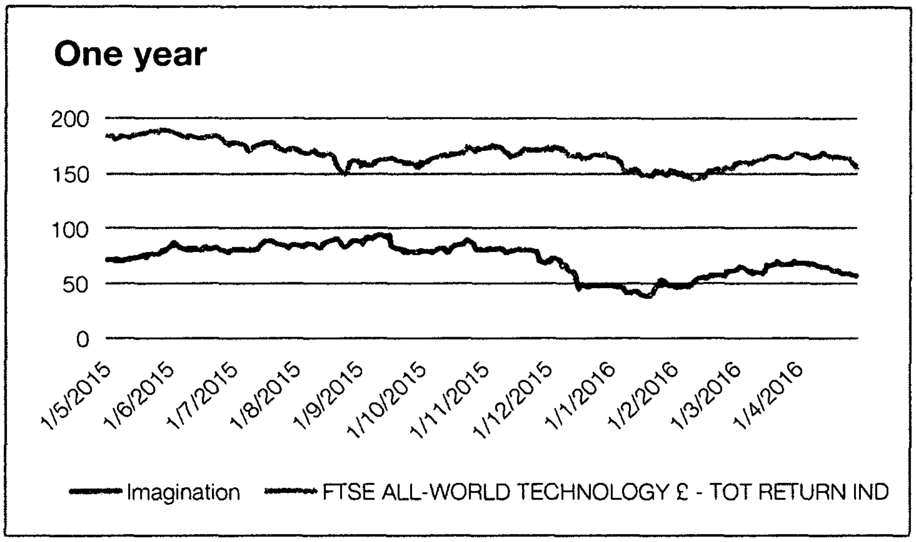
As previously noted, shareholder support at the 2015 AGM was strong, with 80.29% of shareholders voting in favour of the Remuneration Report. The following table summarises the details of votes cast in respect of Directors' remuneration; the binding vote on the Directors' Remuneration Policy and the advisory vote on the Directors' Remuneration Report at the 2015 Annual General Meeting:

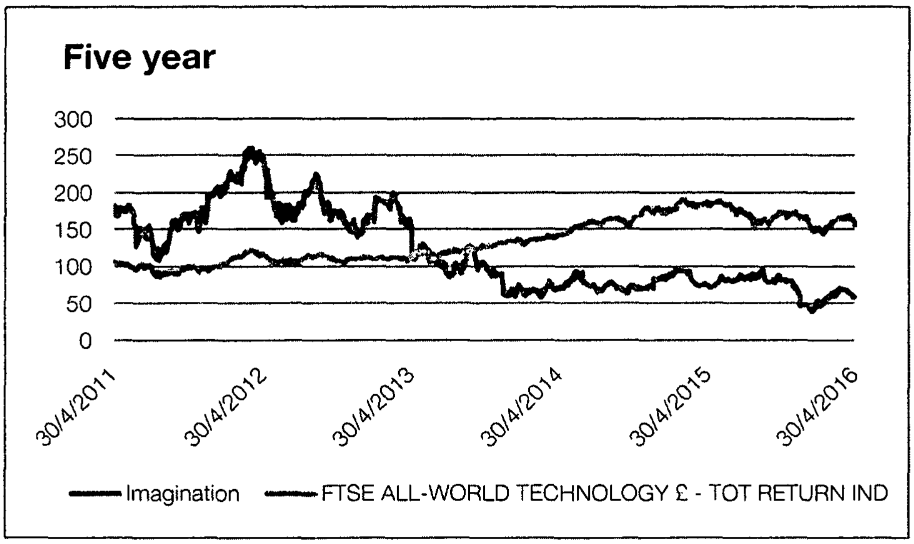
| Resolution | Votes for (and % of votes cast) | | Votes against (and % of votes cast) | | Proportion of share capital voting | Votes which were withheld |
|---|---|---|---|---|---|---|
| Remuneration Policy | 170,679,096 | 95.66% | 7,740,395 | 4.34% | 65.24% | 1,570,328 |
| Remuneration Report | 141,969,225 | 80.29% | 34,860,661 | 19.71% | 64.66% | 3,159,933 |

## Performance graphs

The performance graphs show the Group's one year and five year TSR together with the TSRs for the FTSE All-World technology Index from 1 May 2011 is shown below. The Total Shareholder Return of the Company was -20.78% over the financial year compared with -15.97% for the FTSE All-World technology Index for the same period.

The Committee considers the FTSE All-World Technology Index to be an appropriate choice as the index contains companies from the US, Asia and Europe and therefore reflects the global environment in which the group operates. In addition, the Index includes many companies that are currently the Group's customers, as well as companies that use Imagination technology in their products.



## Share price

The market value of Imagination Technologies Group plc shares on 30 April 2016 was 155.8p. The highest and lowest closing market share price of the ordinary share in the year was 259.5p and 105.5p respectively.

# Remuneration in 2015/16

### CEO's pay for the last five financial years

The following table summarises the total remuneration for the Chief Executive over the last five years.

*CEO figures are for Sir Hossein Yassaie who left the Group in February 2016. Andrew Heath became permanent CEO in FY17. Full pay details for both are available below.*

| Year | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---|---|---|---|---|---|
| CEO's total single figure £'000 | 6,400[1] | 3,639 | 935[2] | 746 | 509 |
| CEO's unexercised share awards £'000 | 0 | 3,011[3] | 459[4] | 0 | 0 |
| Actual bonus as a percentage of maximum opportunity | 66%[5] | 60%[6] | 0%[7] | 48%[8] | 0% |
| ESP/LTIP shares vesting as a percentage of the initial award | 100% | 100% | 37% | 0% | 0% |

[1] In 2012 the CEO exercised 802,000 shares, using the sale proceeds of £3.5m from this transaction to pay income tax and national insurance. The CEO retained 227,000 shares.

[2] The £935,000 includes shares from the one-off award granted in 2009 of 459,200 shares at £1.64 which vested but were not exercised by the CEO.

[3] The total single figure includes the value of 750,000 shares at the date of vesting. These shares remain unexercised.

[4] The total single figure includes the value of 278,000 shares at the date of vesting. These shares remain unexercised.

[5] In 2011/12 the annual cash bonus of 60% represents the portion of the pool of £250,000, the maximum opportunity paid to the CEO the remaining 40% was paid to the CFO and the pool was distributed in full. The bonus related to the 2010/11 financial year.

[6] In 2013 the annual cash bonus of 66% represents the portion of the pool of £250,000, the maximum opportunity paid to the CEO the remaining 34% was paid to the CFO and the pool was distributed in full. The bonus related to the 2011/12 financial year.

[7] In 2013/14 no bonus was paid.

[8] In 2014/15 the annual cash bonus of 48% represents a payment of £250,000 with the maximum opportunity being £526,000.

Increase in pay and benefits from 2015 to 2016 for the CEO compared to employees:

| | CEO | Employees |
|---|---|---|
| Base Salary | 0% | 3.9% |
| Benefits and pension | 0% | 0% |
| Bonus | 0% | N/A |

## Share dilution

It is proposed that the Group will continue to manage dilution within the context of maintaining award levels within a 10% limit over 5 years, the limit that has applied since2015. We are aware that this is higher than the limit of 5% over ten years in respect of discretionary awards and 10% over ten years in respect of all schemes adopted by many UK companies and preferred by many institutional investors.

This higher limit which was approved by shareholders reflects the Company's atypical remuneration package, in that we do not currently pay cash bonuses to all employees but believe that share awards to all employees aligns their interest with that of shareholders and the Company's continued success. It also addresses the need to compete particularly against US companies when attracting high-calibre engineers and talent. This is under review and subject to change going forward with a plan to introduce a cash bonus scheme and be more selective with share allocations. The Group has issued share awards in the five years totaling 8.8% and with lapsed shares returning, the dilution is currently 7.39% of issued share capital.

## Employee Share Plan ('ESP')

The ESP is the primary Long-Term Incentive Plan that is offered to all employees. For executives, the incentive plan is subject to performance conditions. The Scheme rules that are subject to approval at the 2016 AGM will exclude directors from this Plan.

| | Date of grant | Share price on grant £(p) | At start of year | Granted during year | Exercised during year | Lapsed during year | At end of year | Vesting date | Lapse date |
|---|---|---|---|---|---|---|---|---|---|
| Sir Hossein Yassaie | 22/12/2009 | 227.5 | 1028,000' | – | (1,028,000) | (1,222,000) | 0 | 22/12/2012 | 22/12/2019 |

Sir Hossein Yassaie's award of 2,250,000 shares granted on 22 December 2009 was subject to performance conditions. The award vested in three equal tranches of 750,000 shares commencing on 22 December 2012. The first tranche of 750,000 shares vested on 22 December 2012 and these shares were not exercised. Of the second tranche 278,000 shares vested on 22 December 2013, in accordance with the performance conditions. Both the 2012 and 2013 shares were exercised on 8 March 2016. The balance from the second tranche of 472,000 shares was retested on the third anniversary and as a result of the performance conditions not being achieved did not vest and were lapsed. The third tranche of 750,000 shares did not vest due to the performance conditions not being achieved. The performance conditions were related to the annual cumulative growth in the Group's share price over the third, fourth and fifth year from the date of grant. If the annual cumulative growth of the Group's share price is less than 7.5%, no part of the award will vest, if the annual cumulative growth of the Group's share price is more than 7.5% and less than 15% the performance target will be satisfied pro-rata on a straight line basis and if the annual cumulative growth of the Group's share price is 15% or more, 100% will vest.

Former Chairman Geoff Shingles exercised 131,250 shares awarded under his 03/10/2011 ESP grant on 26 February 2016. He has no awards outstanding under the Plan.

The price of a share in the Group for these purposes will be the average mid–market closing price as derived from the Official List of the London Stock Exchange for each business day in the period of three months preceding the grant date and the third anniversary of the grant date. The value of the index will be the average value of the Index for each business day in the three months preceding the grant date and the third anniversary of the grant date as appropriate.

The highest and lowest share prices in the year are set out on page 60.

## Tax Efficient Employee Share Scheme ('TEESP')

| | Date of grant | Share price on grant £(p) | At start of year | Granted during year | Exercised during year | Lapsed during year | At end of year | Vesting date | Lapse date |
|---|---|---|---|---|---|---|---|---|---|
| Sir Hossein Yassaie | 22/01/2013 | 461.30 | 40,656 | – | – | (40,656) | 0 | 22/01/2016 | 22/01/2016 |
| Richard Smith | 22/01/2013 | 461.30 | 20,725 | – | – | (20,725) | 0 | 22/01/2016 | 31/12/2015 |

Vesting of the share awards was based 100% on the percentage growth in the price of a share in the Group compared to the percentage growth of the FTSE techMARK All-Share Index (the 'Index') over the 3 year period commencing on the date of grant. The Company share price needed to exceed the Index by over 125% for the award to vest. The Company's percentage growth in the price of a share did not meet this performance target and as a result Sir Hossein Yassaie's award lapsed. Upon his resignation Richard Smith's award lapsed on his date of cessation. The price of a share in the Company for these purposes will be the average mid–market closing price as derived from the Official List of the London Stock Exchange for each business day in the period of three months preceding the grant date and the third anniversary of the grant date. The value of the index will be the average value of the Index for each business day in the three months preceding the grant date and the third anniversary of the grant date as appropriate.

# Annual Report on Remuneration

## Executive single figure table (audited)

The following table summarises the remuneration received by the executive directors in respect of the financial years ended 30 April 2015 and 30 April 2016.

| Executive | Total amount of salary and fees £'000 | | All pension-related benefits £'000 | | All taxable benefits £'000 | | Annual incentive payments £'000 | | Long-term incentive payments £'000 | | Total single figure £'000 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Sir Hossein Yassaie[5] | 463 | 446 | 31 | 28 | 15 | 22 | - | 250 | - | - | 509 | 746 |
| Andrew Heath[3] | 106 | - | 8[1] | - | 3 | - | - | - | - | - | 117 | - |
| Richard Smith[6] | 180 | 245 | 14 | 18 | 7 | 12 | - | 149 | - | - | 201 | 424 |
| Guy Millward[4] | 113 | - | 8[2] | - | 5 | - | - | - | - | - | 126 | - |
| **Total** | **862** | **691** | **61** | **46** | **30** | **34** | **-** | **399** | **-** | **-** | **953** | **1,170** |

[1] Pension benefits includes £7,920 as an allowance paid in lieu of pension contributions at the option of the director.

[2] Pension benefits includes £8,438 as an allowance paid in lieu of pension contributions at the option of the director.

[3] This relates to the remuneration received by Andrew in his capacity as Interim Chief Executive from 8 February 2016.

[4] Guy Millward joined the Board in December 2015.

[5] Sir Hossein Yassaie resigned from the Board in February 2016.

[6] Richard Smith resigned from the Board in December 2015.

## Chairman and Non-Executive fees (audited)

| Non-executive | Total amount of salary and fees | | All taxable benefits | | Total Single Figure | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Bert Nordberg | £130,000 | £14,833 | N/A | N/A | £130,000 | £14,833 |
| Andrew Heath[1] | £35,250 | £43,000 | N/A | N/A | £35,250 | £43,000 |
| Gilles Delfassy | £42,000 | £38,333 | N/A | N/A | £38,333 | £38,333 |
| David Anderson | £47,000 | £43,333 | N/A | N/A | £47,000 | £43,333 |
| Ian Pearson | £42,000 | £38,333 | N/A | N/A | £42,000 | £38,333 |
| Kate Rock | £42,000 | £25,666 | N/A | N/A | £42,000 | £25,666 |
| **Total** | **£338,250** | **£203,498** | **£-** | **£-** | **£338,250** | **£203,498** |

[1] Andrew Heath stepped down as a non-executive director in February 2016.

The Chairman and non-executive directors did not receive any other payments.

Bert Nordberg, as Chairman, receives an annual salary of £130,000 per annum.

The non-executive directors' remuneration increased in year from a base of £38,000 to £42,000. The committee Chairmen role also receives an additional annual fee of £5,000 for their services. These increases are in line with the increases reported in the last remuneration report.

The following table compares salary increases given each year to the executives to those given to Imagination's employees. The changes are effective from 1 April each year:

| Executive Director | 2013/14 £'000 | Increase | 2014/15 £'000 | Increase | With effect from 1 April 2015 £'000 |
|---|---|---|---|---|---|
| Sir Hossein Yassaie | 427 | 4.32% | 445 | 4.03% | 463 |
| Richard Smith | 220 | 10.00% | 243 | 11.32% | 270 |
| Average employee | | 4.32% | | 4.03% | |

## Pensions (audited)

The Group does not operate its own pension scheme but makes payments into a group personal pension plan with defined contributions. For executive directors, the Group matches the executive contribution (maximum 4.5%) and contributes an extra 1.2% and after two years of membership the 1.2% is increased by another 1.8% (to a maximum of 7.5%). If an executive reaches their annual or life time pension allowance, the Group will consider whether to pay an allowance in lieu of pension contributions as a taxable benefit.

## Annual Bonus Plan

Performance measures for the Annual Bonus Plan are set annually. Each year the Committee considers the most appropriate metrics to apply for the following financial year. These metrics are currently a Group revenue budget and adjusted operating profit. A performance multiplier is then applied related to the achievement of the financial elements. The annual bonus also includes a 25% element based on personal performance. Each executive director is set a number of personal objectives in relation to clear strategic, operational, or relationship imperatives aligned to the Group's overall strategy. The Committee is of the opinion that the numerical values of targets for the current year Annual Bonus Plan are commercially sensitive because they include budgeted numbers within the range of outcomes and it would be detrimental to the Group to disclose them in advance of or during the relevant performance period.

The Committee retains discretion to adjust bonus targets for any financial year to reflect intervening events including acquisitions or disposals. Targets were set for new executive directors in February 2016. These targets were revenue of £131.5m and adjusted operating loss from continuing operations of £5.4m. As these parameters were not met the executives were not entitled to receive abonus and no payments in respect of this element of their remuneration was paid.

## Annual Bonus Plan for 2016/17

| Performance measure and weighting | Performance Range (of budget) | Bonus earned (% of target bonus) |
|---|---|---|
| **Performance conditions:** | | |
| Group Revenue Budget (25%) | 85%<br>100%<br>115% | 25% paid<br>100% paid<br>125% paid |
| Adjusted Operating Profit (AOP) (50%) | 85%<br>100%<br>115% | 25% paid<br>100% paid<br>125% paid |
| Personal performance (25%) | No bonus will be paid if the Group does not achieve 85% of the Adjusted Operating Profit target. | |

**Target bonus achievement:**

CEO 100% of salary

CFO 75% of salary

**Payment:**

Annual assessment of performance conditions 100% of the bonus Paid in cash

Executive directors are eligible for an annual bonus, as described in the table above, based on adjusted operating profit, group revenue budget and individual performance. The annual bonus is paid in cash and subject to the terms outlined in the relevant sections above.

## Share Incentive Plans

For 2015/16 there were three key incentive schemes in operations across the workforce as a whole. They are as follows:

For executives:

- LTIP
- SAYE

For all other employees:

- Employee Share Plan
- SIP
- SAYE

Option grants to executive directors ceased in 2006. The move away from options to restricted shares for all employees in 2006 has reduced potential dilution and has simplified remuneration arrangements.

Shares earned are satisfied through the issue of new shares while some shares have been purchased to satisfy share awards made under the new LTIP for executives.

