Imagination

Imagination Technologies Group plc
Annual Report 2017
Company number: 2920061

Contents

Strategic report

Chairman's statement

The last year has seen significant challenges for the Company, not least the announcement in April 2017 that our largest customer had informed us that it would no longer use our intellectual property in its products from some time in 2018 and that as a consequence, their royalties would cease. This was followed by our announcement in June of the commencement of a Formal Sale Process ("FSP") for the Company. These matters have had a substantial impact on the Group's existing strategy and required the Board to make decisions that it would otherwise not have made. This is addressed later in the report in more detail. Meanwhile, the Group's financial performance over the last year has been excellent and has demonstrated the success that the management team has achieved in turning the business around.

The financial results for the year reflect decisions taken in the prior year to transform the business and to sell or close activities that were not core to the IP licensing strategy. The sale of Pure completed in September 2016, the closure and transfer of the parts of IMG Systems were spread across the financial year, whilst the transfer of IMGworks completed in May 2017. I would like to thank the staff within those areas for their continued patience and support throughout the process. The sale of Pure and the transfer of IMGworks coupled with an operational review that was also announced last year, provided significant cost savings which have contributed to the improved financial results for 2016/17.

Significant exceptional costs and write-downs continued to be required through the last year to restructure the business and position it for the future. These actions have allowed the business to strengthen its performance and when the Board came to the decision, to begin a sale process for MIPS and Ensigma, it was able to do so knowing that those businesses would be of sufficient interest and size to appeal to the right buyer.

Over the last year we have seen two senior Board changes with Bert Nordberg stepping down as Chairman and the appointment of myself in February 2017 in his place. Additionally, Gilles Delfassy retired from the Board in March 2017, having handed over to Nigel Toon, who was appointed in August 2016, in his capacity as the Board's industry and technical expert and Chairman of the Technical Advisory Committee, thus ensuring the spread of skills required for sound leadership at Board level. I would like to thank both Bert and Gilles for their service to the Company over the past few years. Their contribution has been much appreciated.

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.

Peter Hill
Chairman

Business model, strategy and products

"Over ten 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) activities, involve the creation and licensing of semiconductor processor IP for graphics, video and vision processing, general purpose and embedded processing (CPU and MCU), and 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. We have built strong brands around these processing blocks: PowerVR in graphics and multimedia; MIPS in processors; and Ensigma in connectivity.

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

We announced to the market on 4 May 2017 that the MIPS and Ensigma businesses would be actively marketed to concentrate our resources on PowerVR and to strengthen Imagination's balance sheet. Following significant interest in Imagination, on 22 June 2017 we announced the initiation of a formal sale process (FSP) for the whole Group, to run alongside the MIPS and Ensigma sale processes.

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

Prior to the announcement of the FSP, we had revised the Group's strategy, following a full review in 2016, as set out below.

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 leading, 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.

"PowerVR 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."

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) to GPU compute for 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 focuses on consolidating Imagination's position and retaining technology leadership. With recent design wins we expect to gain market share in the mobile market. We also see opportunities to grow the Group's existing positions in automotive infotainment, and in digital TV/set top boxes and build a strong position in augmented reality and virtual reality (AR/VR). We continue to identify opportunities in Advanced Driver Assisted Systems (ADAS) in the automotive sector and are working to develop solutions for broader artificial intelligence uses, particularly in vision processing 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 vision

Our innovative PowerVR Raptor cores are low-power, highly-configurable camera image signal processor (ISP) cores designed for SoC integration. 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.

"The strategy for MIPS focuses on the embedded processor markets where the business can differentiate and maintain/ build defendable positions."

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.

The strategy for MIPS focuses on the embedded processor markets where the business can differentiate and maintain and build defendable positions. The aim of the strategy is 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. First 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.

Secondly, 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 virtualisation 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.

Thirdly, 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.

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

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 licensing in connectivity is an early-stage market today and as such is less certain. However, we saw strong license sales in FY17 and the pipeline remains healthy, particularly in the IoT market.

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.

IMGworks

IMGworks provided a system on chip (SoC) design service for customers, integrating Imagination's IP from across its core families (PowerVR, MIPS, and Ensigma). The operational review identified the SoC Design business (IMGworks) as non-core and was sold to Sondrel in May 2017.

IMG Systems

The previous activities associated with IMG Systems have either been sold or closed during the past 12 months. These include Pure, Hellosoft (the voice over internet protocol business) and other activities associated with consumer products that previously supported Pure.

Chief Executive's review

"Over the past year we have focused investment in our core IP businesses: PowerVR, MIPS and Ensigma.

This strategy has resonated well with customers."

Introduction

FY17 has been another notably challenging year for the business, characterised by significant restructuring, the implementation of a refreshed strategy and a dispute with our largest customer, Apple.

We executed the restructuring programme, that was announced early in 2016, to plan and returned the business to profitability and positive cashflow. The £27.5m of cost savings, identified in 2016, was delivered in full, with non-core activities either sold or discontinued.

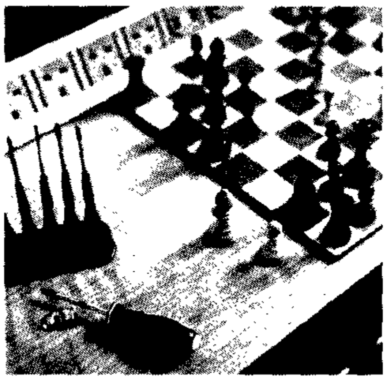
We also announced and started the implementation of our revised strategy to build IP solutions of real scale with customers, across a wide range of markets, where we can provide leading, differentiated offerings and build defendable positions; delivering long-term value to shareholders in the process. Over the past year we have focused investment in our core IP businesses: PowerVR, MIPS and Ensigma.

This strategy has resonated well with customers. Investment has been increased in PowerVR with the addition of around 50 more engineers to address market opportunities. The launch of the mid-range PowerVR Series XE GPU has been the most successful launch to date in terms of the number of new design wins with multiple customers. The launch of the new Furian GPU architecture and the high-end Series 8XT cores also cements PowerVR's technology leadership. Both MIPS and Ensigma made good progress towards profitability, with MIPS now almost breakeven. Ensigma produced a strong performance in license sales and MIPS continued to increase its presence in the automotive market, with a number of deals, as well as continued design wins in LTE modems.

This good work has been overtaken by events following Apple informing us that it expected that the chips in it's products launched at some point in 2018 or early 2019 would not require it to pay Imagination royalties. So far Apple has not shared any information to enable us to verify it's statement. Imagination has invoked a contractual dispute resolution procedure under the license agreement. Imagination does not accept Apple's position and reserves all of its rights.

The potential impact on revenues if Apple does not pay us royalties on its new products has led the board to consider sale options. In May 2017 we announced that we were looking to sell both our MIPS and Ensigma businesses, to strengthen our balance sheet and concentrate our resources on PowerVR. Following interest received in both MIPS and Ensigma, and subsequently the whole Group, the Board announced in June the initiation of a formal sale process for the Group and that the company was engaged in preliminary discussions with potential bidders.

Imagination has made excellent progress in executing the restructuring programme and refreshed strategy: returning the business to profitability in the process over the past fourteen months. It is regrettable that, after much hard work and on the verge of realising our strategy for the business, that we are now in a position where we have initiated a sale of the Group. We believe that in the face of the dispute with Apple, this is the best way to deliver value to our shareholders and ensure Imagination can to continue to grow and succeed in the future.



"We successfully executed the restructuring programme that was announced early last year, on-time and in line with our expectations."

Performance in FY17

We successfully executed the restructuring programme that was announced early last year, on-time and in line with our expectations. The main areas impacted were non-core activities and central overheads including marketing and property. The core IP engineering activities have been protected.

To enable the required level of investment in our core businesses, we divested or closed non-core, cash-consuming business lines. The Pure radio business, as well as Hellosoft, was sold in 2016. IMGworks, the SoC design business, was sold in May 2017, with the FlowRadio transaction completing in June this calendar year. The remaining elements of IMG Systems were discontinued. In total over 500 employees (almost a third of the total) have left the Group since the restructuring was announced. The majority of these people continue in their roles under new ownership at Pure International, Meeami Technologies, 7digital and Sondrel.

Following the detailed operating review in the first half of 2016, the Group continued to reinforce and invest in its three core businesses: graphics and multimedia (PowerVR), general purpose processing (MIPS) and connectivity (Ensigma). This strategy has resonated well with customers and investors alike.

PowerVR

PowerVR has focused on consolidating its market position and retaining technology leadership. In 2017 we launched new offerings in the mid-range XE family and in the high-end with the debut of our Series8XT GPU cores and new Furian architecture, which represents a significant advance over existing PowerVR designs. We expect these technologies to further enable mass market untethered AR/VR devices and new classes of mobile devices such as convertibles, creating future growth opportunity for PowerVR.

The Group's Series 8XE has been a notably successful product launch, both with existing and new PowerVR customers. Its competitiveness in the mobile segment was proven with a multi-year subscription deal for Series8XE with Spreadtrum, a major Chinese fabless semi. Consequently, we are very confident in gaining significant share in the mid-tier mobile market through this and the successful design wins already achieved with MediaTek.

We have also seen strong traction for 8XE in the DTV/STB market with design wins at strategically important customers including Realtek, Marvell, Mstar, and Sigma. Further automotive business was secured with long-term customers Renesas and TI.