## Long-Term Incentive Plan (LTIP - audited)

The LTIP is subject to performance conditions.

| Name | Date of grant | Share price on grant (p) | At start of year | Granted during year | Exercised during year | Lapsed during year | At end of year | Vesting date | Lapse date |
|---|---|---|---|---|---|---|---|---|---|
| Andrew Heath* | 11/02/2016 | 131.80 | | 1,228,505 | 0 | 0 | 1,228,505 | 11/02/2019 | 11/02/2021 |
| Guy Millward | 18/12/2015 | 133.20 | | 354,836 | 0 | 0 | 354,836 | 18/12/2018 | 18/12/2020 |
| Sir Hossein Yassaie | 23/09/2013 | 349.00 | 305,444 | | 0 | (305,444) | 0 | 23/09/2016 | 26/04/2016 |
| | 24/10/2014 | 203.75 | 546,223 | | 0 | (546,223) | 0 | 24/10/2017 | 26/04/2016 |
| | 30/10/2015 | 221.50 | | 514,711 | 0 | (514,711) | 0 | 30/10/2018 | 26/04/2016 |
| Richard Smith | 23/09/2013 | 349.00 | 110,563 | | 0 | (110,563) | 0 | 23/09/2016 | 31/12/2015 |
| | 24/10/2014 | 203.75 | 208,496 | | 0 | (208,496) | 0 | 24/10/2017 | 31/12/2015 |
| **Total** | | | **1,170,726** | **1,583,341** | **0** | **1,574,874** | **1,583,341** | | |

The above share awards are subject to the following performance conditions:

**Performance conditions:**

(i) The normalised EPS growth performance conditions (which accounts for 50% of awards), has been set following independent analysis by the Group's advisors and brokers. The compound annual growth in EPS targets were set for 2015/16 as follows:

- 0% pay out below 10% growth;
- 25% pay out at 10% growth;
- 100% pay out at 20% growth or greater; and
- Linear progression between 25% and 100% thresholds.

| | |
|---|---|
| (ii) TSR growth relative to the World Technology Index constituents (25%) and the FTSE 350 Index constituents (25%): | 25% pay-out for median performance 100% pay-out for achieving upper quartile or better |

**Maximum Value:**

| | | |
|---|---|---|
| CEO 250% of salary | CFO 175% of salary | 600% exceptional circumstances |

**Payment:**

| | | |
|---|---|---|
| On vesting | 50% | Shares can be sold on third anniversary |
| | 50% | Shares to be compulsorily deferred until fourth (25%) and fifth (25%) anniversary of grant date |

Actual award levels will be determined by the Committee on an annual basis taking into account a range of factors including performance and share price, however it is intended that annual awards to the value of 250% and 175% of salary will be made to the CEO and CFO respectively. The reason for these percentage limits is largely due to the Group operating and competing for high calibre executives and to act as an incentive to retain executives to achieve the long-term growth plans of the Group. In exceptional circumstances the Committee wants to be able to make share awards of 600% of base salary. This facility was established primarily to facilitate global recruitment of executives, and especially to attract key executives from the US.

## Linkage of Long-Term Incentive Plan targets to business strategy

The new Long-Term Incentive Plan has a number of targets, as described above, which are relevant to the long term strategy of the Group.

Our intention is to review these targets on an annual basis, taking into account market conditions and any other relevant factors to ensure that they remain appropriate in the context of the factors set out above. The Committee will review their applicability on an annual basis, so that in the event that exceptional circumstances arise, such as material corporate activity or substantial changes in market conditions, their impact can be considered against subsequent annual awards. If changes are to be proposed for any prospective LTIP award, it would be the Committee's intention to confirm any such change to shareholders in advance.

## Former share option schemes

The executives have no legacy share options.

## Shareholding requirements

Under the LTIP executives are required to build up and retain shares to a specified percentage of salary, 250% for the CEO and 175% for the CFO. Until these targets have been reached, the executives must retain at least half of any shares acquired under the new LTIP (but not taking into account, for these purposes, any shares sold to meet any tax liabilities arising in connection with the new LTIP).

## Directors' interests (audited)

The beneficial interest as at 30 April 2016 of the directors in the ordinary shares of Imagination Technologies Group plc (in addition to interest in share options and awards) are shown below:

| Director | Beneficial Interests | Unvested Nil-cost options with performance conditions | Total Interests |
|---|---|---|---|
| Bert Nordberg | 60,000 | 0 | 60,000 |
| Andrew Heath | 58,387 | 1,228,505 | 1,286,892 |
| Guy Millward | 0 | 354,836 | 354,836 |
| David Anderson | 8,175 | 0 | 8,175 |
| Gilles Delfassy | 0 | 0 | 0 |
| Ian Pearson | 42,622 | 0 | 42,622 |
| Kate Rock | 10,000 | 0 | 10,000 |

There have been no further changes in the above interests between 30 April 2016 and 5 July 2016.

In addition to the interests disclosed above, the executive directors have interest in shares that could be awarded under the LTIP, the amount of which will be confirmed once the performance conditions are satisfied.

There is no requirement in the Articles of Association for directors to hold shares in the Group.

The Directors' Remuneration Report was approved by a duly authorised Committee of the Board and signed on its behalf by:

**Kate Rock**

Remuneration Committee Chairman

5 July 2016

# Financial report

# Independent auditor's report to the members of Imagination Technologies Group plc

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Imagination Technologies Group plc for the year ended 30 April 2016 set out on pages 70 to 116. 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 30 April 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

- **Licensing revenue recognition (£18,573,000, 2015: £39,035,000)**

*Refer to page 42 (Audit Committee statement), page 76 (Accounting Policy) and page 81 (financial disclosure)*

**The risk:** There are several areas of judgement in determining the appropriate revenue recognition of license contracts, the main ones being:

- Determining whether license contracts can be separated into individual components or whether the contract is to be treated as a single component for revenue recognition purposes;
- Determining the fair value of those components that are separated; and
- Determining the percentage of completion of the undelivered components of the contract and any onerous contract provisions that require recognition based on costs to complete estimates.

Our assessment of the risk has changed from the previous year to include the separate identification and determination of fair value of components in license contracts; this reflects the increased complexity in the license deals signed during the year. There are also additional considerations in the current year relating to the accounting for contract cancellations and amendments.

**Our response:** Our audit procedures included performing the following for a sample of license contracts selected based on magnitude of the individual contract and/or amount of revenue recognised in the year:

- Firstly, where a contract contained multiple deliverables, we considered the Group's judgments as to whether there were elements that should be accounted for separately by: analyzing the terms of the contract to ensure the contract specifically identified separate deliverables; obtaining an understanding of the nature of each deliverable through discussions with the business' management team and comparison to other similar contracts; and assessing the contract terms, in particular any specific terms related to acceptance by the customer that might impact the timing of revenue recognition.
- Secondly, we then considered whether the Group could reliably determine the fair value of each deliverable. We considered this by reference to either the standalone value, as demonstrated by sales to other customers, or by reference to the expected cost plus a suitable margin.
- In the event that a deliverable cannot be unbundled, the Group typically recognizes revenue using the percentage of completion method. For these contracts, we assessed the Group's controls over monitoring progress of license development and completion. We challenged the assumptions within the percentage of completion calculations by performing retrospective review of the budgeted hours to complete, analyzing the salary costs assumptions relating to employee effort by comparison to payroll records and obtaining evidence of third party costs. We also considered the historical accuracy of the Group's percentage of completion estimates and verified completion of contracts through evidencing delivery of completed contracts. We considered whether these supported the historical estimates made. We performed the same testing described above over onerous contract provisions.

For two contracts where the terms and conditions were significantly revised during the year, we considered whether the revisions to the terms represented an amendment to the original contract, or, in substance, a cancellation and whether the revenue reversal in the current year was appropriate. This included discussing with business' management and comparing the previous and new contracts and assessing whether the nature and extent of changes to terms and conditions represented an amendment or cancellation of the original agreement.

We also assessed the Group's disclosures about the significant judgements and estimates made in respect of the revenue generated from license contracts.

- **Valuation of trade investments (£4,626,000, 2015: £19,947,000)**

*Refer to page 42 (Audit Committee Report), page 79 (accounting policy) and page 82 (financial disclosures)*

**The risk:** Trade investments are carried at fair value. Where investments are not publicly traded this involves valuation techniques using unobservable inputs, which can have a significant effect on the asset's valuation. The key input for the majority of these is the price paid by investors in recent funding rounds for a share of the investee. The Company has impaired several investments in unlisted securities in the current year which also involves judgement in respect of determining whether there is objective evidence of an impairment, where there have been no recent funding rounds; and the amount of impairment to record.

**Our response:** In this area our audit procedures included obtaining the information upon which the valuations were based and challenging the suitability of this information as the basis for valuation, for example:

- Obtaining the final documentation in relation to the funding rounds, including details of the number and type of other investors to ascertain whether this is an indicator of current market price;

- Considering other information made available to the directors and whether this provides objective evidence of impairment such as forecasts prepared by the investee, recent management accounts, board minutes and presentations to investors on updates in the business such as access to funding and development of the investee's own technology.

We also assessed the adequacy of the group's disclosures about the valuation methods for the different investments and explanations of movements in the notes to the financial statements.

## 3 Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £860,000 (2015: £1,200,000), determined with reference to a benchmark of revenue from continuing operations, of which it represents 0.7% (2015: 0.7%). We consider revenue from continuing operations to be the most appropriate benchmark as it provides a more stable measure year on year than group loss before tax from continuing operations.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £50,000 (2015: £60,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Full scope audits for group reporting purposes were performed at the UK and US reporting components by the same audit team. These audit procedures covered 99% (2015: 99%) of total Group revenue; 81% (2015: 82%) of the total profits and losses that made up Group loss before tax and 98% (2015: 97%) of total Group assets.

The audits undertaken for group reporting purposes were performed to a materiality level of £800,000 (2015: £1,200,000) for the UK component and £600,000 (2015: £600,000) for the US component.

## 4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## 5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' viability statement on page 32, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 30 April 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

## 6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the Significant issues that the Audit Committee considered in relation to the financial statements does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 31 and 32, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 36 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**John Bennett (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

5 July 2016

# Consolidated income statement

| | Notes | Year to 30 April 2016<br>Continuing<br>£'000 | Year to 30 April 2016<br>Separately Disclosable Items<br>(see Note 2) £'000 | Year to 30 April 2016<br>Total Continuing<br>£'000 | Year to 30 April 2015<br>£'000 |
|---|---|---|---|---|---|
| **Revenue** | 1, 2 | **125,730** | **(5,727)** | **120,003** | 156,774 |
| **Operating expenses** | 2 | **(168,446)** | **(13,049)** | **(181,495)** | (151,080) |
| **Operating (loss) / profit from continuing operations** | | **(42,716)** | **(18,776)** | **(61,492)** | 5,694 |
| Financial income | 2.3 | **37** | - | **37** | 137 |
| Financial expenses | | **(1,754)** | - | **(1,754)** | (3,587) |
| Net financing expense | | **(1,717)** | - | **(1,717)** | (3,450) |
| **(Loss) / profit before tax** | 2 | **(44,433)** | **(18,776)** | **(63,209)** | 2,244 |
| Taxation credit / (charge) | 5 | **3,995** | - | **3,995** | (1,070) |
| (Loss) / profit from continuing operations | 2 | **(40,438)** | **(18,776)** | **(59,214)** | 1,174 |
| Loss from discontinued operations (net of tax) | 2 | | | **(21,645)** | (14,198) |
| **Loss for the financial year attributable to equity holders of the parent** | | | | **(80,859)** | (13,024) |
| **Loss per share** Basic | 6 | | | **(29.8)p** | (4.9)p |
| **Loss per share** Diluted | 6 | | | **(29.8)p** | (4.9)p |

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of comprehensive income

| | Notes | Year to 30 April 2016 £'000 | Year to 30 April 2015 £'000 |
|---|---|---|---|
| **Loss for the financial year attributable to equity holders of the parent** | | **(80,859)** | (13,024) |
| **Other comprehensive income:** | | | |
| **Items that are or maybe reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of the balance sheets of foreign operations | | **(1,630)** | (3,201) |
| Exchange differences on translation of part of the net investment in foreign operations | | **1,711** | 2,781 |
| Change in fair value of assets classified as available for sale | 10 | **(499)** | (576) |
| Tax on items that are or may be reclassified subsequently to profit or loss | | **-** | - |
| **Total other comprehensive expense for the financial year, net of income tax** | | **(418)** | (996) |
| **Total comprehensive expense for the financial year attributable to equity holders of the parent** | | **(81,277)** | (14,020) |

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of financial position

| | Notes | At 30 April 2016 £'000 | At 30 April 2015 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Other intangible assets | 7 | **42,679** | 49,385 |
| Goodwill | 7 | **48,773** | 59,834 |
| Property, plant and equipment | 8 | **69,752** | 69,001 |
| Investment property | 9 | **5,475** | - |
| Investments | 10 | **4,626** | 19,947 |
| Deferred tax | 5 | **12,923** | 4,865 |
| Corporation tax | 5 | **889** | 932 |
| Other debtors | | **3,238** | 2,302 |
| | | **188,355** | 206,266 |
| **Current assets** | | | |
| Inventories | 11 | **220** | 7,901 |
| Trade and other receivables | 12 | **24,421** | 37,010 |
| Accrued Income | 12 | **29,695** | 44,840 |
| Corporation tax | 5 | **952** | 600 |
| Assets held for resale | 18 | **5,255** | - |
| Cash and cash equivalents | 13 | **5,820** | 2,651 |
| | | **66,363** | 93,002 |
| **Total assets** | | **254, 718** | 299,268 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **(39,814)** | (39,898) |
| Provisions | 15 | **(8,936)** | (160) |
| Liabilities held for resale | 18 | **(6,312)** | - |
| Interest bearing loans and borrowings | 16 | **(38,789)** | (8,251) |
| Corporation tax payable | 5 | **(1,480)** | (525) |
| | | **(95,331)** | (48,834) |
| **Non-current liabilities** | | | |
| Other payables | 17 | **(7,158)** | (4,132) |
| Provisions | 15 | **(1,893)** | (500) |
| Interest bearing loans and borrowings | 16 | **(-)** | (21,650) |
| Deferred tax liability | 5 | **(12,912)** | (14,988) |
| Corporation tax | 5 | **(4,583)** | (3,690) |
| | | **(26,546)** | (44,960) |
| **Total liabilities** | | **(121,877)** | (93,794) |
| **Net assets** | | **132,841** | 205,474 |
| **Equity** | | | |
| Called up share capital | 19 | **27,663** | 27,162 |
| Share premium account | 19 | **103,277** | 101,976 |
| Other capital reserve | 19 | **1,423** | 1,423 |
| Merger reserve | 19 | **2,402** | 2,402 |
| Revaluation reserve | 19 | **508** | 1,007 |
| Translation reserve | 19 | **1,076** | 995 |
| Retained earnings | 19 | **(3,508)** | 70,509 |
| **Total equity attributable to equity holders of the parent** | | **132,841** | 205,474 |

The notes to the accounts form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 5 July 2016 and were signed on its behalf by:

**Guy Millward**
Director

Guy L

Registered Number 2920061

# Consolidated statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Other capital reserve £'000 | Merger reserve £'000 | Revaluation reserve £'000 | Translation reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 May 2014 | 26,769 | 99,648 | 1,423 | 2,402 | 1,583 | 1,415 | 71,761 | 205,001 |
| Loss for the year | – | – | – | – | – | – | (13,024) | (13,024) |
| Other comprehensive income for the year: | | | | | | | | |
| Exchange differences on translation of the balance sheets of foreign operations | – | – | – | – | – | (3,201) | – | (3,201) |
| Exchange differences on translation of part of the net investment in foreign operations | – | – | – | – | – | 2,781 | – | 2,781 |
| Change in fair value of assets classified as available for sale | – | – | – | – | (576) | – | – | (576) |
| Total other comprehensive income for the year | – | – | – | – | (576) | (420) | – | (996) |
| Transactions with owners: | | | | | | | | |
| Share based remuneration | | | | | | | 11,963 | 11,963 |
| Tax credit in respect of share-based incentives | – | – | – | – | – | – | 430 | 430 |
| Purchase of shares for LTIP | – | – | – | – | – | – | (394) | (394) |
| Issue of shares for SIP | 73 | – | – | – | – | – | (73) | – |
| Issue of shares at nil cost | 154 | – | – | – | – | – | (154) | – |
| Issue of new shares | 166 | 2,328 | – | – | – | – | – | 2,494 |
| At 30 April 2015 | 27,162 | 101,976 | 1,423 | 2,402 | 1,007 | 995 | 70,509 | 205,474 |
| | | | | | | | | |
| At 1 May 2015 | **27,162** | **101,976** | **1,423** | **2,402** | **1,007** | **995** | **70,509** | **205,474** |
| Loss for the year | **-** | **-** | **-** | **-** | **-** | **-** | **(80,859)** | **(80,859)** |
| Other comprehensive income for the year: | | | | | | | | |
| Exchange differences on translation of the balance sheets of foreign operations | **-** | **-** | **-** | **-** | **-** | **(1,630)** | **-** | **(1,630)** |
| Exchange differences on translation of part of the net investment in foreign operations | **-** | **-** | **-** | **-** | **-** | **1,711** | **-** | **1,711** |
| Change in fair value of assets classified as available for sale | **-** | **-** | **-** | **-** | **(499)** | **-** | **-** | **(499)** |
| Total other comprehensive income for the year | **-** | **-** | **-** | **-** | **(499)** | **81** | **-** | **(418)** |
| Transactions with owners: | | | | | | | | |
| Share based remuneration | **-** | **-** | **-** | **-** | **-** | **-** | **7,750** | **7,750** |
| Tax credit in respect of share-based incentives | **-** | **-** | **-** | **-** | **-** | **-** | **(487)** | **(487)** |
| Issue of shares for SIP | **101** | **-** | **-** | **-** | **-** | **-** | **(101)** | **-** |
| Issue of shares at nil cost | **320** | **-** | **-** | **-** | **-** | **-** | **(320)** | **-** |
| Issue of new shares | **80** | **1,301** | **-** | **-** | **-** | **-** | **-** | **1,381** |
| **At 30 April 2016** | **27,663** | **103,277** | **1,423** | **2,402** | **508** | **1,076** | **(3,508)** | **132,841** |

The notes to the accounts form an integral part of these financial statements.

# Consolidated statement of cash flows

| | Notes | Year to 30 April 2016 £'000 | Year to 30 April 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss after tax** | | **(80,859)** | (13,024) |
| **Tax (credit) / charge** | | **(6,641)** | 1,070 |
| **Loss before tax** | | **(87,500)** | (11,954) |
| Adjustments for: | | | |
| Depreciation and amortization and impairment | 3 | **34,603** | 17,313 |
| Loss on disposal of fixed assets | | **293** | 36 |
| Net financing charge | | **1,717** | 3,450 |
| Share-based remuneration | 4 | **7,750** | 11,963 |
| Release from contract obligation | | **-** | (812) |
| Impairment of investments | 10 | **11,387** | 5,093 |
| Contingent acquisition consideration release | 2 | **(1,726)** | (361) |
| Exchange difference | 3 | **2,030** | (43) |
| **Operating cash flows before movements in working capital** | | **(31,446)** | 24,685 |
| Change in working capital: | | | |
| Decrease in inventories | | **5,148** | 453 |
| Decrease / (Increase) in receivables | | **23,706** | (33,637) |
| Increase in payables | | **19,297** | 4,450 |
| **Cash generated / (utilised) by operations** | | **16,705** | (4,049) |
| Interest paid | | **(835)** | (477) |
| Taxes paid | | **(3,025)** | (1,240) |
| **Net cash flows from operating activities** | | **12,845** | (5,766) |
| **Cash flows from investing activities** | | | |
| Investments made in the year | 10 | **(523)** | (1,530) |
| Disposal of investments in the year | 10 | **4,410** | - |
| Acquisition of intangible assets | | **(3,727)** | (1,516) |
| Acquisition of property, plant and equipment | | **(17,270)** | (12,137) |
| Interest received | | **37** | 137 |
| **Net cash used in investing activities** | | **(17,073)** | (15,046) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | 19 | **184** | 325 |
| Draw down of facilities | 16 | **30,000** | 5,000 |
| Purchase of own shares for LTIP | | **-** | (394) |
| Repayment of borrowings | | **(22,298)** | (1,598) |
| **Net cash from financing activities** | | **7,886** | 3,333 |
| **Net increase / (decrease) in cash and cash equivalents** | | **3,658** | (17,479) |
| **Effect of exchange rate fluctuation** | | **(489)** | 882 |
| **Cash and cash equivalents at the start of the period** | | **2,651** | 19,248 |
| **Cash and cash equivalents at the end of the period** | 13 | **5,820** | 2,651 |

During the year, discontinued operations absorbed £28.6m of the group's net operating cash flows, paid £0.0m in respect of investing activities and paid £0.0m in respect of financing activities.

The notes to the accounts form an integral part of these financial statements.

# Notes to the consolidated financial statements

## 1 Accounting policies

### General

Imagination Technologies Group plc is a company incorporated in the UK. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

### Significant accounting policies

**Statement of compliance**

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Group has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"); these are presented on pages 112 to 116.

**Basis of preparation**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The following additional accounting standards, amendments, and interpretations have been adopted in the period:

Annual Improvements to IFRSs – 2010-2012 Cycle (IASB effective date 1 July 2014)

Annual Improvements to IFRSs – 2011-2013 Cycle (IASB effective date 1 July 2014)

The adoption of these standards, amendments and interpretations have not had a material effect on the financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below under 'Significant accounting judgements and estimates'.

**Measurement convention**

The financial statements are prepared on the historical cost basis, except for investments which have been stated at fair value in accordance with IAS 39.

**Going concern**

The Group's net debt at the year-end was £33.0m (2015: £27.2m) and reflects close attention paid to conserving cash despite the losses made in the year.

As is usual with such facilities, the group is required to meet certain financial covenants (conditions) and provide security in the form of a charge over the Group's assets, including the freehold property. At 30 April 2016, the Group breached one of the conditions of the facility relating to the requirement to keep net debt at or less than 3 times EBITDA (Earnings before interest, tax, depreciation, and amortization) generated from continuing operations in the past 12 months (the "leverage ratio"). As is required by the accounting standards, the loans are therefore classified as current liabilities at year end because, as a result of the covenant breach at the balance sheet date, the Group required agreement of the lender to extend payment over 12 months. Subsequent to 30 April 2016, the group secured a waiver of the condition by the lender.

Furthermore, due to the significant level of restructuring costs incurred in the year and the reduction in licensing income, the lender has agreed to reset the conditions of the loan, including increasing the leverage ratio for the next nine months (financial covenants are tested on a quarterly basis). Compliance with future covenant calculations will benefit from the reduced cost base of the Group. In addition, while the receipt of proceeds from the divestment of any of the discontinued operations is not required for ongoing compliance with the conditions, any proceeds received will be used to reduce the amount of the facility outstanding.

Based on the financial forecasts for the group's continuing operations, which exclude the forecast results of Pure and IMG Systems which are classified as discontinued operations at 30 April 2016, and the results of IMGworks which, following the decision to divest the business, will now be classified as a discontinued operation, the group expects to meet the revised conditions for the next 12 months.

Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

**Basis of consolidation – subsidiaries**

Subsidiaries are those entities controlled by the Group. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**Business combinations**

The Group has applied IFRS 3 Business Combinations (revised 2008) in accounting for business combinations.

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable, as well as other factors including board representation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control passes.

The Group measures goodwill as the fair value of the consideration paid or payable less the net fair value of the identifiable assets, liabilities assumed and contingent liabilities acquired, all measured as of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of equity securities, that the Group incurs in connection with a business combination 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 remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

**Revenue**

Revenue comprises of; the value of consideration received for sales of licenses to the Group's technology, royalties arising from the resulting sale of licensees' products embedded with the Group's technology, development income, support, maintenance, training, and the sale of goods.

The Group follows the principles of IAS 18 Revenue recognition. Revenue associated with the sales of goods is recognised when all of the following conditions are satisfied:

- The Group has transferred the significant risks and rewards of ownership to the buyer;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow into the Group; and
- The costs incurred and or to be incurred can be measured reliably.

Revenue associated with the provision of services is recognised when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow into the Group;
- The stage of completion of the transaction as at the end of the reporting period can be measured reliably; and
- The costs incurred, or to be incurred for the transaction can be measured reliably.

Therefore, revenue from standard licenses is recognised on delivery to the customer, which is when it is considered the above conditions are met. Revenue on licence agreements for products which are either not finished or which need to be modified to meet specific customer requirements is recognised on a percentage-of-completion basis over the period from starting development of the product to delivery. The percentage-of-completion is measured by monitoring progress compared with the total estimated project requirement. Progress is measured by an assessment of performance against key development milestones.

Revenue associated with rights in license agreements to unspecified current and future products is recognised under a subscription accounting basis, on a straight-line basis over the term of the arrangement.

Revenue on development work is recognised on a percentage-of-completion basis over the period from the start of the development to delivery. Development work is normally invoiced as milestones are achieved.

Where invoicing milestones on licence or development arrangements are such that the proportion of work performed is greater than the proportion of the total contract value which has been invoiced, the Group evaluates whether it has obtained, through its performance to date, the right to the un-invoiced consideration and therefore whether revenue should be recognised. In particular it considers whether there is sufficient certainty that the invoice milestones will be achieved in the expected timeframe, that the customer considers that the Group's contractual obligations have been, or will be, fulfilled and that only those costs budgeted to be incurred will be incurred. Where the Group considers that there is insufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group, taking into account these criteria, revenue is not recognised until there is sufficient evidence that it is probable that the economic benefits associated with the transaction will flow into the Group.

Where an agreement involves several components, the total fee is allocated to individual components based on the fair value of the components. The fair value is assessed by reference to prices regularly charged for the components when sold separately, or if this cannot be used, then other factors may be considered, such as the excess of similar agreements over the charges of separately identifiable components. If the fair value of a component is not determinable, then the total fee is deferred until the fair value is determinable, or the component has been delivered to the customer. Where, in effect, two or more components of an agreement are linked and fair values cannot be allocated to the individual components, the revenue recognition criteria are applied to the components as if they were a single component.

Revenue for maintenance is recognised on a straight-line basis over the period for which maintenance is contractually agreed with the licensee.

The excess of licence fees, development income and maintenance invoiced over revenue recognised is recorded as deferred income.

Royalty revenues are earned on the sale by licensees of products containing the Group's technology. Revenues are recognised as they are earned to the extent that the Group has sufficient evidence of sales of products containing the Group's technology by licensees. Notification is generally received in the quarter following the shipment of the customer's products.

Revenues from the sale of goods are recognised upon delivery.

Revenue is accounted for net of VAT, discounts and returns. Returns are recognised at the point at which the Group has adequate knowledge that products are likely to be returned by a customer.

The above revenue recognition policy is applied consistently irrespective of whether or not the consideration received is in the form of cash or non-cash (for example equity).

As disclosed above, in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, the Group makes significant estimates in applying its revenue recognition policies. Estimates are made in particular, in regards to the percentage-of-completion accounting method, which requires that the extent of progress towards completion of contracts may be anticipated with reasonable certainty. The use of this method is based on the assumption that, at the outset of licence agreements, there is an insignificant risk that customer acceptance will not be obtained. The Group also makes assessments, based on prior experience, of the extent to which future milestone receipts represent a probable future economic benefit to the Group. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the revenue recognition policies affect the amounts reported in the financial statements. If different assumptions were used, it is possible that different amounts would be reported in the financial statements.

The above revenue recognition policy is applied consistently irrespective of whether or not the consideration received is in the form of cash or non-cash (for example equity). Where non-cash consideration is received for the group's products or services, revenue is only recognised where there is objective evidence of fair value established using the methodologies described in the trade investments note below.

**Research and development costs**
Costs of basic and applied research, and all development costs, are written off in the period in which they are incurred by the Group.

Where a product is technically feasible, production and sale are intended, an end market for the product exists, costs can be measured reliably, and sufficient resources are available to complete the project, then research and development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the product. The Group believes these requirements are only satisfied in their entirety once the product is near to, or essentially complete, by which point the level of development costs remaining to be incurred are not significant. Therefore, no costs have been capitalised to date.

**Employee benefits**
The Group contributes to a defined contribution pension plan. Payments are charged to the income statement in the period to which they relate.

**Investment properties**
Investment properties are freehold and leasehold properties held to earn rental income, for capital appreciation and/or for undetermined future use. They are stated at cost less accumulated depreciation and less accumulated impairment losses. Indicators of impairment may arise from market evidence, as assessed by independent qualified external valuers. Any surplus or deficit arising is recognised in the income statement for the period.

Investment properties are not depreciated.

**Share-based payment transactions**
The share option programmes and the share incentive arrangements allow employees to acquire shares of the Company. The fair value of share incentives is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the share incentives. The fair value of the share incentives granted is measured using the Black-Scholes or Monte Carlo Simulation models. The amount recognised as an expense is adjusted to reflect the actual number of share incentives that vest except where forfeiture is due only to market-based performance conditions not meeting the threshold for vesting.

Transactions of the Company-sponsored Employee Benefit Trust are included in the Group's consolidated financial statements. In particular, the Trust's purchase of shares in the Company is debited directly in equity to retained earnings.

**Taxation**
Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement 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.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts for financial reporting purposes and those for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Temporary differences on goodwill are not provided for as are not deductible for tax purposes.

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. Deferred tax assets are reduced to the extent that it is no longer possible that the related tax benefit will be realised.

**Foreign exchange**
Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at rates of exchange ruling at the balance sheet date. Exchange gains and losses are taken to the income statement.

On consolidation, results of foreign subsidiary undertakings are translated at the average rates of exchange for the year. The assets and liabilities are translated at rates ruling at the balance sheet date. Exchange differences arising from retranslation have been recognised directly in the statement of other comprehensive income. The presentational currency is GBP.

**Segment reporting**
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**Non-current assets held for sale and discontinued operations**
A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

In accordance with IFRS 5, the above policy is effective from 1 May 2015; no reclassifications are made in prior periods.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

**Intangible assets**

Intangible assets are stated at cost of acquisition and amortised on a straight line basis over their estimated useful economic lives. The residual values of intangible assets are assumed to be nil. Useful economic lives are reviewed on an annual basis. When the Group makes an acquisition, management review the business and assets acquired to determine whether any intangible assets should be recognised separately from goodwill. Fair value of the intangible assets is assessed assuming a hypothetical market. The Group utilises the income based approach when reliable future cash flows are available. Alternatively, the cost approach or market approach are utilised.

The amortization rates applied are:

| | |
|---|---|
| Developed technology | 5 to 10 years |
| Customer relationships | 10 years |
| Trade names | 15 years |
| In process R&D | 5 years once complete |
| Software, patents & trademarks | 2 to 5 years |

**Trade investments**

Trade investments are classified as available for sale and are stated on the balance sheet at the fair value at the balance sheet date, with any gain or loss being recognised directly in the statement of comprehensive income. Impairment losses and gains or losses on initial recognition are recognised in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where there has been more than one investment made in the same company, each tranche is assessed in isolation to calculate the movements in fair value.

Impairment analysis is performed with reference to the initial cost or fair value of each shareholding.

The fair value of unquoted investments is made by reference to recent funding rounds.

The Group is exposed to equity securities price risk on available for sale financial assets. As there can be no guarantee that there will be a future market for securities or that the value of such investments will rise, the directors evaluate each investment opportunity on its merits before committing the Group's funds. The directors review holdings in such companies on a regular basis to determine whether continued investment is in the best interests of the Group. Funds for such ventures are limited in order that the financial effect of any potential decline of the value of investments will not be substantial in the context of the Group's financial results.

Further details of these investments and the valuation basis are detailed in note 10 and note 22.

**Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration paid or payable over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired) arising on consolidation in respect of acquisitions is capitalised. Goodwill is allocated to cash generating units expected to benefit from the acquisition and is not amortised but tested annually for impairment. Any impairment is recognised immediately in the income statement and may not be subsequently reversed. Impairment testing is based on assets grouped at the lowest possible level at which goodwill is monitored for internal management purposes.

On disposal of a subsidiary or business, the attributable goodwill is included in the determination of the profit or loss on disposal.

Goodwill is stated on the balance sheet at cost less any accumulated impairment losses.

Business combinations that took place prior to 1 April 2004 have not been re-stated and goodwill represents the amount recognised under the Group's previous accounting framework.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated to write down their cost using the straight line method to their estimated residual values over the period of their estimated useful economic lives. Periodic reviews are made of estimated remaining useful economic lives and residual values, and the depreciation rates applied are:

| | |
|---|---|
| Freehold land | No depreciation |
| Freehold buildings | 50 years |
| Leasehold improvements | Equally over the period of the lease |
| Plant and equipment | 3 to 10 years |
| Motor vehicles | 4 years |

**Impairment**

**a) Non-financial assets**

Goodwill has an indefinite useful life, is not subject to amortization and is tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, estimates are made of the cashflows of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, estimated future cashflows are discounted to their present value using a discount rate appropriate to the specific asset or cash generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying value of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

**b) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative gain or loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

**Derivative financial instruments**

Currency exchange contracts are utilised to manage the exchange risk on actual transactions related to accounts receivable, denominated in a currency other than the functional currency of the business. These currency exchange contracts do not subject the Group to risk from exchange rate movements because the gains and losses on such contracts offset losses and gains, respectively, on the transactions being hedged. The currency exchange contracts and related accounts receivable are recorded at fair value at each period end. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The fair value of foreign currency options is based upon valuations performed by management and the respective banks holding the currency instruments. All recognised gains and losses resulting from the settlement of the contracts are recorded within general and administrative expenses in the income statement. The Group does not enter into currency exchange contracts for the purpose of hedging anticipated transactions.

**Inventories**

Inventory is valued at the lower of cost and net realisable value. The cost of inventory is calculated using the FIFO method. Finished goods include direct costs and attributable overheads based on the normal level of activity.

**Cash and equivalents**

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of less than or equal to three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the Consolidated Statement of Cash Flows.

**Loans and receivables**

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

**Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. The value of the provision is determined based on assumptions and estimates in relation to the amount and timing of actual cash flows which are dependent on future events.

**Long term borrowing**

Long term borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, long term 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.

**Leases**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement on an effective interest rate basis.

## Significant accounting judgements and estimates

In applying the Group's accounting policies described above, management has made the following judgements and estimates that have a significant impact on the amounts recognised in the financial statements:

**Revenue recognition**

Judgement is involved in determining how many components are in a licence agreement and how to allocate fair value to the components. Revenue recognition on undelivered components is determined by percentage of completion. The Group has made estimates on the percentage-to-completion for licensing and development work which affect the amount of revenue recognised in the period. These estimates involve the Group assessing the estimated resource and time required to complete development projects. Please refer to the final paragraph of the Revenue accounting policy disclosed above.

**Investments**

The Group has stated trade investments at fair value. Please refer to "Trade investments" above for management's application of accounting for trade investments.