With the launch of the new high-end Furian architecture and a refreshed Series8XT offering, we fully expect to retain our technology leadership in low-power, high-performance graphics. The market leader continues to use PowerVR GPU technology in their latest products and we have a good pipeline of opportunities which, if successfully closed, will help close the shortfall in royalties that might be created by the loss in Apple revenues. A new chipset has begun shipping from MediaTek in 2017, the Helio X30, using a Series 7XT core, which is being used in a range of devices from phones to Chromebooks.

PowerVR continues to retain a large share of the automotive infotainment market and this position is pulling PowerVR into ADAS applications. Denso of Japan is a recent licensee for 8XT. Opportunities also exist to grow our position in the emerging AR/VR market; as well as exploiting investments made in vision products. We have a roadmap in smart vision and expect these new offerings will further drive the PowerVR licensing pipeline. In particular, we are seeing significant interest in our latest vision hardware accelerated (VHA) offering.

Our ray tracing technology is of interest in the gaming market and PowerVR is continuing to develop its ecosystem with notable games publishers and middleware/engine providers.

"MIPS has an exciting refreshed product line and roadmap, which will allow it to better differentiate its offering in the market as well as prove competitive to customers."

MIPS

The MIPS business has been 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. We continue to enjoy design wins in our traditional markets such as networking, routers and DTV/STB. MIPS has seen continued support from long-term customers at Qualcomm, Broadcom and Cavium.

Beyond this, good progress is also being made in new markets, as the Group targets its differentiated technology, particularly multi-threading and hardware virtualization, in meeting customers' needs.

The strength of MIPS's differentiated technology has been demonstrated through a number of important design wins over the past year. In the autonomous systems market, Mobileye selected the MIPS I6500 for its latest EyeQ5 product and Denso also became a licensee for next-generation, in-vehicle electronic systems. We are building on our success in automotive with the launch of a new MIPS core, I6500-F, which includes support for FuSa (Functional Safety) features, which is in high demand in this and broader AI segments.

MIPS also saw strong performance in Asia, with design wins with both current and new customers in China including Beken, Synochip, Loongson, and Actions and continued support from key customers such as ALi, Novatek and MediaTek in Taiwan. MediaTek is a key customer for MIPS I-class in the LTE modem segment and expects to begin mass production of devices with MIPS-based modems durings this summer. We have also seen strong licensing in Russia with a new deal with MRI. The success of our I-class cores proves our case that MIPS' fundamental differentiations, such as multi-threading and virtualization, are in demand in several markets.

Security is becoming an ever-increasing priority for customers. Our recent partnership with Barco Silex on Trusted Element technology and our security offering for Root of Trust systems and Omnishield gives us a very competitive security solution.

MIPS has an exciting refreshed product line and roadmap, which will allow it to better differentiate its offering in the market as well as prove competitive to customers.

Ensigma

Ensigma is now focused on IP licensing for connectivity, offering a broader range of complete end-to-end solutions for customers, which differentiates it in the market. The growth of IoT applications drove strong licensing growth in 2017, which enabled Ensigma to more than double revenue over the previous year. Significant license deals included a large American multinational semiconductor company and we also saw strong growth in the Wi-Fi market in China with a number of important design wins.

The Ensigma product roadmap is particularly focused on high-performance, low-power applications that are well matched to the requirements of large numbers of connected devices. Our superiority in low-power wireless has been confirmed with tests on customer silicon showing that we are 2x better in power efficiency than competitors.

Apple dispute

Apple informed us at the end of March that it will no longer use the Group's intellectual property in its new products in 15 months to two years' time, and as such Imagination will not be eligible for royalty payments under the current license and royalty agreement.

Apple has used Imagination's technology and intellectual property for many years. It has formed the basis of Graphics Processor Units ("GPUs") in Apple's phones, tablets, iPods, TVs and watches. Apple has asserted that it has been working on a separate, independent graphics design in order to control its products and will

“Imagination has great technology that is very meaningful and relevant to many customers.”

be reducing its future reliance on Imagination's technology. Apple has not presented any evidence to substantiate its assertion that it will no longer require our technology, without violating our patents, intellectual property and confidential information. This evidence has been requested of Apple, but they have declined to provide it.

We believe that it would be extremely challenging to design a brand new GPU architecture from basics without infringing our intellectual property rights and accordingly we have not accepted Apple's assertions. We initiated the dispute resolution procedure under the license agreement with a view to reaching an agreement through a more structured process.

To be clear Apple made an unsubstantiated claim, which obliged us to inform the markets, leading to a significant decrease in our share price. The claim has led us to invoke a contractual dispute resolution procedure and has created significant uncertainty with respect to our business, including our employees. We do not believe this to be acceptable business practice nor in line with Apple's own ethics statements regarding suppliers.

At the time of writing this report, we remain in dispute. Imagination has reserved all its rights in respect of Apple's unauthorised use of Imagination's confidential information and Imagination's intellectual property rights.

Customers and colleagues

Imagination has great technology that is very meaningful and relevant to many customers. We are grateful to them for their support through the changes we are going through. We are also fortunate to have very capable people across our engineering and business staff. The company has them to thank for the continued development and delivery of our strategy and roadmap during what have been very disruptive conditions.

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. We have done this by continuing to provide an exciting place to work, investing in leading and disruptive technology, supported by a revised, competitive compensation and benefits strategy. A new internal communications programme has also increased the frequency and quality of communications with our staff and further improved engagement.

I want to publically thank colleagues for the support they have shown to the business and given to me personally over the past year. The swift return to profitability in the business has been helped by the engagement and support we enjoy with our people, and which they carry forward in their interactions with our customers every day.

Outlook

Imagination continues to see good demand for licenses in all three of our core businesses. There are exciting developments and compelling products in our FY18 roadmaps, which bodes well for the competitiveness of each of the business units going forward.

The Group continues to see good demand for licensing for its IP and expects to see further progress in license revenue in FY18, subject to uncertainty caused by the initiation of the formal sale process. Royalty unit shipments are expected to benefit from recent design wins. We fully expect to receive royalties from our largest customer over the next year.

I am confident that with the right investment our businesses and people will continue to flourish.

Andrew Heath

Chief Executive

4 July 2017

Financial Review

2016/17 has seen considerable improvement in Imagination's continuing operations' results. Revenues and adjusted operating profit and profit before tax are up substantially and the Group's net debt has reduced despite large cash costs to sell and close discontinuing operations.

The decision to sell IMGworks has resulted in this part of the Group being classified as discontinued operations for the 2016/17 financial year – it was sold on 31 May 2017. We announced our intention to sell the MIPS and Ensigma businesses on 3rd May 2017 and these businesses will be classified as discontinued for the 2017/18 financial year but not for the 2016/17 financial year as the intention was not announced until after the end of the 2016/17 financial year.

Revenue

Group revenue from continuing operations for the period ending 30 April 2017 increased by 19% to £145.2m (2016: £121.6m).

Within this, licensing revenue increased 82% to £33.9m (2016: £18.6m). All three business units showed good growth on 2015/16 with Ensigma performing particularly strongly with £6.0m of license revenue (2016: £2.0m). PowerVR increased license revenue by 43% to £14.5m (2016: £10.2m). MIPS increased by 12% to £7.2m (2016: £6.4m). All businesses signed up new customers as well as getting repeat business from existing customers and ended the year with a good backlog from these orders which will be recognized over the next two years. Five contracts from the now sold IMGworks business remain with the Group and the figures for those contracts are included in continuing operations in the corporate segment. These contracts contributed revenues of £6.1m in 2016/17 and contributed £2.1m to adjusted operating profit. Four of the five contracts are likely to finish in 2017/18 and one in 2018/19. No further contracts of this nature will be entered into by the Group.

Royalty revenue from continuing operations increased by 8% to £111.1m (2016: £102.7m), helped by the strength of the dollar against sterling. Partners' chip shipments in PowerVR were down at 422m (2016: 456m) units, primarily because of a drop in the largest customer's volumes in the year. MIPS' partner shipments increased by 7% to 816m units (2016: 764m).Royalty revenues in Ensigma were up 9% 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 rose 2% to 1,246m units (2016: 1,227m).

Revenue from discontinued operations decreased by 66% during the year primarily due to the sale of Pure in September 2016.

The average sterling / dollar rate during the year improved by 14%, resulting in a similar gain in revenue. Total revenues were up 7% to £151.9m (2016: £141.4m).

Operating expenses

Group operating expenses included in the adjusted operating profit, associated with continuing operations, increased to £116.1m (2016: £111.0m) because of exchange losses on US dollar denominated costs. We have taken action to reduce overall costs (continuing and discontinued operations) and £27.5m were 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. As flagged at the 2016 results announcement, besides the cost savings, we added R&D headcount in PowerVR and introduced group bonus schemes which increased the cost base.

We have allocated all overheads to business units for the first time this year to show the standalone profitability of each of them. PowerVR has a 40% operating margin, making £37.8m adjusted operating profit (2016: £31.0m) on revenues of £94.8m. MIPS lost £1.2m (2016: loss £5.0m) and Ensigma £6.5m (2016: loss £11.7m). Remaining unallocated overheads relate to the cost of the board and advisors required as a listed company, there is also a £1.4m exchange loss accounted for centrally.

Adjusted operating profit

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, disposals and investments, non-cash based share incentive charges and amortisation of intangible assets acquired from acquisitions. The board adjusts for these items because it considers that doing so provides a clearer view of the operating performance of the business. This year, adjusted operating profit* for continuing operations was £29.2m (2016: £10.5m). 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 £12.7m (2016: £7.8m) which has risen significantly due to large share option grants in 2016/17 as retention measures;

- amortisation of intangibles from acquisitions of £6.0m (2016: £8.7m);

- acquisition related costs of £0.6m (2016: £1.1m) relating to the Posedge and Kisel acquisitions, these have ended in FY17;

- contingent acquisition consideration release of £1.3m (2016: £1.7m) relating to the Posedge acquisition;

- onerous contract provision of £2.1m (2016: £6.7m) – this reflects the losses that will be made on various SoC design contracts (which are part of the contracts retained from the sale of IMGworks);

- Group restructuring costs of £1.0m (2016: £6.6m) – reflecting remaining costs to effect the cost savings made in FY17;

- losses on sale of businesses and a building of £3.4m (2016: nil).

Adjusted operating loss* for discontinued operations was £8.9m (2016: £35.0m), most of which related to IMGworks which was sold after the year end, although the related customer contracts have not yet left the Group.

On a statutory basis, the Group made an overall operating profit before tax of £2.4m (2016: loss of £29.4m).

The Group's adjusted loss per share was 0.9p (2016: loss of 9.2p). The Group's reported loss per share is 10.1p (2016: loss of 29.8p).

Taxation

Net tax was a charge of £18.5m (2016: credit £3.3m) reflecting the write-off of deferred tax assets which can no longer be recognised due to the uncertainty of timing of future profits. The charge includes overseas withholding tax the Group is required to pay on customer remittances from various jurisdictions and 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. The IRS audit in the US continues, and focuses on the tax position related to the group's acquisition of MIPS in 2013. A determination has been raised by the authorities that the group is appealing and the group has recognised a provision for the anticipated settlement.

Balance sheet and cash flow

The balance sheet at 30 April 2017 shows a more stable year in FY17 following the impact of poor trading in FY16 and of the actions taken to improve the position going forward.

Intangible asset movement reflects amortization and the capitalization of patent acquisition costs. Property, plant and equipment was £64.0m (2016: £69.8m) reflecting capital expenditure during the year of £2.0m (2016: £20.0m) less depreciation. The primary element of the FY16 capital expenditure was the redevelopment of the Group's property facilities in Kings Langley which has now concluded. FY17 capital expenditure is primarily spending on computer hardware required for the Group's operations.

Assets and liabilities held for resale at 30 April 2016 have now been sold and the bank facility has been reclassified between current and long-term liabilities at 30 April 2017 because the covenant breach at 30 April 2016 has been resolved.

Cash generated by operations was £11.0m (2016: £15.9m) despite large outflows for loss-making discontinued operations and restructuring costs because of tight management of all receipts and payments. Cash generated by continuing operations was £24.7m with an outflow of £13.7 from discontinued operations.

Net debt at the year-end was £28.4m (2016: £33.0m) and reflects close attention paid to conserving cash despite the losses made in the year and the restructuring costs accrued in FY16 that were paid for in FY17. Net debt at the half-year (31 October 2016) was £40.8m, higher than the year end position reflecting stronger cash flows from royalties in the second half of the year and less losses and costs of discontinued operations than the first half. The Group's banking facility expires in June 2018 and future cash flows and going concern considerations are discussed further in the Directors Report and note 1 to the accounts.

* 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, disposals 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 2017			Year to 30 April 2016			Year / Year%		
	PowerVR	MIPS	Ensigma	PowerVR	MIPS	Ensigma	PowerVR	MIPS	Ensigma
Licensing Revenue (£m)	14.5	7.2	6.0	10.2	6.4	2.0	43%	13%	201%
Royalty Revenue (£m)	80.3	28.1	1.6	77.7	23.5	1.5	3%	20%	9%
Partner Chips Shipped (units, millions)	422	816	8	456	764	7	(7%)	7%	14%
Adjusted operating profit / (loss)* (£m)	37.8	(1.2)	(6.5)	31.0	(5.0)	(11.7)	22%	(76%)	(44%)

Group	Year to 30 April 2017	Year to 30 April 2016	Year / Year%
Revenue (£m)	151.9	141.4	7%
Loss before tax (£m)	(9.5)	(87.5)	(89%)
Adjusted operating profit / (loss)* (£m)	20.3	(24.5)	(183%)
Net debt (£m)**	(28.4)	(33.0)	(14%)
Cash outflow on Capex (£m)	4.8	20.3	(76%)

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

** Net debt is the total of group cash less loans and borrowings. The reconciliation is shown below

	Year to 30 April 2017	Year to 30 April 2016
Cash and cash equivalents (£m) - Note 13	17.2	5.8
Interest bearing loans and borrowings (£m) - Note 16	(45.6)	(38.8)
Net debt (£m)	**(28.4)**	**(33.0)**

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. The Board also recognise that the first risk listed below has potentially crystallised in that Apple, the largest customer, has claimed it will not require the business' technology in 15 to 24 months. However, the same risk still applies to all the business units and remains a key concern for the Board.

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.	Strategy focused across a number of market segments Develop relationships with a wider number of customers spread across different sectors and jurisdictions Monitor trends and changes in the semiconductor industry Develop business models that reflect the changing industry landscape Develop sales strategies to broaden our customer base Increase marketing activity to highlight the breadth of markets that we target and operate
Group Strategy	
In a fast moving business environment, the Group Strategy may become obsolete before it has been fully executed leaving the business without a meaningful place in the market	Strategy is reviewed and updated on an annual basis Regular monitoring of the group strategy with the Board and EMB through the year

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. 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 deliver leading, disruptive technology Establish trusted relationships with customers to ensure we fully understand their strategic direction Monitor and understand our competitors Focus on being responsive to customers and improving the quality and delivery of our products Adapt a flexible approach to different business models 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. Infringing others patents.	Build a portfolio of strategically important patents Regularly screen relevant third party patents to avoid infringement Track industry movements, particularly involving standardisation bodies, to predict and avoid patent risks Build strong relationships with external counsel to enable us to act quickly and defend our position Work closely with customers to respond quickly to potential threats File more patents in key markets like China and India
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.	Deploying the latest generation of firewall protection Ongoing improvement in the rigour of authentication processes including wider use of single sign on Improved protection of confidential data on portable computers Improved process of system patching to close security loopholes Use of third party audits

Risk or uncertainty and potential impact	How we manage it
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 Project management, including using project management systems Checks throughout the project to ensure the expected outcomes including specification and timing will be achieved Roadmap planning process including discussion with key customers Prioritisation of R&D resources to key projects
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 Continuous review of market forecasts
Foreign Exchange	
Significant amounts of the Company's revenue is received in US dollars.	Foreign exchange hedging strategy implemented
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. 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 Invest in training Succession planning A clear set of values and underpinning behaviours Increase frequency and quality of communications
Debt Facilities	
Breaches to the banking covenants.	Costs continue to be reduced to reduce cash out flows Businesses are being sold and proceeds will reduce debts Property assets are used as security for the bank facility and could be sold to pay back the facility if required Cash is managed on a daily basis with detailed monitoring Close relationship with the bank to ensure they understand our strategy and mitigating actions being taken to reduce debt

Corporate and social responsibility report

"The Group is committed to the important principle of equal opportunity which is reflected in the Group's policies and operational arrangements."

Corporate and social responsibility

Imagination has remained focused on delivering business success in a responsible way, seeking to always maintain high environmental and ethical standards Recognising that we have responsibilities to all stakeholders, including the interests of our employees, their families and the local communities within which we operate, the Group continues to actively seek positive business relationships with partners, customers, suppliers and others; all in support of our approach to drive our overall corporate responsibilities agenda.

The Group remains geographically spread across many global locations, operating in local communities, being mindful of surrounding environments where it operates. Our global workforces are highly skilled, highly valued and are respected, both internally and externally, in the way they operate the business. All of the Groups' employees, irrespective of location, are afforded their employment rights in line with the local laws and have a platform to raise concerns or issues related to their employment without fear of redress. The Group supports the work of our employees to support local charities and communities in areas where it operates.

All employees are required to act honestly, fairly and with integrity and we ensure that updates are provided regularly on their obligations.

The Group is committed to the important principle of equal opportunity which is reflected in the Group's policies and operational arrangements. The commitment to achieving equality is continually strengthened by work undertaken to further structure pay and develop more visibility and transparency into processes that relate to our workforce.

Environmental impact and energy use

As a Group our environmental impact is low. With our main business being the development of intellectual property, our emissions come mainly from the use of electricity in our offices and business travel. With greater use of enhanced business technology adopted by the Group, and tighter management of travel, we continue to reduce the emissions we produce.

Redevelopment of site and environmental impact

The Group is headquartered in Kings Langley, initially occupying three buildings, recently reduced to two with the third building accompanying the sale of PURE. The buildings occupied in Kings Langley were confirmed as achieving a BREEAM rating of 'Excellent' and the maintenance regime is such that this level of award will be maintained.

The promotion of our environmental responsibilities see us maintain native boundary structure and habitats of the canal area within the Kings Langley campus.

"Over the last year, we have taken steps to ensure that across all our geographical locations we encourage and support employees to recycle their day to day waste."