**Share based payments**

The fair value of the share incentives is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the incentives. The fair value of the share incentives is measured using the Black-Scholes or Monte Carlo Simulation models which take into account the terms and conditions upon which the award was made. In determining the appropriate expense, the Group has made estimates on the likelihood that internal performance targets will be achieved and on the number of employees that will be employed on vesting. Details of share-based payments and the assumptions applied are disclosed in note 24.

**Taxation**

A deferred tax asset (note 5) is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. The Group has made estimates on the likelihood that future taxable profit will utilise these tax losses.

The group has recognised certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty when the tax treatment cannot finally be determined until accepted by the relevant tax authority. In this regard, adjustment relating to prior years arise from the recognition of a provision for specific risks related to the group's acquisition of MIPs and the subsequent sale of IP. This has been recognised in the current year.

**Impairment of goodwill**

The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill relates. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit that holds the goodwill at a determined discount rate and an appropriate growth rate to calculate the present value of those cash flows. Details of assumptions used are set out in note 7.

**Business combinations**

The Group measures contingent consideration at fair value at the acquisition date and assesses any changes in fair value on an annual basis. This requires the Group to make an estimate of the future payables in respect of the contingent consideration. Details of the assessment performed in the current year are set out in notes 14 and 17.

**Recoverability of debtors**

The Group regularly reviews any outstanding debtors and monitors the aging profile to determine whether any further action is required by management. There is an element of judgement in determining whether debts will eventually be paid, but where there is significant uncertainty the debt is specifically provided for in full.

**Estimation of restructuring costs and onerous lease provisions**

In determining the estimated provision for restructuring costs, the Group has made certain estimates regarding the total cost of staff redundancies announced at the balance sheet date.

In determining the estimated provision for onerous property leases, the Group has made certain estimates regarding the likelihood of future cash inflows from subtenants. These amounts have been netted off against the contractual lease rental payments.

**Valuation of inventory**

Inventory comprises raw components, work in progress and finished goods. The Group monitors the level of inventory across the business and specifically slow moving finished goods. Management makes estimates to ensure adequate provisions are in place to ensure the value of inventory recorded on the Statement of Financial Position is not over stated in accordance with IAS 2.

### Adopted IFRS not yet applied

The following accounting standards, amendments and interpretations had been issued but they are not yet effective for the Group and have not been early adopted. Their adoption is not expected to have a material effect on the financial statements:

| | Effective for periods commencing after |
|---|---|
| Clarification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 and IAS 38 | 1 January 2016 |
| Equity Method in Separate Financial Statements – Amendments to IAS 27 | 1 January 2016 |
| Annual Improvements to IFRSs – 2012-2014 Cycle | 1 January 2016 |
| Disclosure Initiative – Amendments to IAS 1 | 1 January 2016 |
| Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 | 1 January 2017 |
| Disclosure Initiative – Amendments to IAS 7 | 1 January 2017 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 9 Financial Instruments | 1 January 2018 |
| IFRS 16 Leases | 1 January 2019 |

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU.

# 2 Segment reporting and separately disclosable items

The Group determines and presents operating segments based on the way that financial information is presented to the Board of Directors, which is the Group's chief operating decision maker. During the year, the Group sub divided the Technology segment into five smaller segments or business units (BUs) – PowerVR, MIPS, Ensgima, IMGworks and IMG Systems. Whilst these BUs are similar in that they all develop technologies for licensing to semi-conductor companies for incorporation into silicon devices, they offer different technologies and in the case of IMGworks a design service and are managed separately. The Pure business unit remains a separate business unit, the same as it was in previous years. The costs of the corporate functions of the Group are not allocated to each business unit and are presented separately here. There is no inter-segment trading and no significant seasonality in the Group's operations although there is typically an increase in revenues in the period leading up to Christmas.

Information regarding the operations of each reportable segment is included below. Performance is measured based on adjusted operating profit as shown in the table at the end of this note.

Note that during the year, the Group decided to offer for sale, the business and assets of the Pure and IMG Systems BUs – therefore the performance of these two BUs are included below as Discontinued operations.

| | | CONTINUING | | | | | | DISCONTINUED | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **TOTAL 2016 £'000** | **PVR 2016 £'000** | **MIPS 2016 £'000** | **ENS 2016 £'000** | **IMGWKS 2016 £'000** | **CORP 2016 £'000** | **TOTAL CONT 2016 £'000** | **PURE 2016 £'000** | **IMGSYST 2016 £'000** | **TOTAL DISC 2016 £'000** |
| **Revenue** | | | | | | | | | | |
| Pure | 18,819 | | | | | | | 18,819 | | 18,819 |
| Licensing | 18,573 | 10,156 | 6,439 | 2,024 | (1,549) | 0 | 17,070 | | 1,503 | 1,503 |
| Royalties | 103,626 | 77,708 | 23,473 | 1,499 | | 0 | 102,680 | | 946 | 946 |
| Other | 356 | | 213 | | | 40 | 253 | | 103 | 103 |
| **Total Revenue** | **141,374** | **87,864** | **30,125** | **3,523** | **(1,549)** | **40** | **120,003** | **18,819** | **2,552** | **21,371** |
| **Operating expenses *** | | | | | | | | | | |
| Cost of sales | (18,936) | 30 | (742) | 42 | (109) | | (779) | (17,968) | (189) | (18,157) |
| R&D | (82,712) | (29,730) | (21,532) | (8,968) | (13,341) | (4,737) | (78,308) | | (4,404) | (4,404) |
| Sales & Marketing | (24,626) | | | | | (17,452) | (17,452) | (7,174) | | (7,174) |
| Admin incl in adj operating profit / (loss) | (40,494) | | | | | (39,991) | (39,991) | (503) | | (503) |
| Admin excl in adj operating profit / (loss) - below | (60,389) | (3,429) | (6,693) | (2,297) | (7,679) | (24,867) | (44,965) | (1,113) | (14,311) | (15,424) |
| **Total operating expenses** | **(227,157)** | **(33,129)** | **(28,967)** | **(11,223)** | **(21,129)** | **(87,047)** | **(181,495)** | **(26,758)** | **(18,904)** | **(45,662)** |
| **Operating profit / (loss)** | **(85,783)** | **54,735** | **1,158** | **(7,700)** | **(22,678)** | **(87,007)** | **(61,492)** | **(7,939)** | **(16,352)** | **(24,291)** |
| Net financing expense | (1,717) | | | | | (1,717) | (1,717) | | | - |
| **Profit / (loss) before tax** | **(87,500)** | **54,735** | **1,158** | **(7,700)** | **(22,678)** | **(88,724)** | **(63,209)** | **(7,939)** | **(16,352)** | **(24,291)** |
| Taxation (charge) / credit | 6,641 | | | | | 3,995 | 3,995 | 1,588 | 1,058 | 2,646 |
| **Profit / (loss) for the year** | **(80,859)** | **54,735** | **1,158** | **(7,700)** | **(22,678)** | **(84,729)** | **(59,214)** | **(6,351)** | **(15,294)** | **(21,645)** |

Adjusted profit is used by management to measure the performance of the business year on year by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions and investments, non-cash based share incentive charges, and amortization of intangible assets acquired from acquisitions.

| | | CONTINUING | | | | | | DISCONTINUED | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **TOTAL 2016 £'000** | **PVR 2016 £'000** | **MIPS 2016 £'000** | **ENS 2016 £'000** | **IMGWKS 2016 £'000** | **CORP 2016 £'000** | **TOTAL CONT 2016 £'000** | **PURE 2016 £'000** | **IMGSYST 2016 £'000** | **TOTAL DISC 2016 £'000** |
| Reported operating profit / (loss) - (from above) | (85,783) | 54,735 | 1,158 | (7,700) | (22,678) | (87,007) | (61,492) | (7,939) | (16,352) | (24,291) |
| Share based payments | 7,750 | 2,667 | 980 | 802 | 975 | 1,312 | 6,736 | 370 | 644 | 1,014 |
| Amortisation and impairment of intangibles from acquisitions | 8,711 | 622 | 4,863 | 1,419 | | | 6,904 | | 1,807 | 1,807 |
| Acquisition related costs | 1,124 | | | | | 1,124 | 1,124 | | | - |
| Loss on investments | 11,387 | | | | | 11,387 | 11,387 | | | - |
| Corporate restructuring costs | 6,591 | 140 | 594 | 75 | 522 | 3,717 | 5,048 | 743 | 800 | 1,543 |
| Provision for onerous contracts | 6,734 | | 255 | | 6,182 | 297 | 6,734 | | | - |
| Provision for onerous leases | 1,907 | | | | | 1,907 | 1,907 | | | - |
| Impairment of goodwill | 11,061 | | | | | | - | | 11,061 | 11,061 |
| Impairment of tangible fixed assets | 6,851 | | | | | 6,851 | 6,851 | | | - |
| Contingent acquisition consideration release | (1,726) | | | | | (1,726) | (1,726) | | | - |
| **Adjusted operating profit / (loss)** | **(25,393)** | **58,164** | **7,850** | **(5,404)** | **(14,999)** | **(62,138)** | **(16,527)** | **(6,826)** | **(2,040)** | **(8,866)** |
| Net financing expense | (1,717) | | | | | (1,717) | (1,717) | | | - |
| **Adjusted profit before tax** | **(27,110)** | **58,164** | **7,850** | **(5,404)** | **(14,999)** | **(63,855)** | **(18,244)** | **(6,826)** | **(2,040)** | **(8,866)** |

Acquisition related costs in 2016 and 2015 relate largely to the historic acquisitions of Posedge and Kisel and include elements of deferred acquisition consideration which are required to be accounted for as compensation.

Corporate restructuring costs in 2016 relate to the plans announced in February and March 2016 to achieve an annual operating expense saving of £27,500,000, largely through the discontinuing of the Pure and IMG Systems BUs and a reduction in global headcount. In 2015, they related to the closure or reduction in size of departments within BUs.

The onerous contracts provision in 2016 largely relates to three legacy IMGworks contracts being performed for customers. An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. In 2015 the provision largely related to the cost of providing Pure's music services offering.

Onerous leases relate to property related contracts where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The impairment of goodwill relates to the acquisition of Hellosoft Inc. in December 2010, much of whose IP is utilised in the discontinued IMG Systems BU.

The impairment of tangible fixed assets largely relates to the £6,458,000 impairment of Concept House, which was reclassified as an investment property during the year.

The contingent acquisition consideration release in 2016 relates to contingent consideration that has not crystallised relating to the acquisition of Posedge Inc. in 2015 it related to the acquisitions of Kisel. Microelectronics (£272,000) and Nethra Imaging Inc. (£89,000).

The release of contract obligations in 2015 related to a development agreement with GreenPlug Inc. The development fees were paid to Imagination Technologies Ltd in advance. Imagination Technologies Ltd was released from all obligations under this agreement and therefore the deferred revenue was recognised as a credit to the income statement.

| | TOTAL 2015 £'000 | CONTINUING PVR 2015 £'000 | MIPS 2015 £'000 | ENS 2015 £'000 | IMGWKS 2015 £'000 | CORP 2015 £'000 | TOTAL CONT 2015 £'000 | DISCONTINUED PURE 2015 £'000 | IMGSYST 2015 £'000 | TOTAL DISC 2015 £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| Pure | 18,376 | | | | | | | 18,376 | | 18,376 |
| Licensing | 39,035 | 18,751 | 9,163 | 4,623 | 5,314 | | 37,851 | | 1,184 | 1,184 |
| Royalties | 118,924 | 92,267 | 24,885 | 1,202 | | | 118,354 | | 570 | 570 |
| Other | 686 | 25 | 361 | | | 183 | 569 | 6 | 111 | 117 |
| **Total Revenue** | **177,021** | **111,043** | **34,409** | **5,825** | **5,314** | **183** | **156,774** | **18,382** | **1,865** | **20,247** |
| **Operating expenses** | | | | | | | | | | |
| Cost of sales | (17,716) | (191) | (1,192) | (180) | (148) | | (1,711) | (15,938) | (67) | (16,005) |
| R&D | (76,702) | (28,851) | (19,394) | (8,673) | (12,418) | (2,934) | (72,270) | | (4,432) | (4,432) |
| Sales & Marketing | (26,039) | | | | | (17,985) | (17,985) | (8,054) | | (8,054) |
| Admin incl in adj operating profit / (loss) | (35,447) | | | | | (35,021) | (35,021) | (426) | | (426) |
| Admin excl in adj operating profit / (loss) - below | (29,621) | (5,098) | (5,832) | (2,811) | (1,531) | (8,821) | (24,093) | (701) | (4,827) | (5,528) |
| **Total operating expenses** | **(185,525)** | **(34,140)** | **(26,418)** | **(11,664)** | **(14,097)** | **(64,761)** | **(151,080)** | **(25,119)** | **(9,326)** | **(34,445)** |
| ***Operating profit / (loss)*** | **(8,504)** | **76,903** | **7,991** | **(5,839)** | **(8,783)** | **(64,578)** | **5,694** | **(6,737)** | **(7,461)** | **(14,198)** |
| Net financing expense | (3,450) | | | | | (3,450) | (3,450) | | | - |
| **Profit / (loss) before tax** | **(11,954)** | **76,903** | **7,991** | **(5,839)** | **(8,783)** | **(68,028)** | **2,244** | **(6,737)** | **(7,461)** | **(14,198)** |
| Taxation (charge) / credit | (1,070) | | | | | (1,070) | (1,070) | | | - |
| **Profit / (loss) for the year** | **(13,024)** | **76,903** | **7,991** | **(5,839)** | **(8,783)** | **(69,098)** | **1,174** | **(6,737)** | **(7,461)** | **(14,198)** |

| **Adjusted profit** | TOTAL 2015 £'000 | CONTINUING PVR 2015 £'000 | MIPS 2015 £'000 | ENS 2015 £'000 | IMGWKS 2015 £'000 | CORP 2015 £'000 | TOTAL CONT 2015 £'000 | DISCONTINUED PURE 2015 £'000 | IMGSYST 2015 £'000 | TOTAL DISC 2015 £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Reported operating profit / (loss) - (from above) | (8,504) | 76,903 | 7,991 | (5,839) | (8,783) | (64,578) | 5,694 | (6,737) | (7,461) | (14,198) |
| Share based payments | 11,963 | 3,750 | 1,604 | 1,269 | 1,476 | 2,167 | 10,266 | 692 | 1,005 | 1,697 |
| Amortisation of intangibles from acquisitions | 9,119 | 932 | 4,863 | 1,542 | | | 7,337 | | 1,782 | 1,782 |
| Acquisition related costs | 1,426 | | | | | 1,426 | 1,426 | | | - |
| Loss on investments | 5,093 | | | | | 5,093 | 5,093 | | | - |
| Corporate restructuring costs | 690 | 415 | 178 | | 55 | 23 | 671 | 10 | 9 | 19 |
| Provision for onerous contracts | 2,503 | | | | | 472 | 472 | | 2,031 | 2,031 |
| Contingent acquisition consideration release | (361) | | | | | (361) | (361) | | | - |
| Release of contract obligations | (812) | | (812) | | | | (812) | | | - |
| **Adjusted operating profit / (loss)** | **21,117** | **82,000** | **13,824** | **(3,028)** | **(7,252)** | **(55,758)** | **29,786** | **(6,035)** | **(2,634)** | **(8,669)** |
| Net financing expense | (3,450) | | | | | (3,450) | (3,450) | | | - |
| **Adjusted profit before tax** | **17,667** | **82,000** | **13,824** | **(3,028)** | **(7,252)** | **(59,208)** | **26,336** | **(6,035)** | **(2,634)** | **(8,669)** |

Revenue is reported by geographical area of sales as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| USA | **92,465** | 106,778 |
| Asia | **30,012** | 33,598 |
| United Kingdom | **14,186** | 16,196 |
| Rest of Europe | **3,722** | 13,510 |
| Rest of North America | **2,164** | 2,368 |
| Rest of the world | **(1,175)** | 4,571 |
| | **141,374** | 177,021 |

The basis for attributing external customers to individual countries is the customer's country of domicile.

Revenue from individual customers that represent more than 10% of the Group's total revenue for the period have values of approximately £60,664,000. The customer's country of domicile is USA, and these revenues are included in the PowerVR division business unit.

All revenue is from external customers, and originates materially from the United Kingdom.

The operating profit, net assets and capital expenditure of the Group materially relate to the United Kingdom.

## Separately Disclosable Items

| | | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Revenue** | (1) | **(5,727)** | - |
| **Operating expenses** | (2) | **(13,049)** | - |
| **Operating loss from continuing operations** | | **(18,776)** | - |

This year, the group has included a separate column on the face of the income statement to disclose significant items that have impacted the operating results. Separately disclosable items ("SDI") is not a defined term under IFRS, so may not be comparable to similar terminology used in other financial statements. The Board believes that reporting results in this way provides additional useful information to the users of the Annual Report.

In making their assessment of SDI, the Board has only included costs directly related to the restructuring of the business; this includes the impairment of an investment property following the decision to sell Pure and IMG Systems and costs associated with reducing headcount (primarily redundancy). The Board also considers that, following the renegotiation of two revenue contracts, resulting in the increase of scope in one case and the termination of the second contract, it is appropriate to highlight the impacts on current year revenue.

(1) Revenue - during the year, three multi-IP licensing and development projects were terminated prior to completion. This resulted in a reversal of revenue recognised in prior years of £5,727,000.

(2) Operating expenses - as announced in early 2016, the Group has initiated a significant restructuring programme which has resulted in £13,049,000 of operating expenses that otherwise would not have been incurred.

These include £6,591,000 of one off / exceptional costs relating to the implementation and execution of the programme (of which £4,475,000 relates to redundancy costs), and the reclassification of one of the Group's properties at its Kings Langley headquarters from Freehold Land & Buildings to Investment Properties. This investment property was subsequently impaired by £6,458,000.

# 3 Expenses

| | Continuing | | Discontinued | | Total | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| **Operating loss is stated after charging / (crediting):** | | | | | | |
| Staff costs - salaries | **71,087** | 68,572 | **6,940** | 6,739 | **78,027** | 75,311 |
| Staff costs - social security | **4,845** | 4,657 | **574** | 554 | **5,419** | 5,211 |
| Staff costs - pensions | **3,352** | 3,095 | **260** | 238 | **3,612** | 3,333 |
| Staff costs - Share incentives | **6,736** | 10,266 | **1,014** | 1,697 | **7,750** | 11,963 |
| Staff costs - indirect overheads | **6,821** | 5,658 | **281** | 321 | **7,102** | 5,979 |
| **Total staff costs** | **92,841** | 92,248 | **9,069** | 9,549 | **101,910** | 101,797 |
| Subcontractors | **5,335** | 6,921 | **144** | 178 | **5,479** | 7,099 |
| Depreciation, amortization and impairment of tangible and intangible assets | **15,277** | 15,531 | **1,807** | 1,782 | **17,084** | 17,313 |
| Impairment of goodwill | **-** | - | **11,061** | - | **11,061** | - |
| Impairment of investment property | **6,458** | - | **-** | - | **6,458** | - |
| Loss on disposal of fixed assets | **293** | 36 | **-** | - | **293** | 36 |
| Foreign exchange loss / (gain) | **2,030** | (43) | **-** | - | **2,030** | (43) |
| Operating lease rentals: | | | | | | |
| Property | **3,674** | 3,839 | **9** | 6 | **3,683** | 3,845 |
| Other | **9,762** | 9,274 | **42** | 36 | **9,804** | 9,310 |
| **Other operating expenses** | **45,825** | 23,274 | **23,530** | 22,894 | **69,355** | 46,168 |
| **Total operating expenses** | **181,495** | 151,080 | **45,662** | 34,445 | **227,157** | 185,525 |

| | | |
|---|---|---|
| **Auditor's remuneration** | | |
| Audit of these financial statements | **25** | 25 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries of the company | **213** | 128 |
| Audit-related assurance services | **12** | 12 |
| Taxation compliance services | **-** | - |
| Other tax advisory services | **7** | - |
| Corporate finance services | **25** | - |
| All other services | **-** | - |
| | **282** | 165 |

Not included in the auditor's remuneration above are expenses incurred by the auditor for which they are reimbursed by the company of £16,000 (2015: £14,000).

# 4 Employees

| The average number of persons employed by the Group (including directors) was: | Continuing | | Discontinued | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Research and development | **1,210** | 1,189 | **174** | 172 | **1,384** | 1,361 |
| Production | **-** | - | **27** | 25 | **27** | 25 |
| Administration | **156** | 146 | **4** | 4 | **160** | 150 |
| Sales and marketing | **63** | 80 | **34** | 36 | **97** | 116 |
| | **1,429** | 1,415 | **239** | 237 | **1,668** | 1,652 |

| The aggregate payroll costs of these persons were: | Continuing | | Discontinued | | Total | |
|---|---|---|---|---|---|---|
| | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| Wages and salaries | **71,087** | 68,572 | **6,940** | 6,739 | **78,027** | 75,311 |
| Social security costs | **4,845** | 4,657 | **574** | 554 | **5,419** | 5,211 |
| Other pension costs | **3,352** | 3,095 | **260** | 238 | **3,612** | 3,333 |
| Share-based payments | **6,736** | 10,266 | **1,014** | 1.697 | **7,750** | 11,963 |
| | **86,020** | 86,590 | **8,788** | 9,228 | **94,808** | 95,818 |

Details of the share-based payments are set out in note 24.Complete information on the share incentives and shares held by directors is set out in the Director's remuneration report on pages 48 to 65.

In addition to the above employee costs, redundancy costs of £4,475,000 were incurred during the year, and included as a SDI, as discussed in note 2.

# 5 Taxation

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| ***Analysis of tax charge in the year*** | | |
| **Current tax charge** | | |
| UK corporation tax | **202** | 142 |
| Foreign tax | **3,979** | 2,650 |
| Total current tax charge | **4,181** | 2,792 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(12,180)** | (1,052) |
| Effect of changes in tax rates on deferred tax balances | **1,200** | (877) |
| Adjustments in respect of prior periods | **158** | 207 |
| Total deferred tax credit | **(10,822)** | (1,722) |
| **Total income tax (credit) / charge** | **(6,641)** | 1,070 |

The total tax credit for the year of £6,641,000 (2015: £1,070,000 tax charge) is lower (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.92%). The difference is explained below:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loss before taxation | **(87,500)** | (11,954) |
| Notional tax charge at UK standard rate of 20.00% (2015: 20.92%) | **(17,500)** | (2,501) |
| Tax effect of non-deductible impairment of goodwill | **2,212** | - |
| Tax effect of expenses that are not deductible for tax purposes (primarily impairment of investment property and loss on investments) | **2,763** | 2,282 |
| Utilization of previously unrecognised tax assets | **239** | (1,285) |
| Tax assets not recognised (primarily relates to US tax losses) | **3,655** | 2,421 |
| Effect of tax rate change | **(489)** | (876) |
| Adjustments in respect of prior periods | **(1,852)** | 236 |
| Withholding tax | **901** | 1,247 |
| Increase in uncertain tax positions | **3,430** | - |
| Different tax rates on overseas earnings | **-** | (454) |
| **Total income tax (credit) / charge** | **(6,641)** | 1,070 |
| **Tax on items charged / (credited) to equity:** | | |
| Deferred tax | **687** | (289) |
| Current tax | **(202)** | (142) |

## Current tax

The group receives significant government tax incentives including, in the UK, Research and Development Expenditure credits ("RDEC") which is shown as an 'above the line' relief. This has the impact of a 'credit' being recorded in operating expenditure of £4,751,000 (2015: £5,919,000) which is then taxed at the prevailing UK corporation tax rate. If the group makes a taxable loss for the year, losses generated by the RDEC claim can be reclaimed in cash from HMRC.

The principal element of the deferred tax charge recorded against equity relates to the reversal of previously recognised deferred tax assets which were credited to equity. The reversal of the asset occurs predominantly as a result of the fall in potential future tax deductions due to the reduction in the Company's share price during the year.

## Current tax assets

At 30 April 2016, there are current tax assets receivable in more than one year of £889,000 (2015: £932,000) and receivable in less than one year of £952,000 (2015: £600,000). The assets relate to prepayments of tax by overseas subsidiaries.

## Current tax liabilities

At 30 April 2016, there is a current tax liability due in less than one year of £1,480,000 relating to some of the Group's subsidiaries – predominantly Imagination Technology LLC in the US (2015: £525,000).

At 30 April 2016 there is a current tax liability due in more than one year of £4,583,000 (2015: £3,690,000). The balance in both years largely relates to a provision in the US.

## Deferred tax

The movement on the deferred tax account is as follows:

| | As at 30 April 2015 £'000 | Recognised in income statement £'000 | Recognised in equity £'000 | As at 30 April 2016 £'000 |
|---|---|---|---|---|
| Tax losses | 5,300 | 9,286 | – | **14,586** |
| Share based payments (note 24) | 3,428 | (534) | (688) | **2,206** |
| Other timing differences | 127 | 157 | – | **284** |
| Capital allowances | (7,033) | 350 | – | **(6,683)** |
| Gain on foreign exchange contract | 36 | 11 | – | **47** |
| Acquisition of intangible assets | (11,981) | 1,552 | – | **(10,429)** |
| | (10,123) | 10,822 | (688) | **11** |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Deferred taxation has been presented on the balance sheet as follows:** | | |
| Deferred tax asset | **12,923** | 4,865 |
| Deferred tax liability | **(12,912)** | (14,988) |
| **At end of the period** | **11** | (10,123) |

Management consider the utilization of the £12,923,000 (2015: £4,865,000) deferred tax asset to be probable based on assessment of forecasts of future taxable profits.

The deferred tax asset increased by £8,058,000 during the year, largely as a result of the recognition of an additional asset relating to the UK tax losses incurred in this financial year. The group has revalued its tax assets, applying the substantively enacted tax rate that will be used when the group expects the deferred tax asset is likely to reverse.

The deferred tax liability reduced during the year to £12,912,000 (2015: £14,988,000). This movement was a result of the amortization of intangible assets relating to previous acquisitions.

None of the recognised tax assets or liabilities expire.

Deferred tax assets and liabilities are only offset where they relate to income taxes levied by the same taxation authority and there is a legally enforceable right to offset.

## Unrecognised deferred tax assets

The group has Federal US tax losses of $53,482,000 (2015: $43,845,000), tax credits of $10,211,000 (2015: $6,212,000) and other temporary differences of $28,651,000 (2015: $23,383,000). The Federal tax losses and tax credits expire progressively from 2020.

In addition the group has State US tax losses of $44,199,000 (2015: $52,309,000), tax credits of $8,819,000 (2015: $7,947,000) and other temporary differences of $59,915,000 (2015: $48,384,000). The State tax losses expire progressively from 2015.

State tax credits and all remaining temporary differences do not expire.

Deferred tax assets have not been recognised due to the uncertainty of the availability of the above tax losses to be utilised against future taxable profits arising in the US.

If the Group were able to recognise all unrecognised deferred tax assets, an asset of £32,734,000 ($47,831,000) (2015: of £25,056,000 ($38,538,000)) reported at the applicable tax rates, would be recognised.

At 30 April 2016, there was no recognised deferred tax liability (2015: $Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries. The Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

### Factors affecting future tax charge

The Finance Act 2016 reduced the rate of Corporation Tax from 1 April 2017 to 19% and by a further 1% to 18% from 1 April 2020. In addition, the Finance Act 2012 introduced the UK patent box regime which provides for an effective tax rate of 10% on certain UK profits from 1 April 2013 (phased in over 5 years). These changes have been substantively enacted at the balance sheet date and consequently are reflected in these financial statements. The Group has not made an election in to the UK Patent Box regime as at 30 April 2016, nor do the Directors consider it will be beneficial to do so in the short term. As such the Directors consider that the temporary differences will reverse at the main rate of UK Corporation Tax of 18% and deferred tax has therefore been provided at this rate.

# 6 Earnings per share

| From continuing and discontinuing operations | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loss attributable to equity holders of the parent | **(80,859)** | (13,024) |

| | 2016 Shares '000 | 2015 Shares '000 |
|---|---|---|
| Weighted average number of shares in issue | **273,562** | 269,522 |
| Less: Weighted average number of shares held by Employee Benefit Trust | **(1,868)** | (1,984) |
| Effect of dilutive shares: Employee incentive schemes | **15,279** | 12,790 |
| Weighted average number of shares potentially in issue | **286,973** | 280,328 |

| | | 2016 | 2015 |
|---|---|---|---|
| **Loss per share** | Basic | **(29.8)p** | (4.9)p |
| | Diluted | **(29.8)p** | (4.9)p |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potentially dilutive ordinary shares. Details of the schemes considered in arriving at the potentially dilutive ordinary shares are set out in note 24. It should be noted that potentially dilutive shares are not considered when a basic loss per share has been calculated. A loss cannot be diluted.

| Adjusted earnings per share | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Adjusted (loss) / profit before tax – (see note 2) | **(27,110)** | 17,667 |
| Adjusted taxation credit / (charge) | **1,987** | (838) |
| Adjusted (loss) / profit attributable to equity holders of the parent | **(25,123)** | 16,829 |

| | 2016 Shares '000 | 2015 Shares '000 |
|---|---|---|
| Weighted average number of shares in issue | **273,562** | 269,522 |
| Less: Weighted average number of shares held by Employee Benefit Trust | **(1,868)** | (1,984) |
| Effect of dilutive shares: Employee incentive schemes | **15,279** | 12,790 |
| Weighted average number of shares potentially in issue | **286,973** | 280,328 |

| | | 2016 | 2015 |
|---|---|---|---|
| **Adjusted (loss) / earnings per share** | Basic | **(9.2)p** | 6.3p |
| | Diluted | **(9.2)p** | 6.0p |

Adjusted earnings per share is calculated using adjusted profit attributable to equity holders of the parent which is derived from the adjusted profit before tax described in note 2.

## From continuing operations

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loss attributable to equity holders of the parent | **(59,214)** | **1,174** |

| | 2016 Shares '000 | 2015 Shares '000 |
|---|---|---|
| Weighted average number of shares in issue | **273,562** | 269,522 |
| Less: Weighted average number of shares held by Employee Benefit Trust | **(1,868)** | (1,984) |
| Effect of dilutive shares: Employee incentive schemes | **15,279** | 12,790 |
| Weighted average number of shares potentially in issue | **286,973** | 280,328 |

| | | 2016 | 2015 |
|---|---|---|---|
| **(Loss) / profit per share** | Basic | **(21.8)p** | 0.4p |
| | Diluted | **(21.8)p** | 0.4p |

The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations.

## From discontinued operations

| | | 2016 | 2015 |
|---|---|---|---|
| **Loss per share** | Basic | **(8.0)p** | (5.3)p |
| | Diluted | **(8.0)p** | (5.3)p |

# 7 Goodwill and other intangible assets

| | Goodwill £'000 | Intangible assets from acquisitions* £'000 | Software, patents and trademarks £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 May 2014 | 63,351 | 71,406 | 15,884 | 150,641 |
| Additions | – | – | 1,408 | 1,408 |
| At 30 April 2015 | 63,351 | 71,406 | 17,292 | 152,049 |
| At 1 May 2015 | **63,351** | **71,406** | **17,292** | **152,049** |
| Reclassification | **–** | **–** | **(138)** | **(138)** |
| Additions | **–** | **–** | **3,896** | **3,896** |
| Disposals | **–** | **–** | **(1,154)** | **(1,154)** |
| **At 30 April 2016** | **63,351** | **71,406** | **19,896** | **154,653** |
| **Amortization** | | | | |
| At 1 May 2014 | 3,517 | 16,373 | 12,357 | 32,247 |
| Charge for the year | – | 9,119 | 1,464 | 10,583 |
| At 30 April 2015 | 3,517 | 25,492 | 13,821 | 42,830 |
| At 1 May 2015 | **3,517** | **25,492** | **13,821** | **42,830** |
| Reclassification | **–** | **–** | **(20)** | **(20)** |
| Charge for the year | **–** | **8,230** | **1,436** | **9,666** |
| Disposals | **–** | **–** | **(817)** | **(817)** |
| Impairment | **11,061** | **481** | **–** | **11,542** |
| **At 30 April 2016** | **14,578** | **34,203** | **14,420** | **63,201** |
| Net book value at 30 April 2015 | 59,834 | 45,914 | 3,471 | 109,219 |
| **Net book value at 30 April 2016** | **48,773** | **37,203** | **5,476** | **91,452** |

* Intangible assets from acquisitions are those assets recognised when fair value accounting for the acquisitions of Hellosoft Inc, Caustic Graphics Inc, MIPS Technologies Inc (since renamed Imagination Technologies LLC), Posedge Inc (now liquidated into Imagination Technologies LLC) and Kisel Microelectronics AB (since renamed Imagination Technologies AB). They are analysed below.

| | Developed technology £'000 | Customer relationships £'000 | Trade names £'000 | In process R&D £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 May 2014 | 60,153 | 8,890 | 1,597 | 766 | 71,406 |
| Acquisition of subsidiaries | 766 | – | – | (766) | – |
| At 30 April 2015 | 60,919 | 8,890 | 1,597 | – | 71,406 |
| At 1 May 2015 | **60,919** | **8,890** | **1,597** | **–** | **71,406** |
| Transfer between asset categories | – | – | – | – | – |
| **At 30 April 2016** | **60,919** | **8,890** | **1,597** | **–** | **71,406** |
| **Amortization** | | | | | |
| At 1 May 2014 | 15,112 | 1,128 | 133 | – | 16,373 |
| Charge for the year | 7,950 | 1,063 | 106 | – | 9,119 |
| At 30 April 2015 | 23,062 | 2,191 | 239 | – | 25,492 |
| At 1 May 2015 | **23,062** | **2,191** | **239** | **–** | **25,492** |
| Charge for the year | **7,060** | **1,063** | **107** | **–** | **8,230** |
| Impairment | **481** | **–** | **–** | **–** | **481** |
| **At 30 April 2016** | **30,603** | **3,254** | **346** | **–** | **34,203** |
| Net book value at 30 April 2015 | 37,857 | 6,699 | 1,358 | – | 45,914 |
| **Net book value at 30 April 2016** | **30,316** | **5,636** | **1,251** | **–** | **37,203** |

Goodwill was acquired through acquisitions and relates to either PowerVR, MIPS, Ensigma or IMG Systems business units, which are each considered to be single cash-generating units. During the period the Group tested its balance of goodwill for impairment in accordance with IAS 36 Impairment of Assets. The test was based on a calculation of the recoverable amount based on value in use, using projected cash flows for the respective business units.

Goodwill has been allocated to the various cash generating business units as follows, with the following impairment(s) noted in the period:

| Business Unit | Carrying value 1 May 2015 £'000 | Impairment £'000 | Carrying value 30 April 2016 £'000 |
|---|---|---|---|
| PowerVR | 14,123 | - | 14,123 |
| MIPS | 23,236 | - | 23,236 |
| Ensigma | 11,414 | - | 11,414 |
| IMG Systems | 11,061 | 11,061 | - |
| ***Total*** | **59,834** | **11,061** | **48,773** |

The key assumptions in the value in use calculations applicable to all business units were:

Period over which the directors have projected cashflows – a five year forecast period is used which is based on management forecasts of future profits, with an assumed terminal growth rate after 2021 of 1.9% per annum (2015: 2.5%). The terminal growth rate is assessed taking into account general economic conditions.