Data centre

To meet the Group's considerable IT requirements, a dedicated data centre was established and has been fully operational since 2014. To maintain the environmental footprint, of the two data halls, the Group condensed activity to one of them. The data hall is 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 method has also been adopted that provides both a water and air cooled solution.

PURE sale

The Group completed the sale of the PURE division during the year, handing over the business with processes and plans to maintain and reduce the environmental impact of its activities. The PURE division was transferred with assurances that it's own functional activities ensured it was compliant with the following:

•The EC Directive on Waste Electrical and Electronic Equipment ('WEEE') through the producer compliance scheme REPIC – this is aimed at minimising the impact of electrical and electronic goods on the environment; and

•The EC Directive on Packaging and Packing Waste (94/62 EC) obligations through it's membership of the compliance scheme Biffpack.

Recycling

Over the last year, we have taken steps to ensure that across all our geographical locations we encourage and support employees to recycle their day to day waste. We provide 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

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

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.

Our gross carbon emissions have decreased by 234 t/ CO2e from 2016, due to a more efficient use of energy.

Our material GHG emissions from our business activities in FY17 amounts to 4,339 tonnes of CO2e, consisting of:

"Employee engagement across the whole Group has been given priority in the last year, developing the communication channels to help employees develop their knowledge of the business, offer ideas and innovate for the future."

Carbon emissions	**2017 Tonnes of CO2e**	**2016 Tonnes of CO2e**
Scope 1: CO2e from the combustion of fuel and the operation of any facilities	377	523
Scope 2: CO2e from the purchase of electricity, heat, steam or cooling by the Company for its own use	3,962	4,050
Total	**4,339**	**4,573**

Our Group chosen intensity measurement is square foot	**2017 Emissions intensity**	**2016 Emissions intensity**
Scope 1: Tonnes of CO2e per Sq. ft.	0.00	0.00
Scope 2: Tonnes of CO2e per Sq. ft.	0.00	0.01

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

The Group's employees

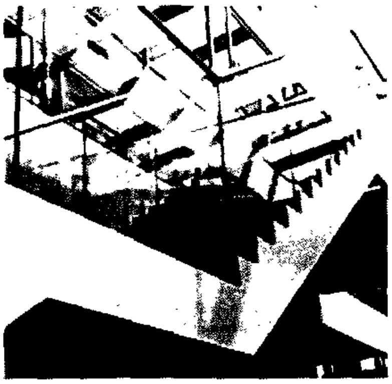
The Group recognises that its reputation and success depends upon the efforts, integrity and commitment of its people. Employee engagement across the whole Group has been given priority in the last year, developing the communication channels to help employees develop their knowledge of the business, offer ideas and innovate for the future.

The introduction of a formal Employee Engagement Forum and "all-staff" events has provided regular opportunities for the CEO and CFO to engage staff in 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 also operates discretionary employee share plan or bonus alternative and employees globally are eligible to receive awards on an annual basis. There are no performance conditions on share awards below the Executive Management Board (EMB) and Board.

Graduate recruitment and internship

We remain focused on bringing people into engineering: the Group runs a graduate recruitment and internship programme with universities and colleges throughout the UK and other key locations, achieving some 40 placements through this program again this last year. We have developed strong relationships with a number of universities, including several in the UK and seek to extend that to other oversees educational establishments where appropriate.



“The Group has also seen an increase in the young people from the local community undertaking the structured annual work experience program, where they learn more about the careers available in our sector.”

Academic outreach and sponsorship

We have maintained our links with universities which reflect our technical skillset and are supporting developments in specific areas where relevant to our intellectual property. The Group continues to offer a wide range of other incentives to young people including giving scholarship awards to students at University to promote opportunities within the Group.

The Group has also seen an increase in the young people from the local community undertaking the structured annual work experience program, where they learn more about the careers available in our sector.

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 all legal requirements and best practice in employment across the jurisdictions, based on equal opportunities for all employees, through the full employee life cycle.

The Group encourages employees with disabilities to openly seek help and guidance, making it clear that they will be supported in their career. Job applicants and employees with disabilities are encouraged and given full consideration for employment, promotion and training (including, if needed, retraining for alternative work where employees have become disabled), based on 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	131	1,114
Female	1	25	159
Total	**6**	**156**	**1,273**

Approval

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 4 July 2017 and signed on its behalf by:

Guy Millward
4 July 2017

Directors' report

Board of Directors

Peter Hill

Chairman
Appointment Date: 1 February 2017 as Chairman. Joined the board as a non-executive director on 1 January 2017
Nationality: British

Skills and Experience

Peter is the Chairman of Imagination having joined as a non-executive director on 1 January 2017 and succeeding as Chairman on 1 February 2017. Peter has extensive experience as both an executive and Non-executive Director, and is currently the Non-executive Chairman of Keller Group plc, the world's largest geotechnical contractor, and Volution Group plc, a leading supplier of ventilation products, and is a Non-executive Director the Royal Air Force.

Peter was the Chief Executive of Laird plc, the global provider of device management and wireless systems for the electronics industry, from 2002 to late 2011. He also served as an Executive Director of Costain Group plc and held senior management positions at BTR plc (subsequently Invensys plc). He has previously been Non-executive Chairman of Alent plc, a leading supplier of speciality chemicals to the electronics and other industries from 2012 to the end of 2015, and has been a Non-executive Director of Cookson plc, Meggitt plc and Oxford Instruments plc and a Non-executive Board member of UK Trade and Investment.

Other current appointments

Keller Group plc
Volution Group plc
Essentra plc
Royal Air Force

Board Committees

Nomination Committee (Chairman)

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 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

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 Inc and Ernst and Young LLP.

Other current appointments

Eckoh Plc

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 non-executive director roles. He has specific skills in mergers and acquisitions (both domestically and cross- border), restructuring and capital raising. He chairs the audit committee at Bibby Line Group Limited. He is chair of the trustees of the Lazard pension scheme and Oxford University Press pension scheme.

Other current appointments

Bibby Line Group Limited
Hibu Group Limited
Howe Robinson Partners (UK) Limited

Board Committees

Audit Committee (Chairman)
Nomination Committee
Remuneration Committee

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 a partner 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. Kate was previously Vice-Chairman of the Conservative Party with responsibility for business engagement from 2015 to July 2016. From 2012 to January 2017, Kate also served as a non-executive director at education company, First News (UK) Limited.

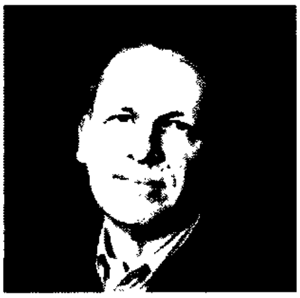
Kate is chairman of the Remuneration Committee and a member of the Audit and Nomination Committee.

Other current appointments

Member of the House of Lords
Member of the Management Team for The Red Tape Initiative
Senior Adviser to Boden
Visiting Parliamentary Fellow at St Antony's College, Oxford
Wrackleford Farms Limited

Board Committees

Audit Committee
Nomination Committee
Remuneration Committee (Chairman)



Nigel Toon

Non-executive director
Appointment Date10 August 2016
Nationality: British

Skills and Experience

Nigel was appointed to the Board as a Non-Executive Director in August 2016. Nigel has a strong background in electronics and technology marketing, and brings significant experience and understanding of the semiconductor industry. He is currently the Chairman and CEO ofGraphcore. Prior to joining Graphcore, he was Chairman of XMOS Ltd, the premier provider of voice and music processing and control ICs. Nigel was President and CEO at Picochip Inc. a fabless semiconductor business. Previously he was a co-founder of Icera Inc., a leading 3G cellular baseband semiconductor company where he was a member of the Board of Director and led Sales and Marketing. Nigel is Chairman of the Technical Advisory Committee and a member of the Remuneration and Audit Committee.

Other current appointments

XMOS Ltd

Board Committees

Audit Committee
Nomination Committee
Remuneration Committee
Technical Advisory Committee (Chairman)

Changes to the board

Bert Nordberg resigned as Chairman with effect from 31 January 2017.
The appointments of Peter Hill and Nigel Toon are disclosed in this section. Gilles Delfassy resigned on 24 March 2017.

The role of Company Secretary saw various change throughout the year, ultimately Guy Millward, who took the role on in June 2016, was re-appointed in July 2017.

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 2017. 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 2017. 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 22.

Principal risks and uncertainties, Strategic report, pages 15 to 17.

Disclosures concerning greenhouse gas emissions, Strategic Report, page 19 to 20.

Employment matters, Strategic report, pages 20 to 21.

The Corporate Governance Report set out on pages 33 to 38, Audit Committee Report, pages 39 to 43, Nominations Committee Report, pages 44 to 45 and the Remuneration Committee Report, pages 46 to 64 form part of this report.

Significant 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 £70,580,000 (2016: £62,411,000). 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 2017, there were 283,941,363 ordinary shares in issue listed on the London Stock Exchange of which 978,312 (2016: 1,867,924) 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 2016, shareholders approved a resolution to give directors the authority to allot ordinary shares up to an aggregate nominal amount of £9.298.499. In addition, shareholders provided approval to directors to allot up to an aggregate nominal amount of £18.596.998 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 December 2017 or at the conclusion of the AGM in 2017 and will be proposed for renewal again at this year's AGM.