Forecast revenue growth – the revenue projections are consistent with those used by the Group for financial planning purposes.

Forecast operating margins – the operating margin projections are consistent with those used by the Group for financial planning purposes.

Discount rate – future cash flows are discounted at a rate of 11.2%, 9.9% and 11.6% which represents a pre-tax rate that reflects the Group's weighted average cost of capital adjusted for the risks specific to the PVR, Ensigma and MIPS business units respectively. In previous years, the business viewed these collectively as one business unit; Technology business (2015: 8.7%).

Discontinued operations – The Board has also considered any potential disposal proceeds in making its assessment of recoverable amounts.

For PowerVR and MIPS, the directors have considered the sensitivity of the assumptions used and do not believe that any reasonably foreseeable changes to key assumptions would result in further impairment of goodwill, such is the margin by which the estimated fair value exceeds the carrying value of the goodwill.

For Ensigma, the value in use calculation resulted in an estimated recoverable amount that was greater than the carrying value of the associated CGU assets by £28.7m. However, the forecast revenue growth rates in years 3 to 5 include significant growth assumptions. Revised calculations of the estimated recoverable amount were undertaken to consider sensitivities for lower than expected revenue growth rates; this was achieved by risk adjusting the discount factor, increasing it by 2.5% to account for the potential that the forecast growth is not achieved. In this calculation, the value in use remained greater than the carrying value, albeit with severely reduced headroom. The results of these sensitivity calculations supported the conclusion that the goodwill had not been impaired.

# 8 Property, plant and equipment

| | Freehold land and buildings £'000 | Leasehold improvements £'000 | Plant and equipment £'000 | Total £'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 May 2014 | 48,274 | 4,665 | 30,427 | 83,366 |
| Reclassification between asset class | – | – | – | – |
| Additions | 5,907 | 1,183 | 5,071 | 12,161 |
| Acquisition of subsidiaries | – | – | – | – |
| Disposals | – | (60) | (1,662) | (1,722) |
| At 30 April 2015 | 54,181 | 5,788 | 33,836 | 93,805 |
| At 1 May 2015 | **54,181** | **5,788** | **33,836** | **93,805** |
| Reclassification between asset class | **(12,313)** | **-** | **(1,750)** | **(14,063)** |
| Additions | **10,452** | **158** | **9,353** | **19,963** |
| Disposals | **(141)** | **(77)** | **(2,051)** | **(2,269)** |
| **At 30 April 2016** | **52,179** | **5,869** | **39,388** | **97,436** |
| **Depreciation** | | | | |
| At 1 May 2014 | 1,514 | 2,442 | 15,794 | 19,750 |
| Reclassification between asset class | – | – | – | – |
| Charge for the year | 725 | 1,008 | 4,995 | 6,728 |
| Disposals | – | (60) | (1,614) | (1,674) |
| At 30 April 2015 | 2,239 | 3,390 | 19,175 | 24,804 |
| At 1 May 2015 | **2,239** | **3,390** | **19,175** | **24,804** |
| Reclassification between asset class | **(380)** | **-** | **(1,501)** | **(1,881)** |
| Charge for the year | **899** | **484** | **5,161** | **6,544** |
| Disposals | **(141)** | **(45)** | **(1,990)** | **(2,176)** |
| Impairment in year | | | **393** | **393** |
| **At 30 April 2016** | **2,617** | **3,829** | **21,238** | **27,684** |
| Net book value at 30 April 2015 | 51,942 | 2,398 | 14,661 | 69,001 |
| **Net book value at 30 April 2016** | **49,562** | **2,040** | **18,150** | **69,752** |

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| The net book value of freehold land and buildings comprises: | | |
| Land | **7,422** | 9,349 |
| Buildings | **42,140** | 42,593 |
| | **49,562** | 51,942 |

At 30 April 2016, the unamortised cost of buildings under construction accounted for within freehold land and buildings was nil (2015: £6,059,000).

Contained within Plant and Equipment is CAD equipment with a net book value of £6,672,000 which is deemed to have been acquired under a finance lease.

# 9 Investment property

| Cost basis | 2016 £'000 | 2015 £'000 |
|---|---|---|
| At 1 May | - | - |
| *Transfer from property, plant and equipment during the year* | **11,933** | - |
| Impairment during the year | **(6,458)** | - |
| At 30 April | **5,475** | - |

The recoverable amount of the group's investment property at 30 April 2016, and the resulting impairment, has been arrived at on the basis of a valuation carried out in February 2016 by independent valuers not connected with the group. The valuation conforms to International Valuation Standards. The impairment was determined using the investment method of valuation, this showed that the recoverable amount was less than the cost and accordingly, an impairment has been recognised.

The investment property is measured at cost less accumulated depreciation and less accumulated impairment losses in the consolidated balance sheet.

# 10 Investments

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| *Trade investments classified as available for sale* | **4,626** | 19,947 |

Movement in the carrying value of each of the Group's equity holdings during the period is analysed below:

| | | | | Fair value movement during period | | |
|---|---|---|---|---|---|---|
| | Carrying value at 1 May 2015 £'000 | Increased holding in investments £'000 | Disposal £'000 | Income statement £'000 | Statement of comprehensive income £'000 | Carrying value at 30 April 2016 £'000 |
| Toumaz | 7,189 | – | (3,156) | (4,338) | 305 | - |
| Blu-Wireless | 309 | – | (-) | (250) | (59) | - |
| 7digital Group plc | 3,262 | 24 | (908) | (2,269) | - | 109 |
| Ineda | 5,027 | 428 | (-) | (4,475) | (980) | - |
| Onkyo | 389 | – | (346) | (55) | 12 | - |
| NetSpeed | 520 | 523 | (-) | – | 52 | 1,095 |
| Atomos | 3,251 | – | (-) | – | 171 | 3,422 |
| **Total** | **19,947** | **975** | **(4,410)** | **(11,387)** | **(499)** | **4,626** |

**Toumaz** – During the year, the Group's investment in Toumaz was disposed of for £3,156,000. Mark to market revaluations before the disposal of shares, and the disposal of shares themselves resulted in a recycling of £305,000 credit through the consolidated statement of comprehensive income, with the balancing amount being taken as a loss through the consolidated income statement.

**Blu-Wireless** – At balance sheet date the carrying value was deemed to be unsupportable, and was written down to nil through the consolidated income statement, with any balance in reserves being recycled through the consolidated statement of comprehensive income.

**7digital** – The Group received additional shares in exchange for director's fees. The majority of shares in 7digital were disposed of during the year for £908,000, resulting in a loss being recognised in the consolidated income statement. The remaining shares were not able to be sold as they are currently held in trust. The remaining shares were revalued using the quoted share price of 7digital at the reporting date.

**Ineda** – At balance sheet date the carrying value was deemed to be unsupportable, and was written down to nil through the consolidated income statement, with any balance in reserves being recycled through the consolidated statement of comprehensive income.

**Onkyo** – During the year, the Group's investment in Onkyo was disposed of for £346,000. As a result of the disposal, any balance in reserves was recycled through the consolidated statement of comprehensive income, with the balancing amount being taken as a loss through the consolidated income statement.

**NetSpeed** – At the balance sheet date a gain of £52,000 arose due to foreign exchange movements and this has been recognised in the consolidated statement of comprehensive income.

**Atomos** – At the balance sheet date a gain of £171,000 arose due to foreign exchange movements and this has been recognised in the consolidated statement of comprehensive income.

All gains and impairment charges relating to trade investments classified as available for sale relate to the Corporate business unit.

All Gains and losses for the period recognised in the consolidated income statement are included within the 'gain on investments' and 'impairment of investments' rows within the consolidated income statement. All gains or losses for the period recognised in other comprehensive income are included within the 'change in fair value of assets classified as available for sale' row within the statement of comprehensive income.

Please see note 22 for further information surrounding fair value valuation principles. The directors have considered the sensitivity of the unobservable inputs used and do not believe that any reasonably foreseeable changes to these inputs would result a material change to fair value of the investments.

# 11 Inventories

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Raw materials and components | **48** | 712 |
| Finished goods | **172** | 7,189 |
| | **220** | 7,901 |

Provisions of £323,000 (2015: £1,952,000) recognised in operating expenses were made against inventories. During the period, £1,444,000 (2015: £1,322,000) of the provision against inventories was utilised for the write-down and write off of inventories. As at 30 April 2016 the provision for obsolescence of inventories was £84,000 (2015: £2,115,000).

Raw materials, consumables and changes in finished goods and work in progress recognised as operating expenses in the period amounted to £77,000 (2015: £16,960,000).

All finished goods and work in progress associated with the Pure business unit is now included with Assets held for resale (see note 18).

# 12 Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Trade receivables | **10,452** | 21,142 |
| Accrued income | **29,695** | 44,840 |
| Prepayments | **3,933** | 5,416 |
| Other receivables | **1,956** | 2,928 |
| R&D credit receivable | **8,080** | 7,524 |
| | **54,116** | 81,850 |

Provision for impairment of trade receivables as at 30 April 2016 was £948,000 (2015: £189,000), with the movement recognised in the income statement during the period.

In addition to the above provision, the Group wrote off £1,580,000 of bad debts during the year (2015: £nil), with the cost recognised in the income statement.

# 13 Cash and cash equivalents

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash at bank – current account | **5,820** | 2,651 |
| Cash and cash equivalents as per consolidated statement of financial position | **5,820** | 2,651 |
| Cash and cash equivalents as per consolidated statement of cash flows | **5,820** | 2,651 |

# 14 Trade and other payables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Trade payables | **5,731** | 8,428 |
| Other taxes and social security | **4,394** | 1,972 |
| Other payables | **2,837** | 2,011 |
| Accruals | **11,078** | 14,658 |
| Deferred income | **13,548** | 10,072 |
| Deferred and contingent consideration | **2,226** | 2,757 |
| | **39,814** | 39,898 |

There is £1,713,000 (2015: £544,000) relating to liabilities owed under a finance lease that is due within 12 months. The corresponding asset has been identified and disclosed in note 8.

The deferred and contingent consideration is in respect of the acquisitions of HelloSoft, Inc. (£45,000) and Posedge, Inc. (£2,181,000) and represents an assessment of probable future consideration, converted using the period end exchange rate, due within 12 months based on contractual payment dates.

# 15 Provisions

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Restructuring provision | **872** | - |
| Onerous revenue contract provision | **6,182** | - |
| Other | **3,775** | 660 |
| | **10,829** | 660 |

| | Restructuring provision £'000 | Onerous revenue contract provision £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 May 2015 | - | - | 660 | 660 |
| Additional provision in the year | 872 | 6,182 | 3,346 | 10,400 |
| Utilisation of provision | - | - | (231) | (231) |
| At 30 April 2016 | | | | |
| | 872 | 6,182 | 3,775 | 10,829 |

Restructuring provisions relate to the expected costs of redundancies that were announced prior to the year end. These will be utilised in the next financial year.

Onerous revenue contracts relate to expected losses on specific customer contracts. The provision is based on the estimated costs to complete exceeding the total contract revenue, and therefore full provision has been made for the expected loss. The group expects all of the remaining deliverables on these contracts to be finalised in the next financial year.

Other provisions include those for specific employee benefits and legal costs.

Also included in other provisions are onerous property provisions that principally relate to onerous lease contracts due to empty office space created by the ongoing review and rationalisation of the Group's property portfolio. Utilisation of the provision will be over the anticipated life of the leases or earlier if exited.

The group does not consider that discounting of these amounts to be material based on the expected maturity profile of the provisions.

Of the total amount provided, £1,893,000 (2015: £500,000) is expected to fall due after more than one year and has shown as a non-current liability.

# 16 Interest bearing loans and borrowings

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current liabilities** | | |
| Revolving credit facility | **16,000** | 5,000 |
| Bank loan | **22,789** | 3,251 |
| **Non-current liabilities** | | |
| Bank loan | - | 21,650 |
| | **38,789** | 29,901 |
| Borrowings to be repaid within one year | **38,789** | 8,251 |
| Borrowings to be repaid between one and five years | - | 21,650 |
| Borrowings to be repaid over five years | - | - |
| | **38,789** | 29,901 |

In February 2013, the Group drew down a $48,000,000 term loan which was used to part fund the acquisition of MIPS Technologies, Inc. On 17 June 2014, the Group completed a re-negotiation of the terms of the above loan. Under the revised terms the remaining loan balance is repayable in seven six monthly instalments of $2,500,000 between December 2014 and December 2017, with a final bullet payment of $23,300,000 due in June 2018. The loan is currently subject to variable quarterly interest payments at a rate of 2.5% above 3 month LIBOR on the outstanding balance.

At the balance sheet date the Group's bank loan equated to £22,789,000 (2015: £24,901,000), which is due within one year (2015: £3,251,000, with £21,650,000 due after one year but less than five years).

The loan is secured by a debenture dated March 2013 which gives HSBC Bank plc a fixed and floating charge over the assets of the Company and its principal subsidiary Imagination Technologies Limited. The bank also has a legal charge over freehold land and buildings (including the investment property) owned by the Group, which have a net book value of £55,037,000 (2015: £51,942,000).

On 30 April 2016, the Group breached one of the financial covenants associated with the terms of the lending agreement. Accordingly, all amounts are shown as current liabilities at this date. Subsequent to year end, the lender agreed to waive this breach and reset the covenants. Further information is given in Note 1.

# 17 Other payables

## Other non-current payables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Other payables | **6,305** | 1,903 |
| Deferred income | **853** | 833 |
| Deferred and contingent consideration | - | 1,396 |
| | **7,158** | 4,132 |

Contained within other payables is £4,956,000 (2015: £1,089,000) due after 12 months relating to liabilities owed under a finance lease. The corresponding asset has been identified and disclosed in note 8.

# 18 Assets and liabilities held for sale

During the year the trade and assets of the Pure and IMG Systems BUs were made available for sale. As at 30 April 2016, the relevant assets and liabilities of these BUs have been reclassified as assets and liabilities held for sale

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Pure £'000 | IMG Systems £'000 | Total £'000 | Total £'000 |
| **Assets held for sale** | | | | |
| Intangible assets – software, patents & trademarks | 118 | – | 118 | – |
| Tangible assets – plant & equipment | 249 | – | 249 | – |
| Inventories | 2,613 | – | 2,613 | – |
| Trade debtors | 2,202 | – | 2,253 | – |
| Prepayments | 22 | 51 | 22 | – |
| | **5,204** | **51** | **5,255** | **-** |
| **Liabilities held for sale** | | | | |
| Trade creditors | 846 | 99 | 945 | – |
| Accruals | 3,922 | 1,445 | 5,367 | – |
| | **4,768** | **1,544** | **6,312** | **-** |

# 19 Capital and reserves

## Called-up share capital

| | Allotted, called-up and fully paid | |
|---|---|---|
| Ordinary shares of 10p each | No. | £'000 |
| At 1 May 2015 | 271,623,108 | 27,162 |
| Issued during period | 5,003,743 | 501 |
| At 30 April 2016 | **276,626,851** | **27,663** |

The rights attached to ordinary shares are as set out in the Directors' report on page 28.

## Share capital and share premium

The movement on the share capital and share premium reserve in the period arises from the issue of 5,003,743 ordinary shares as follows:

- Issue of 515,684 shares to settle deferred acquisition consideration liability of £1,197,000. This increased share capital by £52,000 and share premium by £1,145,000.
- Issue of 283,053 shares relating to share options. Cash consideration of £184,000 was received in lieu of these options. Share capital increased by £28,000 and share premium by £156,000 as a result.
- 3,199,094 fully paid shares were issued at nil cost pursuant to the terms of various Employee Share Option Schemes. £320,000 relating to these shares was debited to reserves.
- 885,339 shares were issued during the year relating to the 'free share' element of the SIP awards in July 2015 and January 2016. The shares will be held in trust until at least July 2018 and January 2019 respectively – the earliest date they are available to employees. £89,000 relating to these shares was debited to reserves.
- 120,573 shares were issued during the year relating to the 'matching' element of SIP 'partnership' shares purchased by employees. £12,000 relating to these shares was debited to reserves.

## Other capital reserve

The balance on the other capital reserve reflects the value of warrants issued in respect of the acquisition of Ensigma Limited in March 2000.

## Merger reserve

The merger reserve arose in the Group reconstruction in 1994 prior to its flotation.

### Revaluation reserve

The revaluation reserve comprises the cumulative net change in the fair value of the trade investments classified as available for sale until the investments are derecognised.

### Translation reserve

The translation reserve reflects the exchange differences from retranslation of the opening net investments in overseas subsidiaries to closing rate.

# 20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Land and buildings | | Other | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Within one year | **3,273** | 3,793 | **4,669** | 9,320 |
| In two to five years | **6,682** | 8,261 | **10,851** | 4,203 |
| After five years | **1,600** | 2,137 | **-** | - |
| | **11,555** | 14,191 | **15,520** | 13,523 |

Other operating leases include the rental of software and vehicles.

# 21 Capital commitments

At 30 April 2016, the Group had contractual capital commitments of £15,000 (2015: of £11,059,000).

# 22 Financial instruments

### Overview

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

### Categories of financial instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial assets, financial liability and equity instrument are disclosed in note 1 to the financial statements.

| | Notes | **2016 £'000** | 2015 £'000 |
|---|---|---|---|
| Financial assets | | | |
| Loans and receivables | | | |
| Trade and other receivables | 12 | **23,726** | 31,594 |
| Cash and cash equivalents | 13 | **5,820** | 2,651 |
| Assets held for sale | 18 | **5,255** | - |
| Available for sale investments | 10 | **4,626** | 19,947 |
| **Total financial assets** | | **39,427** | 54,192 |

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| Financial liabilities | | | |
| Borrowings | 16 | **38,789** | 29,901 |
| Trade and other payables | 14 | **25,376** | 15,168 |
| *Liabilities held for sale* | 18 | **6,312** | – |
| Non-current payables | 17 | **5,427** | 4,132 |
| **Total financial liabilities** | | **75,904** | 49,201 |

## Market risk

Market risk is the risk that changes in the market prices, such as foreign currency exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

**a) Foreign currency risk**

The Group transacts licence and development agreements with customers and purchases of products for Pure primarily in US Dollars and, therefore, the Group's earnings are exposed to fluctuations in foreign exchange rates. The Group reviews its foreign exchange exposure on a regular basis and, if there is a material exposure to exchange rate fluctuations and the Board considers it appropriate, the Group will reduce the risk by currency hedging on net receivable/payable balances. Forward exchange contracts are entered into with the objective of matching their maturity with currency receipt. During the period the total value of currency contracts entered into amounted to $56,000,000 or £36,041,000 (2015: £36,702,000). As at 30 April 2016 the outstanding currency contracts amounted to £9,827,000 (2015: £21,508,000). The fair value of these outstanding currency contracts was £235,000 loss (2015: £182,000 loss). The movement in fair value of £53,000 has been recognised within finance income in the period.

The analysis of financial assets and liabilities by foreign currency is as follows irrespective of the functional currency of the transacting entity:

| | 30 April 2016 | | | | | 30 April 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **£** | **$** | **€** | **Other** | **Total** | £ | $ | € | Other | Total |
| Trade receivables | **535** | **9,917** | **-** | **-** | **10,452** | 1,299 | 19,136 | 464 | 243 | 21,142 |
| Other receivables | **12,269** | **340** | **2** | **663** | **13,274** | 9,625 | 377 | 6 | 444 | 10,452 |
| Cash and cash equivalents | **2,897** | **142** | **911** | **1,870** | **5,820** | (4,521) | 3,532 | 691 | 2,949 | 2,651 |
| Assets held for sale | **4,350** | **124** | **783** | **(2)** | **5,255** | – | – | – | – | – |
| Available for sale investments | **109** | **4,517** | **–** | **–** | **4,626** | 10,760 | 8,798 | – | 389 | 19,947 |
| Trade payables | **(2,139)** | **(3,428)** | **(57)** | **(107)** | **(5,731)** | (5,044) | (2,987) | (91) | (306) | (8,428) |
| Other payables | **(6,889)** | **(11,222)** | **(121)** | **(1,413)** | **(19,645)** | (2,523) | (3,863) | (64) | (290) | (6,740) |
| Liabilities held for sale | **(5,283)** | **(598)** | **(398)** | **(33)** | **(6,312)** | – | – | – | – | – |
| Borrowings | **(16,000)** | **(22,789)** | **–** | **–** | **(38,789)** | (5,000) | (24,901) | – | – | (29,901) |
| Non-current payables | **-** | **(5,427)** | **-** | **–** | **(5,427)** | – | (4,132) | – | – | (4,132) |
| | **(10,151)** | **(28,424)** | **1,120** | **978** | **(36,477)** | 4,596 | (4,040) | 1,006 | 3,429 | 4,991 |

The significant foreign exchange risks for the Group are USD receivables of £7,133,000 held by Imagination Technologies Limited and Imagination Technologies AB and the USD loan of £22,789,000 held by Imagination Technologies plc. The majority of the other assets and liabilities are held within foreign subsidiaries in the respective local currencies.

The Group has a number of overseas business operations and operates in a number of foreign currencies which give rise to transactional and translational foreign exchange risk. The most important foreign currency to the Group is the US Dollar.

## Foreign currency sensitivity analysis

The Group transacts a large proportion of its revenues and costs in US Dollars. Taking all income and expenditure in US Dollars into account, management have appraised that for the financial year to 30 April 2016, each additional one cent increase or decrease in the US Dollar exchange rate against Sterling would have decreased or increased revenues by circa £823,000 (2015: £1,002,000) and profit by circa £287,000 (2015: £524,000).

**b) Interest rate risk**

The Group's earnings may be affected by changes in interest rates available on bank deposits. The Group aims to maximise returns from funds held on deposit and uses market deposits with major clearing banks accordingly. With the current level of bank deposits, the impact of a change in interest rates is not considered material.

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their average effective interest rate at the reporting date and the periods in which they mature or, if earlier, reprice.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Effective interest rate** | **< 1 year £'000** | **> 1 year £'000** | **Total £'000** | Effective interest rate | < 1 year £'000 | > 1 year £'000 | Total £'000 |
| **Cash and cash equivalents** | | | | | | | | |
| Sterling | | **2,897** | **-** | **2,897** | | (4,521) | - | (4,521) |
| US Dollar | | **142** | **-** | **142** | | 3,532 | - | 3,531 |
| Euro | | **911** | **-** | **911** | | 691 | - | 691 |
| Japanese Yen | | **255** | **-** | **255** | | 151 | - | 151 |
| Indian Rupee | | **595** | **-** | **595** | | 1,222 | - | 1,222 |
| Chinese Yuan | | **310** | **-** | **310** | | 773 | - | 773 |
| Polish Zloty | | **102** | **-** | **102** | | 76 | - | 76 |
| New Zealand Dollar | | **41** | **-** | **41** | | 56 | - | 56 |
| Australian Dollar | | **122** | **-** | **122** | | (45) | - | (45) |
| Swedish Krona | | **183** | **-** | **183** | | 423 | - | 423 |
| Korean Won | | **58** | **-** | **58** | | 50 | - | 50 |
| New Taiwan Dollar | | **179** | **-** | **179** | | 214 | - | 215 |
| Israeli Shekel | | **25** | **-** | **25** | | 29 | - | 29 |
| | | 5,820 | - | 5,820 | | 2,651 | - | 2,651 |
| Floating rate | 0.0% | 5,820 | - | 5,820 | 0.0% | 2,651 | - | 2,651 |
| Fixed rate | | - | - | - | | - | - | - |
| | | 5,820 | - | 5,820 | | 2,651 | - | 2,651 |
| **Bank Loan** | | | | | | | | |
| RCF draw down* | **3.1%** | **(16,000)** | **-** | **(16,000)** | 1.3% | (5,000) | - | (5,000) |
| Secured bank loan – USD* | **3.1%** | **(22,789)** | **-** | **(22,789)** | 1.3% | (3,251) | (21,650) | (24,901) |
| | | **(38,789)** | **-** | **(38,789)** | | (8,251) | (21,650) | (29,901) |

* At floating rate. See note 16 for details.

Floating rate cash earns interest based on LIBID equivalents.

Short term receivables and payables are not interest bearing with the exception of the short term element of the long term loan.

The loan floats at 2.5% above quarterly LIBOR and the unexpired term is 2 years and 2 months.

## Interest rate sensitivity analysis

In the financial year to 30 April 2016, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's profit would have been decreased by circa £788,000 (2015: decreased by circa £10,000). Similarly, if interest rates had been 100 basis points lower and all other variables were held constant, the Group's profit would have been increased by circa £412,000 (2015: increased by circa £70,000).

## Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment of liquid funds.

The Group limits its exposure to credit risk by only investing in liquid securities and only with counter parties that have a high credit rating.

## Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders as well as sustaining the future development of the business. In order to maintain or adjust the capital structure, the Group may consider the total amount of dividends paid to shareholders, return capital to shareholders, issued new shares or sell assets to reduce debt. The Group's overall strategy remains unchanged from the previous financial year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity attributable to the parent. The latter comprises share capital, reserves and retained earnings as disclosed in note 19 and the consolidated statement of changes in equity. The CFO regularly monitors the capital risk on behalf of the Board.

## Trade receivables

The exposure to credit risk is mitigated by selling to a diverse range of customers. The Group has implemented policies that require appropriate credit checks on potential customers prior to sales taking place. At the balance sheet date there were no significant concentrations of credit risk either by customer or by geography. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

| Ageing of trade receivables: | Gross 2016 £'000 | Impairment 2016 £'000 | Gross 2015 £'000 | Impairment 2015 £'000 |
|---|---|---|---|---|
| Not past due | **9,348** | **(747)** | 10,810 | - |
| Past due 0-90 days | **1,685** | **-** | 4,527 | - |
| Past due greater than 90 days | **230** | **(64)** | 5,994 | (189) |
| | **11,263** | **(811)** | 21,331 | (189) |

Trade receivables that are less than three months overdue are generally not considered impaired. Receivables more than three months overdue are considered on a line by line basis and a provision is made where recovery is considered doubtful.

No other financial assets are past due.

## Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. To minimise this risk the Group only invests funds in liquid securities. As a contingency, the Group maintains a £3 million overdraft and £35 million revolving credit facility.

The following table is drawn up based on undiscounted contractual maturities including both interest and principal cashflows.

| April 2016 | Carrying amount £'000 | Contractual cashflows £'000 | Less than 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | More than 5 years £'000 |
|---|---|---|---|---|---|---|
| Bank loan | **22,789** | **22,789** | **22,789** | - | - | - |
| RCF draw down | **16,000** | **16,000** | **16,000** | - | - | - |
| Trade and other payables | **25,376** | **25,376** | **25,376** | - | - | - |
| Liabilities held for sale | **6,312** | **6,312** | **6,312** | - | - | - |
| Non-current payables | **5,427** | **5,427** | **5,427** | | | |
| | **75,904** | **75,904** | **75,904** | - | - | - |

| April 2015 | Carrying amount £'000 | Contractual cashflows £'000 | Less than 1 year £'000 | 1-2 years £'000 | 2-5 years £'000 | More than 5 years £'000 |
|---|---|---|---|---|---|---|
| Bank loan | 24,901 | 24,901 | 3,251 | 3,251 | 18,399 | - |
| RCF draw down | 5,000 | 5,000 | 5,000 | | | |
| Trade and other payables | 15,168 | 15,168 | 15,168 | - | - | - |
| Non-current payables | 4,132 | 4,132 | 833 | 2,632 | 667 | - |
| | 49,201 | 49,201 | 24,252 | 5,883 | 19,066 | - |

## Fair values of financial instruments

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between two informed and willing parties and is calculated by reference to market rates discounted to current value.

| | Notes | 2016 Carrying amount and fair value £'000 | 2015 Carrying amount and fair value £'000 |
|---|---|---|---|
| **Financial assets:** | | | |
| Trade and other receivables | 12 | **23,726** | 31,594 |
| Cash and cash equivalents | 13 | **5,820** | 2,651 |
| Assets held for sale | 18 | **5,255** | - |
| Available for sale investments | 10 | **4,626** | 19,947 |
| ***Financial liabilities:*** | | | |
| Borrowings | 16 | **(38,789)** | (29,901) |
| Trade and other payables | 14 | **(25,376)** | (15,168) |
| Liabilities held for sale | 18 | **(6,312)** | - |
| Non-current payables | 17 | **(5,427)** | (4,132) |

Assumptions used in estimating the fair values of financial instruments reflected in the table above:

**Cash and cash equivalents**

*The fair value approximates to book value due to the short term maturity of these instruments.*

**Available for sale investments**

**Fair value hierarchy**

The Group measures the fair value of available for sale investments using the following hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted market price (unadjusted) in an active market for an identical financial instrument.

Level 2: Valuation techniques based on observable inputs, such as market prices for similar financial instruments.

Level 3: Valuation techniques using unobservable inputs which can have a significant effect on the instrument's valuation.

The Group has applied the above hierarchy to its investments as follows:

7digital – the valuation is based on the quoted share price for 7digital Group plc on AIM. This investment is categorised as Level 1.

NetSpeed – the valuation is based on the purchase price of the investment which was acquired during the year. This investment is categorised as Level 3.

Atomos – the valuation is based on the purchase price of the investment. This investment is categorised as Level 3.

The following table analyses investments, measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Level 1 | **109** | 10,840 |
| Level 2 | **-** | - |
| Level 3 | **4,517** | 9,107 |
| | **4,626** | 19,947 |

The following table shows a reconciliation from opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

| | **£'000** |
|---|---|
| At 30 April 2015 | 9,107 |
| Investment in the year | 1,822 |
| Total gains and losses: | |
| In income statement | (5,596) |
| In other comprehensive income | (816) |
| Disposals | - |
| **At 30 April 2016** | **4,517** |

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The valuation of NetSpeed and Atomos is based on the purchase price of the investment at the most recent funding rounds and any changes in the intervening period to 30 April 2016 are not materially different to these valuations.

## Long term borrowings

The fair value approximates to book value as this instrument is at a variable interest rate.

# 23 Contingent liabilities

The Group had no contingent liabilities at 30 April 2016.

At 30 April 2015, there was a contingent liability relating to an Internal Revenue Service ('IRS') audit of the MIPS Technologies Inc. (now Imagination Technologies LLC) tax returns for the tax periods ending 30 June 2012, 30 June 2013 and 31 December 2013. The progression of the audit has enabled specific corporate tax provisions to be made as at 30 April 2016. These are included within the corporate tax labilities disclosed on the Consolidated statement of financial position.

# 24 Employee benefits

## Pension

The Company participates in a group personal pension plan with defined contributions. The assets of the schemes are held separately in independently administered funds. There were no outstanding contributions at the balance sheet date.

## Share-based payments

### Share options

The following options have been granted under the Imagination Technologies Key Employee Share Option Schemes, Savings Related Share Option Scheme and Long Term Incentive Plan and remain outstanding as at 30 April 2016:

| Year of Issue | Outstanding at 30 April 2016 | Exercise price | Date from which first exercisable | Expiry date |
|---|---|---|---|---|
| 2006 | 90,000 | 55p | 2009 | 2016 |
| 2012 | 95,519 | 381.2p | 2015 | 2016 |
| 2013 | 412,320 | 228p | 2016 | 2017 |
| Sub-total of options with exercise price | 597,839 | | | |

| Year of Issue | Outstanding at 30 April 2016 | Exercise price | Date from which first exercisable | Expiry date |
|---|---|---|---|---|
| 2008 | 385,191 | 0p | 2011 | 2016 |
| 2009 | 129,582 | 0p | 2012 | 2017 |
| 2009 | 1,274,494 | 0p | 2012 | 2017 |
| 2010 | 357,196 | 0p | 2013 | 2018 |
| 2010 | 37,371 | 0p | 2012 | 2017 |
| 2010 | 67,644 | 0p | 2013 | 2018 |
| 2011 | 686,554 | 0p | 2014 | 2019 |
| 2011 | 676,597 | 0p | 2014 | 2019 |
| 2012 | 842,214 | 0p | 2015 | 2020 |
| 2012 | 311,659 | 0p | 2015 | 2020 |
| 2012 | 922,270 | 0p | 2015 | 2020 |
| 2013 | 1,751,787 | 0p | 2016 | 2021 |
| 2013 | 1,683,796 | 0p | 2016 | 2021 |
| 2013 | 267,402 | 0p | 2016 | 2021 |
| 2014 | 1,474,431 | 0p | 2017 | 2022 |
| 2014 | 214,896 | 0p | 2017 | 2022 |
| 2014 | 945,926 | 0p | 2017 | 2022 |
| 2014 | 215,504 | 0p | 2017 | 2022 |
| 2015 | 2,518,507 | 0p | 2018 | 2023 |
| 2015 | 229,699 | 0p | 2018 | 2023 |
| 2015 | *354,836 | 0p | 2018 | 2023 |
| 2016 | 1,846,235 | 0p | 2019 | 2024 |
| 2016 | 201,117 | 0p | 2019 | 2024 |
| 2016 | *1,228,505 | 0p | 2019 | 2024 |
| Sub-total of nil cost options | 18,623,413 | | | |
| | 19,221,252 | | | |

*Options granted under the Long Term Incentive Plan.

The number and weighted average exercise prices of share options are as follows:

| Year of Issue | Weighted average exercise price 2016 | Number of options 2016 | Weighted average exercise price 2015 | Number of options 2015 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | **213p** | **1,242,887** | 200p | 2,242,572 |
| Exercised during the period | **65p** | **(283,053)** | 65p | (498,361) |
| Granted during the period | **–** | **–** | – | – |
| Lapsed during the period | **305p** | **(361,995)** | 301p | (501,324) |
| Outstanding at the end of the period | **226p** | **597,839**** | 213p | 1,242,887** |
| Exercisable at the end of the period | **223p** | **185,519** | 160p | 549,097 |

The average share price during the year was 197.71p (2015: 214.13p).

The options outstanding at the year end have an exercise price in the range of 0p to 381.2p and a weighted average contractual life of 1.1 years.

**Excludes 18,623,413 nil cost options. Movements of which are shown with share awards below.

### Employee Share Plan

The following awards have been granted under the Imagination Technologies Employee Share Plan and remain outstanding at 30 April 2016:

| Year of Issue | Outstanding at 30 April 2016 | Date from which first exercisable | Expiry date |
|---|---|---|---|
| 2012 | 833 | 2014 | 2016 |
| 2014 | 350,749 | 2017 | 2017 |
| 2014 | 30,000 | 2017 | 2017 |
| 2014 | 389,690 | 2017 | 2018 |
| 2015 | 652,366 | 2018 | 2018 |
| 2016 | 575,538 | 2019 | 2019 |
| 2014 | 632,473 | 2017 | * None |
| 2015 | 315,026 | 2018 | * None |
| 2015 | 109,834 | 2018 | * None |
| 2016 | 109,484 | 2019 | * None |
| 2016 | 535,783 | 2019 | * None |
| | **3,701,776** | | |

* These shares have been awarded under the Group's Share Incentive Plan ('SIP').