Purchase of own shares

At the Annual General Meeting in September 2016. authority was granted to the Company to purchase its own shares in the market up to a maximum aggregate number of 27,895,499 shares. being approximately 10% of the issued share capital as at 8 August 2016. The current authority will expire the earlier of the 31 December 2017 or at the conclusion of the AGM in 2017. 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 24 to 26 and are incorporated into this report by reference.

Peter Hill was appointed as Chairman of the Company in February 2017 when Bert Nordberg stepped down from that role. Peter will seek election as Chairman at the 2017 AGM. Gilles Delfassy retired from the Board in March 2017, with Nigel Toon having been appointed in August 2016. Nigel will seek election as a non-executive director of the Company at the 2017 AGM also.

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 once 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 46 to 64. 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 and any discretion applied by the Remuneration Committee.

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 2017, 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	41,840,516	14.72
Standard Life Investments (Holdings) Limited	26,955,411	9.43
Apple Inc.	23,047,770	8.11
M&G Investment Management Ltd	21,094,407	7.43
Majedie Asset Management	12,593,577	3.64
Black Rock	10,049,795	3.19

Save for the above, the Group has not been notified, as at 30 June 2017, 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.

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 46 to 64
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 29
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.

Basis of preparation

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

At the date of this report, the group has drawn down bank facilities of £45.6m which are scheduled to expire during June 2018.

On 3 April 2017, the Group announced that Apple Inc. ("Apple") has asserted that it will no longer use the Group's intellectual property in its new products in 15 months to 2 years' time. Apple revenues constitute 45.2% of the group's revenue from continuing activities for the year ended 30 April 2017. The group is in dispute with Apple and has reserved its rights. While the Directors' have no reason to believe that Apple will withhold or delay payments during this process, should this occur, the group would likely need to seek additional funding beyond the facilities that are currently available to it.

As announced on 4 May 2017, the Directors are undertaking a review of the group's operations. This includes, but is not limited to, a sale of its MIPS and Ensigma businesses. On 22 June 2017, the group announced it had received interest from a number of parties for a potential acquisition of the whole Group. The Board therefore decided to initiate a formal sale process for the Group and is engaged in preliminary discussions with potential bidders. The Directors have determined that, should the sales process not be concluded as planned, the Group will need to take decisive measures to improve profitability and cash generation.

The Directors have reviewed the Group's business and capital structure and developed the Business Plan ("the Plan") in order to consider the measures that would need to be undertaken. In the absence of significant proceeds being generated by the planned disposal of its MIPS and Ensigma businesses, the Plan assumes a significant reduction of fixed cost expenses while preserving the ability of the business to continue to deliver on existing customer contracts and continue targeted development of its core intellectual property. The plan sees debt paid down in full before the end of FY18. There is further opportunity to sell certain property assets to accelerate cash generation and/or mitigate risk.

The Directors have prepared cash flow forecasts for a period in excess of 12 months. Various scenarios have been considered to test the Group's resilience against operational risks including:

- Adverse movements in US Dollar exchange rate;

- Delays in executing the reduction in costs should the disposals not proceed as planned; and

- Delays in cash receipts from significant customers.

The potential impact of changes in assumptions arising from matters outside the Group's control, or the unlikely event of a culmination of events, may result in the group requiring additional working capital beyond the group's existing facilities. This represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern such that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, based on the Group's assessment of the Plan, the Directors' believe that the Group will continue to have acceptable financial resources to meet obligations as they fall due and comply with its financial covenants and accordingly have formed a judgement that is appropriate to prepare the financial statements on a going concern basis. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

Viability statement

The Directors have had detailed and ongoing discussions as a Board regarding the longer term viability of the group. As discussed in the going concern section above there are a number of contingent events that have the potential to significantly impact both the scale of the group's operations and its areas of strategic focus. In particular, the Directors' are mindful that the conclusion of current negotiations for the sale of the group or certain of its divisions will significantly influence the Board's plans for the longer term. With this is mind, the Directors' have concluded that it is appropriate to perform the group's viability assessment over the period to April 2019 and have performed a robust assessment of potential scenarios that may stem from the uncertainties outlined above.

While the Directors remain confident of a satisfactory outcome to the sales process, there are combinations of events that would require the company to seek additional funding beyond the existing term of the group's current committed arrangements. In making this assessment, downside sensitivities have been performed on certain key assumptions that underpin the forecasts. In particular, the Directors have considered the impact of delays in executing the planned reduction in costs should the disposals not proceed as planned and the ability to take mitigating action, including further divestment of assets such as the group's freehold property, to ensure the group's liabilities are met over the assessment period.

Based on the groups' expectation that a satisfactory outcome will be found to the uncertainties described, the Directors have a reasonable expectation that the Group will be able to continue in operation for this period and meet its liabilities as they fall due.

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 43.

For and on behalf of the Board

Guy Millward
Chief Financial Officer and Company Secretary

4 July 2017

Company number: 2920061

Corporate governance report

Chairman's introduction

Dear Shareholder,

As Chairman of the Board, I am pleased to present our Corporate Governance statement on behalf of the Board. Having joined as Chairman in January of this year, I have been extremely satisfied with the commitment shown by all Board members to the Company and to ensuring that an effective governance framework operates at the core of the business.

My appointment process was conducted in accordance with the UK Corporate Governance Code, having been led by the Senior Independent Director, David Anderson. My predecessor, Bert Nordberg, provided sound stewardship of the Company, and the Board and I thank him for this.

I stepped into the business at a challenging time. The relationship with Apple has been well documented and that is addressed in the CEO Report. That situation has however, highlighted the need for the Board to continue the work it had already started which focused on delivering an effective business plan that would allow the business to grow and to be supported by a comprehensive governance framework.

In ensuring the business and the Board is supported by an appropriate governance framework, over the past year the Board reviewed the composition of the committees and how the Board used its time. This was also conducted in light of the forthcoming retirement of one of our non-executive directors, Gilles Delfassy, who stepped down in March 2017, having spent close to five years as a director. Gilles had in depth technical expertise of the industry that has always been greatly appreciated. In preparation for Gilles' retirement, Nigel Toon was appointed to the Board on 10 August 2016. Nigel brings a wealth of industry and technical experience to replace that lost with Gilles' retirement. Nigel superseded Gilles as the Chairman of the Technical Advisory Committee.

We agreed that all board members would be invited to attend all committee meetings. This provides the most constructive use of our time and ensures that matters are discussed in an open and transparent environment whereby all directors have unrestricted access to information and management. The Board is committed to working in accordance with the UK Corporate Governance Code and has sought to ensure full compliance with the Code. However, there was one area where the Board decided it would be a better use of its time and resources to defer. This was in respect of carrying out a board effectiveness review. As I had been newly appointed, and Andrew Heath only in place for a short time himself, the Board agreed that a review would only serve to identify potential areas that the Board already wanted to improve such as the risk management process, board planning and inevitably as a board with new members, learning to work together cohesively to form a strong leadership team to support the business. It is the Board's intention to carry out the review during 2017/18 when the output from the review is likely to be more meaningful. The findings will be reported to shareholders within the various sections of the Annual Report next year.

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 21.

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 15 to 17, with input from the Executive Management Board (EMB) as well as the 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.

During 2016 17 the Board revised three policies to ensure they remained up to date and relevant to how the business operated as well as implementing the requirements of the Modern Slavery Act. The revised policies included Anti-Bribery. Corruption and Fraud. Whistleblowing and Business Ethics. These policies underline the importance placed by the Board on our business conduct, and ensuring that all our staff work with the highest levels of integrity and honesty at the forefront of all their actions, whilst ensuring that no one individual should be afraid to speak out if they become concerned about any activities.

The challenges presented by the situation with Apple have required the Board to evolve its existing plans and strategy so that it was announced in May 2017, that MIPS and Ensigma were to be sold. This was a difficult decision for the Board to take as it was a departure from its planned strategy for those two business units to be partnered with a suitable business. The decision was balanced against the need to ensure the continued viability of the business and so it was agreed that the business was best served by their sale. The sale allows resources to be concentrated into PowerVR.

The next year will again, be a period of significant transformation and change for the business. I believe the business is served well by a strong, experienced and knowledgeable Board.

Peter Hill

Chairman

4 July 2017

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, both the main principles and the supporting principles, throughout the year and to the date of this report, other than in relation to rule B.6 on Evaluation, as outlined in the letter from the Chairman on page 33. 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. 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 44 to 64.

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, significant property leases;
- review of the internal financial control and risk management systems;
- recommendations of the sub-committees of the Board;
- the approval of interim and annual financial statements; and
- treasury management.

The Board delegates 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*	Technical Advisory Committee
Peter Hill	3	3/3	2/2*	2/2*	N/A	N/A
Bert Nordberg[1]	3	6/6	2*	1/1*	1/1*	N/A
Andrew Heath	N/A	8/8	4/4*	3/3*	2/2*	2/2
Guy Millward	N/A	8/8	4/4*	2/2*	N/A	N/A
Gilles Delfassy[2]	3	6/6	3/3	3/3	2/2	2/2
David Anderson	3	8/8	4/4	4/4	2/2	N/A
Kate Rock	3	8/8	4/4	4/4	2/2	N/A
Nigel Toon[3]	3	6/6	3/3	3/3	2/2	2/2

* 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

Resigned on 31 January 2017

Resigned on 24 March 2017

Appointed on 10 August 2016

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. During a meeting the:

- 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, royalties, 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;
- 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.

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:

- an operational review to assess efficiency, cost allocation and the portfolio strategy of the Group;
- oversight of the financial position of the Group and its performance against budget, forecast and market expectations;
- the key issues affecting the business and industry trends which includes the ongoing situation with Apple and the subsequent decision to market MIPS and Ensigma for sale;
- restructuring initiatives which in light of recent events has included the future strategy for PowerVR;
- the Group risk management process, risk tracking and mitigation;
- the recruitment of a new Chairman and non-executive director;
- the output from the Technology Advisory Committee;
- discussed and considered the requirements and content of the viability statement and reviewed the principal risks identified by the Group; and
- the re-negotiation of licensing and services contracts.

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 the newly formed Technology Advisory Committee (TAC) met. The TAC was 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 capabilities for the future. The EMB reports to the CEO and the divisions and functions report to the EMB.

Role of Chairman

Peter Hill is the non-executive Chairman, having been appointed in January 2017. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. Peter 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. The Chairman's other professional commitments are listed on page 24 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 is the Chief Executive Officer. 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 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. David took on the role of Chairman of the Nomination Committee, in place of Bert, whilst the appointment process for recruiting a new Chairman was conducted. 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

During the year, the Company has been served for the most part by Guy Millward, as the Company Secretary, with the role now having been returned to Guy Millward once more at the start of July 2017. The Company Secretary is under the direction of the Chairman and ensures a good flow of information within the Board and its Committees and to senior management. The Company Secretary has also been 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.

The Board has considered the independence of the non-executive directors and agrees that the 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; and
- attendance at strategy meetings.

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 44.

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 due to have been conducted during the year, however, the Board agreed to postpone this so as to ensure their focus remained on the situation with Apple and the sale of MIPS and Ensigma.

The SID is responsible for performance appraisal of the chairman.

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 authorisation 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 authorisation of any conflict matter, and the terms of authorisation, 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 2016/17. The Audit Committee is appointed by the Board and monitors the integrity of financial information and provides 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

4 July 2017

Role of the Audit Committee

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

- reviewing the Group's internal financial controls and risk management systems;
- monitoring the integrity of the financial statements;
- ensuring that the financial statements of the Group are fair, balanced and understandable;
- *assessing the completeness and accuracy of the going concern and viability statements;*
- developing and implementing the policy on the engagement of the external auditor;
- making recommendations to the Board in relation to the external auditors regarding approval of their remuneration, terms of engagement, appointment, re-appointment or removal;
- reviewing and monitoring the external auditors' independence and objectivity and effectiveness of the audit process;
- monitoring 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;
- considering annually whether there is a need for an internal audit function;
- ensuring director's expenses are of a reasonable business nature and authorised appropriately; and
- reporting to the Board on how it has discharged its responsibilities.

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 included 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;
- reviewing directors' expenses; and
- reviewing the Audit Committee's terms of reference. Following the review in 2017, the terms of reference were amended so that the committee meets three times, rather than four times a year but can still meet more if required and all non-executive directors are entitled to attend the committee meetings.

Committee composition

The composition of the Audit Committee changed during the year following Gilles Delfassy's resignation. Nigel Toon was appointed to the committee in Gilles' place. The committee consists exclusively of independent non-executive directors with the Chairman and executive directors invited to attend each meeting.

The Audit Committee comprised the following directors:

- David Anderson (Chairman)
- Kate Rock
- Nigel Toon

The Audit Committee met four times in 2016/7. 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 36. The external auditors KPMG 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 and other roles of the Chairman of the Audit Committee, 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
Licence revenue recognition	The method used for licence revenue recognition involves a number of judgements including an assessment of the extent of progress towards completion of the contract.	The Audit Committee reviewed the internal procedures performed by management to ensure revenue is recognised appropriately and in accordance with applicable standards.
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 considered management's conclusion that there was a material uncertainty related to going concern and the completeness and accuracy of the disclosure provided in the Annual Report. The Committee also assessed the conclusions concerning the group's longer viability in particular the assessment period, the mitigating actions that could be taken, and the conclusions reached.

Other Issues

Issue	Description	Work performed by Audit Committee
Accounting for share based payments	Calculating the share based payments requires estimation in determining the fair value of the awards.	The Audit Committee has reviewed the findings of the specialists engaged to perform the current year share based payment work.
Valuation of investments	The Group holds investments in privately owned companies for which fair value is based on limited private information and is therefore subjective.	The Audit Committee has considered the method used for deriving the valuations as well as considering alternatives such as forecast financial performance.
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.
Presentation of discontinued operations	Determining whether the criteria for classifying businesses as discontinued have been met.	The Audit Committee have reviewed the classification of businesses in the financial statements.
Valuation of goodwill and fixed assets	Goodwill balances are material. Financial statements and impairment reviews are regularly performed.	The Audit Committee has reviewed the forecast and the assumptions used in the impairment review when considering the need for impairment.
Recoverability of deferred tax assets and tax debtors	The Group's deferred tax assets and tax debtors require review for recoverability.	The Audit committee has satisfied itself that management's write-down of tax assets is in line with the uncertainty conclusions reached.
Royalty revenue recognition	Royalty revenue recognition requires estimation where a statement has not been received.	The Audit Committee has reviewed the procedures used by management for reaching estimates.

Risk management and internal control

The Board assumes overall responsibility for ensuring that the Group maintains an effective system of internal controls to provide it with reasonable assurance regarding management of risk across the business, and that each business area implements appropriate internal controls. The Audit Committee assists the Board in discharging its responsibilities in this regard. The risk management process and system of internal control are designed to 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 Board is not aware of any significant failings or weaknesses in the system of internal control.

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.

The Group's assessment of its principal risks and uncertainties is set out on page 15 to 17.

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, banking facilities and FX exposure 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.

The Audit Committee considered the Group's risk management and internal control systems, as well as internal financial controls. 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. During the year 2015/16 the Audit Committee decided that a separate internal audit function was required and appointed Grant Thornton to provide this outsourced internal audit service.

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 without the executive being present at least once a year and the Audit Partner and the Audit Committee Chairman, David Anderson, have discussions throughout the year as becomes appropriate.

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. KPMG provided additional services in respect of the sale of Pure, and this has been disclosed on page 89. The value of this work was such that it has not impacted the independence of KPMG to act as external auditor.

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 considered 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 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 is mindful of changes and guidelines 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.

Aside from the UK Competition Commission and European Commission rules that would require KPMG to stand down in 2020, there are no contractual obligations currently restricting the current or future choice of external audit firm. The Group Audit Partner is rotated every five years, with the current partner, John Bennett, being first appointed for the year ended 30 April 2016.

The Audit Committee will keep the situation with regards to tendering for an external audit under close review with a view to meeting these guidelines within the foreseeable future.

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 2016 the Committee had 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 resulted in our recommendation to the Board that Nigel Toon be appointed to the Board. The role of this non-executive was to also contribute to the now established Technical Advisory Committee, which Nigel subsequently chairs. The search was supported by Zygos Partnership.

During the year, we concluded the appointment of a new Chairman and a Non-Executive Director. In late 2016, the search for a replacement for Bert Nordberg commenced led by the Senior Independent Director, David Anderson. Zygos Partnership had been used previously to lead the search for the replacement appointment of the CFO & CEO and having proved successful, were appointed again to search for our new Chairman. Following a rigorous search process the Nomination Committee recommended the appointment of Peter Hill to the Board. Peter's extensive experience as both a chairman and non-executive director, coupled with his engineering background, meant he was well placed to lead the Company.

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, analysing 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

Peter Hill – Chairman

Andrew Heath

David Anderson

Nigel Toon

Kate Rock

The Committee had two meetings during the year, the attendance of which is given on page 36.

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.

Peter Hill
Chairman of the Nomination Committee

4 July 2017

Directors' remuneration report

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' remuneration report for 2017.

The Director's remuneration policy was approved at the 2016 AGM with a strong vote in favour of 93.82%.

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 2016/17. When considering remuneration for our senior executives, the Remuneration Committee (the Committee) has used the policy framework approved by shareholders at the AGM in September 2016.

We continue to listen and take into consideration shareholders' and institutional views regarding our Policy, maintaining an open and transparent application of the policy not only in the true reflection of the policy, but also in terms of the underlying principles. The Policy, designed to comply with the principles of the UK Corporate Governance Code and amendments to the Companies Act 2006 regarding remuneration, remains compliant. With a further year of change during 2016/17, the Committee agreed that the current Remuneration Policy remained fit for purpose but will continue to monitor the market competitiveness of the remuneration policy, in order to ensure we are able to attract and retain the best talent.

Leadership changes

During the year, Bert Nordberg resigned as Chairman and Peter Hill was appointed. Peter joined the Company on 1 January 2017 and his fee is fixed at £150,000 per annum for three years.

Executive director salaries

The Committee agreed that, with reviews of the CEO and CFO salaries having taken place last year, it was not necessary to perform a wholescale review again, and given the challenges the business faced, the CEO and CFO requested not to be considered for any salary increase in the circumstances. The CEO and CFO salaries have therefore remained at the same levels as last year and it should be noted that they have remained at this level since the FY15/16 year. The Committee has ensured that total remuneration is aligned to strategy through setting objectives for the CEO and CFO that are clearly linked with the Group's Business Strategy, or the delivery thereof.