The movements in nil cost share options and share awards are as follows:

| Year of Issue | Number of share awards and options 2016 | Number of share awards and options 2015 |
|---|---|---|
| Outstanding at the beginning of the period | **19,452,803** | 17,667,449 |
| Exercised during the period | **(3,433,827)** | (1,827,766) |
| Granted during the period | **9,666,851** | 6,040,724 |
| Lapsed during the period | **(3,360,638)** | (2,427,604) |
| Outstanding at the end of the period | **22,325,189** | 19,452,803 |
| Exercisable at the end of the period | **5,691,605** | 6,080,076 |

As at 30 April 2016 1,867,924 (2015: 2,122,071) shares are held by the Company's Employee Benefit Trust, and 1,945,009 shares (2015 733,972 shares) relating to the Company's Share Incentive Plan ('SIP') are held by the Company's registrars.

In accordance with IFRS 2, the fair value of services received in return for share options and employee share plan awards granted to employees is measured by reference to the fair value of share options and employee share plan awards granted. The estimate of the fair value of the services is measured based on the Black-Scholes or Monte Carlo Simulation models, financial models used to calculate the fair value of options and awards under the employee share plan.

The assumptions used in the calculation of the fair value of options are set out below:

| Date of share option grant | Jun 2012 | Nov 2012 | Dec 2012 | Jun 2013 | Jun 2013 | Sep 2013 | Sep 2013 | Sep 2013 | Oct 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 466.6 | 467.0 | 409.2 | 287.4 | 287.4 | 351.2 | 351.2 | 351.2 | 293.5 |
| Exercise price (pence) | – | 381.2 | – | – | – | – | – | – | 228.0 |
| Expected volatility | 51.2% | 51.0% | 50.7% | 51.5% | 51.5% | 52.8% | 50.9% | 57.3% | 53.1% |
| Risk free interest rate | 0.38% | 0.35% | 0.39% | 0.62% | 0.62% | 0.86% | 1.33% | 1.67% | 0.78% |
| Time to maturity (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Fair value per option (pence) | 333.6 | 233.0 | 300.8 | 28.3 | 287.4 | 262.0 | 261.1 | 351.2 | 130.6 |

| Date of share option grant | Dec 2013 | Dec 2013 | Jun 2014 | Jun 2014 | Oct 2014 | Oct 2014 | Oct 2014 | Dec 2014 | Dec 2014 |
|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 162.3 | 162.3 | 224.8 | 224.8 | 204.8 | 204.8 | 204.8 | 230.0 | 230.0 |
| Exercise price (pence) | – | – | – | – | – | – | – | – | – |
| Expected volatility | 54.9% | 54.9% | 55.8% | 55.8% | 54.6% | 5.5% | 5.1% | 53.4% | 53.4% |
| Risk free interest rate | 0.85% | 0.85% | 1.47% | 1.47% | 1.11% | 1.00% | 1.00% | 0.73% | 0.73% |
| Time to maturity (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Fair value per option (pence) | 162.3 | 79.6 | 224.8 | 129.1 | 204.8 | 143.5 | 142.1 | 230.0 | 143.2 |

| Date of share option grant | July 2015 | July 2015 | Dec 2015 | Dec 2015 | Jan 2016 | Jan 2016 | Feb 2016 | Feb 2016 | Feb 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 223.0 | 223.0 | 135.0 | 135.0 | 136.0 | 136.0 | 143.0 | 143.0 | 143.0 |
| Exercise price (pence) | – | – | – | – | – | – | – | – | – |
| Expected volatility | 52.1% | 52.1% | 52.8% | 52.8% | 54.8% | 54.8% | 54.6% | 54.6% | 54.6% |
| Risk free interest rate | 0.84% | 0.84% | 0.85% | 0.85% | 0.65% | 0.65% | 0.36% | 0.36% | 0.36% |
| Time to maturity (years) | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Fair value per option (pence) | 223.0 | 130.0 | 135.0 | 62.0 | 136.0 | 64.0 | 143.0 | 98.0 | 97.0 |

The assumptions used in the calculation of the fair value of the employee share plan awards are set out below:

| Date of ESP grant | Jun 2012 | Oct 2012 | Oct 2012 | Dec 2012 | Jan 2013 | Jun 2013 | Dec 2013 | Jun 2014 |
|---|---|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 466.6 | 456.6 | 456.6 | 409.2 | 464.5 | 287.4 | 162.3 | 224.8 |
| Expected volatility | 51.2% | 54.0% | 51.1% | 50.7% | 51.1% | 51.5% | 54.9% | 55.8% |
| Risk free interest rate | 0.38% | 0.26% | 0.32% | 0.39% | 0.45% | 0.62% | 0.85% | 1.47% |
| Time to maturity (years) | 3 | 2 | 3 | 3 | 3 | 3 | 3 | 3 |
| Fair value per option (pence) | 333.6 | 321.3 | 343.5 | 300.8 | 264.0 | 287.4 | 162.3 | 224.8 |

| Date of ESP grant | Dec 2014 | Dec 2014 | July 2015 | July 2015 | Jan 2016 | Jan 2016 |
|---|---|---|---|---|---|---|
| Share price at grant date (pence) | 230.0 | 230.0 | 223.0 | 223.0 | 136.0 | 136.0 |
| Expected volatility | 53.4% | n/a | 52.1% | n/a | 54.8% | n/a |
| Risk free interest rate | 0.73% | n/a | 0.84% | n/a | 0.65% | n/a |
| Time to maturity (years) | 3 | 3 | 3 | 3 | 3 | 3 |
| Fair value per option (pence) | 230.0 | 230.0 | 223.0 | 223.0 | 136.0 | 136.0 |

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

**Share-based payments for the year**

Share-based payments for the current and prior year are:

| Year of Award | 2016 £'000 | 2015 £'000 |
|---|---|---|
| 2009/10 | - | 141 |
| 2011/12 | - | 1,520 |
| 2012/13 | **548** | 5,290 |
| 2013/14 | **2,062** | 3,159 |
| 2014/15 | **2,610** | 1,853 |
| 2015/16 | **2,530** | - |
| | **7,750** | 11,963 |

The future estimated expense for share award schemes outstanding at 30 April 2016 is:

| Year of Award | 2016 £'000 | 2015 £'000 |
|---|---|---|
| To be incurred within one year | **8,459** | 8,529 |
| To be incurred after one year | **6,146** | 5,843 |
| | **14,605** | 14,372 |

A deferred tax asset of £2,206,000 (2015: £3,428,000) has been recognized relating share-based payments (note 5). It arises from the potential future tax benefit on the exercise of incentives.

# 25 Related parties

## Identity of related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

## Transactions with stakeholders deemed to be related party under IAS24

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Consolidated Income Statement** | | |
| Revenue - Ineda | **175** | 381 |
| Revenue - Toumaz | **1,501** | 2,870 |
| | **1,676** | 3,251 |
| **Statement of Financial Position** | | |
| Trade Debtors - Ineda | - | 130 |
| Trade Debtors - Toumaz | **940** | 21 |
| | **940** | 151 |

Toumaz and Ineda are both deemed to be related parties under IAS24 due to the provision of key management services between the respective entities and Imagination Technologies Group plc.

## Transactions with key management personnel

Key management personnel comprise the directors. In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to post-employment benefit schemes on their behalf. Directors also participate in the Group's share incentive programmes. The share based payments are valued at their fair value at the date of grant. Full details of directors' compensation, including post-employment benefits is given in the Directors' remuneration report on pages 48 to 65.

The key management personnel compensations are as follows:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Emoluments | **892** | 1,124 |
| Pension contributions | **61** | 46 |
| Share based payments* | **(854)** | 848 |
| | **99** | 2,018 |

* During the year, there was forfeiture of share awards for key management personnel resulting in a credit in the overall share based remuneration charge in the consolidated income statement.

Additional details of all key management's interests in the Company's shares and share options are set out in the Directors' remuneration report on pages 48 to 65.

# 26 Subsidiaries

Details of the Group's related undertakings, which are involved in the licensing of the design of multimedia technology and the sale of multimedia products, are as follows:

| Name of subsidiary undertaking | Country of incorporation and of operation | Type of shares | Percentage of issued share capital held |
|---|---|---|---|
| Imagination Technologies Limited | UK | Ordinary | 100% |
| PowerVR Technologies Limited* | UK | Ordinary | 100% |
| Metagence Technologies Limited* | UK | Ordinary | **100% |
| Ensigma Technologies Limited* | UK | Ordinary | 100% |
| VideoLogic Systems Limited* | UK | Ordinary | 100% |
| Cross Products Limited* | UK | Ordinary | 100% |
| Pure Digital Limited* | UK | Ordinary | **100% |
| Imagination Technologies GmbH | Germany | Ordinary | **100% |
| Imagination Technologies, Inc. | US | Ordinary | **100% |
| Imagination Technologies KK | Japan | Ordinary | 100% |
| Imagination Technologies India Private Limited | India | Ordinary | **100% |
| Pure Australasia Pty Limited | Australia | Ordinary | **100% |
| Bristol Interactive Limited* | UK | Ordinary | **100% |
| Caustic Graphics, Inc. | US | Ordinary | **100% |
| HelloSoft, Inc. | US | Ordinary | 100% |
| Imagination Technologies AB | Sweden | Ordinary | 100% |
| Imagination Technologies Hyderabad Private Limited | India | Ordinary | **100% |
| Imagination Technologies NZ Limited | NZ | Ordinary | **100% |
| Imagination Technologies LLC. | US | Ordinary | **100% |
| MIPS Technologies International Limited | Cayman Islands | Ordinary | **100% |
| Imagination Technologies (Shanghai) Co. Ltd | China | Ordinary | **100% |
| Imagination Technologies B.V. (Netherlands) | Netherlands | Ordinary | **100% |
| Hellosoft Limited | UK | Ordinary | **100% |

All of the above companies are included in the Group financial statements. *non-trading **indirect holding

At the balance sheet date (and in the prior period), an entity of the group held an equity investment as set out below. Although the holding exceeds 20% of voting rights, the entity is not able to exert significant influence as defined under IAS 28, therefore the holding is classified as a trade investment in accordance with IAS 39.

| Name of company | Country of incorporation and of operation | Type of shares | Percentage of issued share capital held |
|---|---|---|---|
| (Atomos Group) Tetsuwan Pty Ltd | Australia | Ordinary | 20.7% |

# 27 Subsequent Events

After the balance sheet date, the Group announced that the IMGworks business unit will be divested during FY17.

# Imagination Technologies Group plc parent company balance sheet

| | Notes | As at 30 April 2016 £'000 | As at 30 April 2015 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment in subsidiary undertakings | 3 | **142,050** | 134,300 |
| **Current assets** | | | |
| Debtors (including £42,416,000 (2015: £37,899,000) due after more than one year) | 4 | **72,430** | 70,131 |
| Cash | | **807** | 343 |
| | | **73,237** | 70,474 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 5 | **(23,517)** | (3,535) |
| Net current assets | | **49,720** | 66,939 |
| Total assets less current liabilities | | **191,770** | 201,239 |
| **Non-current liabilities** | | | |
| Creditors: amounts falling due after one year | 5 | **-** | (21,903) |
| **Net assets** | | **191,770** | 179,336 |
| Capital and reserves | | | |
| Called up share capital | 8 | **27,660** | 27,162 |
| Share premium account | | **103,277** | 101,984 |
| Other capital reserve | | **1,423** | 1,423 |
| Share based payment reserve | | **67,741** | 59,991 |
| Retained earnings | | **(8,331)** | (11,224) |
| **Equity shareholders' funds** | 9 | **191,770** | 179,336 |

These financial statements were approved by the Board of Directors on 5 July 2016 and were signed on its behalf by:

**Guy Millward**
Director

# Statement of changes in equity

| | Share capital £'000 | Share premium £'000 | Other capital reserve £'000 | Share based payment reserve £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 May 2014 | 26,769 | 99,648 | 1,423 | 48,216 | (13,613) | 162,443 |
| Profit for the financial year | – | – | – | – | 3,019 | 3,019 |
| Issue of new shares | 393 | 2,328 | – | – | – | 2,721 |
| Shares issued at nil cost | – | – | – | – | (236) | (236) |
| Acquisition of own shares for LTIP | – | – | – | – | (394) | (394) |
| Share-based remuneration | – | – | – | 11,775 | – | 11,775 |
| At 30 April 2015 | 27,162 | 101,976 | 1,423 | 59,991 | (11,224) | 179,328 |
| At 1 May 2015 | **27,162** | **101,976** | **1,423** | **59,991** | **(11,224)** | **179,328** |
| Profit for the financial year | **-** | **-** | **-** | **-** | **3,303** | **3,303** |
| Issue of new shares | **498** | **1,301** | **-** | **-** | **-** | **1,799** |
| Shares issued at nil cost | **-** | **-** | **-** | **-** | **(410)** | **(410)** |
| Share-based remuneration | **-** | **-** | **-** | **7,750** | **-** | **7,750** |
| **At 30 April 2016** | **27,660** | **103,277** | **1,423** | **67,741** | **(8,331)** | **191,770** |

# 1 Accounting policies

The parent company financial statements present information about the Company as a separate entity and not about its Group.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

There are no new accounting policies which would have a significant impact in the current year.

## Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The following principal accounting policies have been applied consistently throughout the period and preceding year in dealing with items which are considered material in relation to the Company's financial statements. The financial statements are prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company made a profit for the year of £3,303,000 (2015: Profit £3,019,000).

## First time application of FRS 101

In the current year the company has adopted FRS 101. In previous years the financial statements were prepared in accordance with applicable UK accounting standards. This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with applicable UK accounting standards. Consequently the principal accounting policies are unchanged from the prior year. The change in basis of preparation has enabled the Company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with applicable UK accounting standards.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs;

As the consolidated financial statements of Imagination Technologies Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

## Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

## Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provisions for impairment.

Details of the Company's subsidiary undertakings are included in note 26 of the Group financial statements.

### Share based payment

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

As the Company grants options over its own shares to the employees of its subsidiaries, in accordance with UITF 44, it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

Transactions of the Company's Employee Benefit Trust are included in the Group's financial statements. In particular, the Trust's purchases and sales of shares in the Company are debited and credited directly to equity.

### Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

### Related parties

The Company has a related party relationship with its subsidiaries (see note 25) and with its Board of Directors (see the Directors' Remuneration Report on pages 48 to 65). Details of Remuneration of Key Management Personnel are disclosed in note 25.

## 2 Employees

The Company does not employ any staff.

Details of directors' remuneration are set out in the Directors' remuneration report on pages 48 to 65. The non-executive directors are remunerated by the Group.

## 3 Investments in subsidiary undertakings

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Cost and net book value** | | |
| At beginning of period | **134,300** | 122,798 |
| Reversal of deferred consideration | **-** | (272) |
| Addition - Share based payment to employees of subsidiary | **7,750** | 11,774 |
| At end of period | **142,050** | 134,300 |

## 4 Debtors

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Other debtors | **27** | 33 |
| Amounts owed by subsidiary undertakings | **29,987** | 32,199 |
| | **30,014** | 32,232 |

Additionally, £42,416,000 (2015: £37,899,000) is owed by subsidiary undertakings due after more than one year. The amounts in both years relate to inter-company loan notes which attract interest at rates between 6.96% and 8.01%.

# 5 Creditors: Amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Bank loan | **22,789** | 3,251 |
| Accruals and deferred income | **471** | – |
| Deferred and contingent consideration | **257** | 284 |
| | **23,517** | 3,535 |

In February 2013, the Group drew down a $48,000,000 term loan which was used to part fund the acquisition of MIPS Technologies, Inc. On 17 June 2014, the Group completed a re-negotiation of the terms of the above loan. Under the revised terms the remaining loan balance is repayable in seven six monthly instalments of $2,500,000 between December 2014 and December 2017, with a final bullet payment of $23,300,000 due in June 2018. The loan is currently subject to variable quarterly interest payments at a rate of 2.5% above 3 month LIBOR on the outstanding balance.

At the balance sheet date the Group's bank loan equated to £22,789,000 (2015: £24,901,000), which is due within one year (2015: £3,251,000, with £21,650,000 due after one year but less than five years).

The loan is secured by a debenture dated March 2013 which gives HSBC Bank plc a fixed and floating charge over the assets of the Company and its principal subsidiary Imagination Technologies Limited. The bank also has a legal charge over freehold land and buildings owned by the Group, which have a net book value of £55,037,000 (2015: £51,942,000).

On 30 April 2016, the Group breached one of the financial covenants associated with the terms of the lending agreement. Accordingly, all amounts are shown as current liabilities at this date. Subsequent to year end, the lender agreed to waive this breach and reset the covenants. Further information is given in Note 1 to the consolidated financial statements.

# 6 Operating leases

At 30 April 2016, the Company had no operating lease commitments (2015: £nil).

# 7 Capital commitments

At 30 April 2016, the Company had no capital commitments (2015: £nil).

# 8 Called-up share capital

Details of the Company's called-up share capital are shown in note 19 of the Group financial statements.

# 9 Reconciliation of movements in equity shareholders' funds

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Equity shareholders' funds at the start of the period | **179,336** | 162,443 |
| Profit for the financial year | **3,303** | 3,019 |
| Share-based remuneration | **7,750** | 11,775 |
| Issue of new shares | **1,381** | 2,099 |
| **Equity shareholders' funds at the end of the period** | **191,770** | 179,336 |

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