Annual bonus outcome

The Group's performance for FY16/17 has resulted in the bonus targets being achieved in respect of both the CEO and CFO, with payments being made under the under the scheme in line with the rules. With the audited results completed the CEO and CFO will be paid a bonus in line with the bonus scheme rules. However, given recent events, payment of 75% of the payments will be deferred.

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.

In light of the Group position at the time options would usually be granted under the LTIP, it has been agreed that awards to both the CEO and CFO of further shares under the LTIP will be delayed until later in the year or an appropriate time in line with Regulatory compliance.

Activities of the Remuneration Committee during 2016/17

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

- appointed Deloitte as remuneration consultants to advise the Committee;
- reviewed the on-going appropriateness of the Remuneration Policy in line with the market;
- considered and agreed the potential outcome for the cash bonus for 2016/17 financial year, confirming a bonus is to be paid and proposing a payment process that is reflective of the unfolding business position;
- established 2016/17 and 2017/18 annual bonus targets reflective of the revised strategic direction;
- considered the remuneration of executive and non-executive members and how their salary packages are remunerated;
- advised on salary adjustments, share awards and LTIP options for the senior management reporting to the Executive Directors;
- reviewed the findings of an engineering market review, ensuring the guiding principles were aligned to the overall reward strategy;
- reviewed executive directors' base salary levels, confirming that not adjustment should be made for this coming year;
- agreed the remuneration terms for the appointment of Peter Hill as Chairman;
- reviewed appropriateness of all current employee share schemes, in particular share dilution limits under all plans;
- recommended the approval of the 2016/17 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 retains value for shareholders and I look forward to the on-going support from Imagination shareholders.

Yours sincerely

Kate Rock
Chairman of the Remuneration Committee

4 July 2017

Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting in September 2016 which applies for three years from that date. The Remuneration Policy agreed at the AGM in 2016 aligned executive remuneration with the interests of shareholders and outlined in the table below. The Policy applies to the executive directors.

Remuneration Policy Table

The Directors' Remuneration Policy is laid 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 60. 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. In its annual review the Committee considers the following: • Pay levels at companies of a comparative size and technology sector (by reference to market capitalization and revenue) on a geographical basis; • External market conditions; • Market media salaries; • Pay increases for all employees in the Group; • Individual performance, skills expertise and potential; and • 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. In normal circumstances base salary increases will be no more than the average increases for employees across the Group. Greater increases may be approved if there is a substantial change in a directors' 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. 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. 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. Alternatively a cash equivalent allowance can be paid in lieu of the market.	None. 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 cost. The Committee reserves it discretion to provide such situation-specific benefits as may be required in the interests of the Group's business, such as relocation.	None. 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. Bonus payments are not pensionable. 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. For performance in excess of target a maximum bonus of target can be paid. The bonus is self-funding. 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: The targets are: 1. Group revenue budget (25%); 2. Adjusted operating profit (50%); and 3. Individual performance (25%). The measures (1) and (2) have the following linear calibration: **% of budget achieved** / **% of target bonus payable** 85% / 25% 100% / 50% 115% / 125% The Committee will apply judgment in assessing individual performance based on quantitative and qualitative results. The Committee retains discretion to adjust bonus targets to reflect intervening events, such as acquisitions or disposals. These will be disclosed accordingly. 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. 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. 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. 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.	The vesting of share awards under the LTIP will depend on three performance conditions: 1. Adjusted earnings per share (50%); 2. Total Shareholder Return (TSR) growth relative to the FTSE All World Technology Index constituents (25%); and 3. TSR growth relative to FTSE 350 Index constituents (25%). The Committee retains discretion to adjust LTIP targets to reflect intervening events, such as acquisitions or disposals. These will be disclosed accordingly. The AGM resolution of 2016. provides discretion on the part of the Remuneration Committee to allow awards granted under the LTIP to vest in the vent of a takeover, scheme of arrangement or winding up of the Company without reference to the length of time for which the award was held prior to the relevant corporate event. **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 publishsed results, misconduct by the executive director that is deemed to have initiated or contributed to a material loss as a a result of reckless, negligent or wilful actions, or inappropriate values or behaviour. **Clawback:**The Committee has discretion to clawback shares and executive directors have an obligation under the rules of the LTIP to transfer share 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.

Alignment with strategy and purpose	Operation	Maximum potential value	Performance framework
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%. 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. No recovery provisions apply.
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. 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 (Earnings Per Share) 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. The Committee reviewed the performance targets and best practice guidelines and agreed it was not appropriate to make any changes. The compound annual growth in EPS targets were set for 2016/17 as follows:

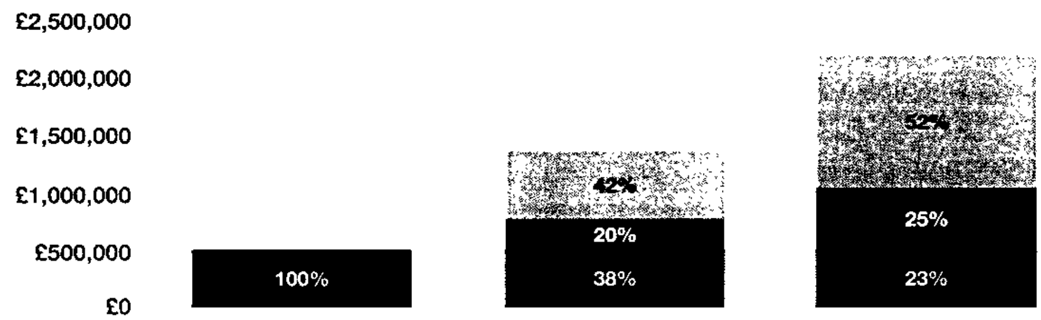
- 0% pay out below EPS of less than 5.8 pence;
- 25% pay out for EPS of 5.8 pence;
- 100% pay out for EPS of 7.4 pence; and
- Linear progression between 25% and 100% thresholds for an EPS over 5.8 pence and less than 7.4 pence.

Given the current circumstances around the sale of MIPS and Ensigma, announced on 4 May 2017 and the subsequent initiation of a formal sale process announced for the whole group on 22 June, the committee decided to set targets on a quarterly basis until there is sufficient clarity to set long term targets. Any targets set will be linked to a deferred share award.

Illustration of the remuneration policy for 2017/18

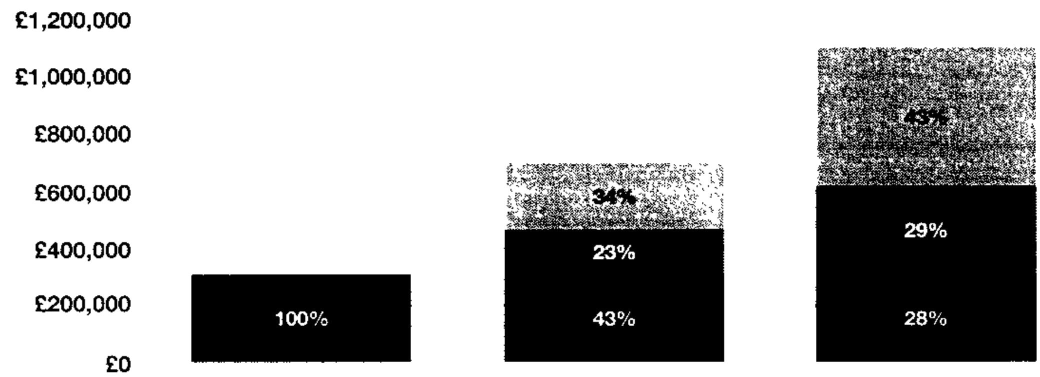
The graph below illustrates the level of remuneration that could be achieved by the CEO and CFO through the operation of our remuneration policy for 2017/2018. The graph show the proportion of total remuneration made up of fixed pay (salary, pension and other benefits), annual bonus and the LTIP and the pay outcomes for three performance scenarios.

Chief Executive Officer



	Minimum	Target	Maximum
LTIP	£0	£578,440	£1,156,880
Annual Bonus	£0	£274,313	£548,625
Total Fixed Pay	£519,472	£519,472	£519,472

Chief Financial Officer



	Minimum	Target	Maximum
LTIP	£0	£236,250	£472,500
Annual Bonus	£0	£120,235	£240,469
Total Fixed Pay	£301,250	£301,250	£301,250

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 2016/17 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 and neither the CEO or CFO have any awards under the SAYE scheme as regulation and policy restricted their participation.

As seen in the charts above, at target levels of performance, around 62% of the CEO's total pay, and around 54% 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, life assurance, critical illness and income protection. For the first year of the permanent appointment to CEO, a single relocation allowance of £8,000 was awarded aligned to the tax arrangements, with a further a one off accommodation allowance of £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, life assurance, critical illness and income protection.

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. As part of the considerations this year, the Committee reviewed the market analysis for employees to align the thinking and approach of the business and remuneration of the executives.

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

In the event of hiring a new Executive Director, the Committee will align the remuneration package with the Remuneration Policy, and will take into account all factors it considers relevant, including their experience and caliber, current total remuneration, levels of remuneration for companies in the Committee's chosen peer group, and the remuneration required to attract the best candidate for the Company. The Committee will seek to ensure that the arrangement is in the best interests of the Company and its shareholders without paying more than is necessary.

Should future appointments be necessary the Committee will continue to give consideration to any relevant factors when determining the value of any 'buy-out' awards needed to secure a candidate, 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. 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 hires 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.

The policy on the recruitment of new Non-Executive Directors is to apply the same remuneration elements as for the existing Non-Executive Directors.

Element of remuneration	***Maximum percentage of salary***	
Maximum variable pay, normally comprising:	CEO	CFO
Annual bonus plan	100%	75%
LTIP*	250%	175%

* In the event that a highly experienced executive director needs to be recruited, an award of up to 600% may be awarded
This was partially used on the appointment of Andrew Heath as interim CEO when he was awarded 300% of his salary under the LTIP

Service contracts

Our policy for notice periods for executive directors was amended at the AGM in September 2016 from six months to twelve months on a reciprocal basis. This also applies to 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**
Andrew Heath	8 February 2016	12 months' notice by director or Company
Guy Millward	1 December 2015	12 months' notice by director or Company
Peter Hill	1 January 2017	6 months' notice by director or Company

Andrew Heath's service as CEO began on 8 February 2016, initially as interim, moving to a permanent position on the 26 May 2016 with continuity of services recognised.

The non-executive directors, with the exception of the Chairman, do not have service contracts and all 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 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 handover 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.

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.

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.

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)

No compensation was paid to either Bert Nordberg or Gilles Delfassy upon their resignations.

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.

	2016/2017 £'000	**2015/2016 £'000**
Total pay spend	97,922	94,808
Retained Earnings and other reserves	(16,089)	(74,435)

Dividends and share buybacks

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

The remuneration report

Composition

Kate Rock chairs the Remuneration Committee which continues to be made up of independent non-executive directors. Over the last year they have met four times and had intervening calls as necessary. The membership and meeting attendance for this past year are set out below. In addition to the Committee members, the Chairman, 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*	3	3
Nigel Toon	3	3

* Gilles Delfassy resigned as a director on 24 March 2017 and ceased to be a member of the Remuneration Committee at the same date Gilles was replaced by Nigel Toon.

Andrew Heath attended each Remuneration Committee meeting

Guy Millward attended two Remuneration Committee meetings

Peter Hill attended two Remuneration Committee meetings.

Given their diverse business experience, the independent non-executive directors who made up the Committee in 2016/17 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 appointments 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 salaries of the CEO and CFO are consistent with this policy and propose not to increase pay this year in line with the request from both the CEO and CFO to not receive a salary increase.

External Committee advisers

The Committee has access to independent professional advice on remuneration matters, reviewing and appointed Deloitte LLP for this purpose in 2016, prior to which Willis Towers Watson had served in this role since 2012. Work undertaken by Deloitte in 2016/17 included an independent analysis of the Remuneration Policy, evaluating options and market benchmarking for the CEO and CFO roles, helping establish a range of options for future consideration.

Total fees paid to Deloitte were £25,117 and to Willis Towers Watson £31,835 during the 2016/17 year.

Voting at the 2016 Annual General Meeting

The key activities of the Committee during the year are set out in the letter to shareholders on pages 46 to 47 of this report.

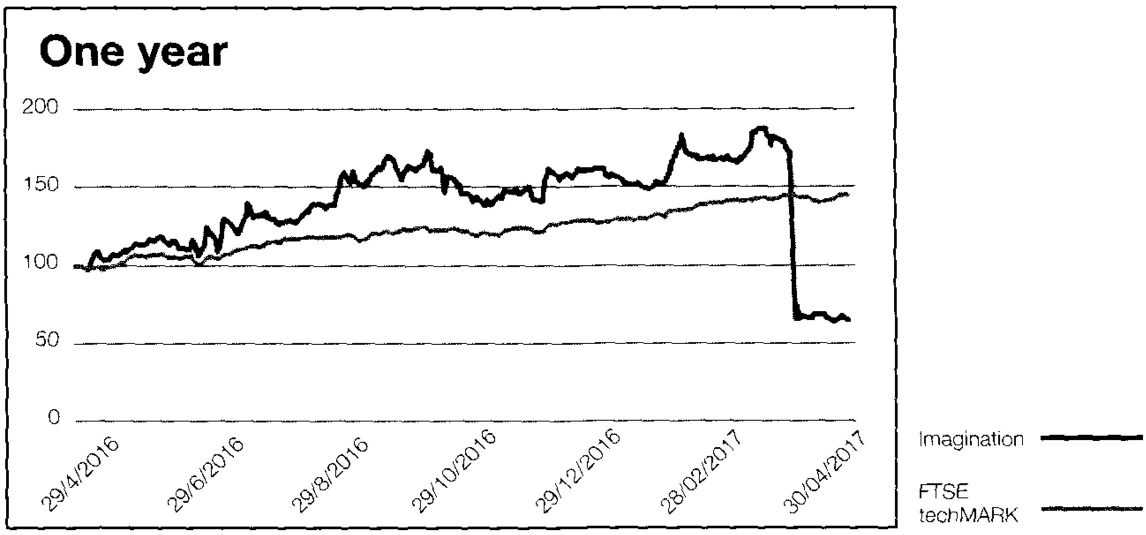
As previously noted, shareholder support at the 2016 AGM was strong, with 95.74% of shareholders voting in favour of the Remuneration Report. The following table summarises the details of votes cast in respect of Directors' remuneration; the binding vote on the Directors' Remuneration Policy and the advisory vote on the Directors' Remuneration Report at the 2016 Annual General Meeting:

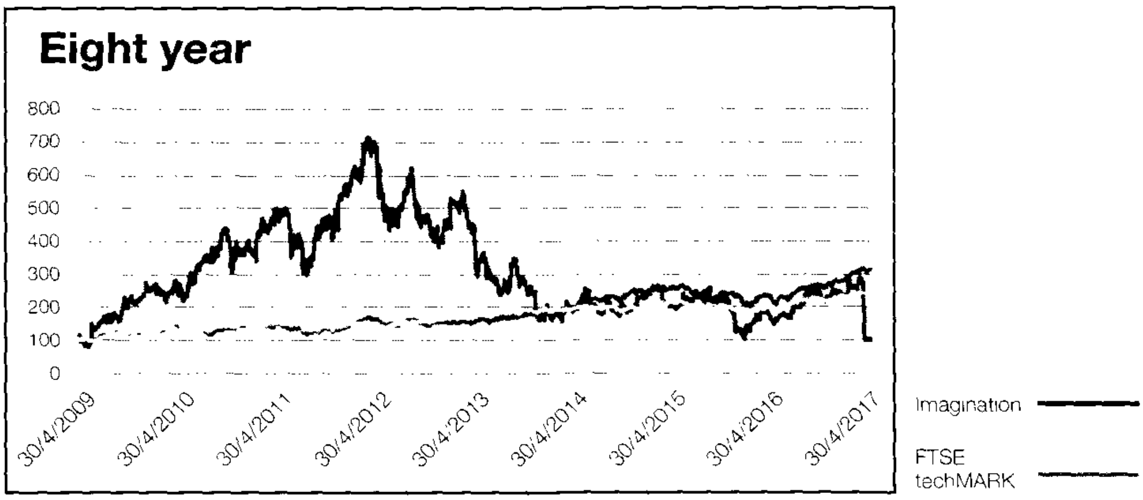
Resolution	Votes for (and % of votes cast)		Votes against (and % of votes cast)		Proportion of share capital voting	Votes which were withheld
Remuneration Policy	174,459,558	93.82%	11,499,528	6.18%	66.45%	788,844
Remuneration Report	172,923,054	95.74%	7,700,756	4.26%	64.54%	6,124,120

Performance graphs

The performance graphs show the Group's one year and eight year TSR together with the TSRs for the FTSE All-World Technology Index from 1 May 2009 is shown below. The Total Shareholder Return of the Company was -35.31% over the financial year compared with +44.73% 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 share price of Imagination Technologies Group plc shares on 28 April 2017 was 101.75p The highest and lowest closing market share price of the ordinary share in the year was 291.5p and 99.5p respectively.

Remuneration in 2016/17

CEO's pay for the last eight financial years

Year		Single figure of remuneration (£'000)	Annual bonus as a % of maximum opportunity	LTIP vesting as a % of maximum opportunity
2016/17	Andrew Heath	1,019	85%	n/a
2015/16	Andrew Heath	117	0%	n/a
2015/16	Sir Hossein Yassaie	509	0%	0%
2014/15	Sir Hossein Yassaie	746	48%	0%
2013/14	Sir Hossein Yassaie	935	0%	37%
2012/13	Sir Hossein Yassaie	3,639	60%	100%
2011/12	Sir Hossein Yassaie	301	0%	0%
2010/11	Sir Hossein Yassaie	395	45.8%	0%
2009/10	Sir Hossein Yassaie	248	0%	0%

Percentage change in remuneration of the CEO

Increase in pay and benefits from 2016 to 2017 for the CEO compared to employees:

	CEO	Employees
Base Salary	0%	6.7%
Benefits and pension	0%	0%
Bonus	0%	*

*a staff bonus scheme has been introduced in 2016/17 but the payout will not be determined until November 2017.

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 since 2015. 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, 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 10.6% and with lapsed shares returning, the dilution is currently 8.51% of issued share capital as at 30 April 2017.

Employee Share Plan ('ESP')

The ESP is the primary Long-Term Incentive Plan that is offered to all employees. The Scheme rules that were approved at the 2016 AGM will exclude directors from this Plan. It is noted that with the impact of changes to the Market Abuse Regulations, both the CEO and CFO have not been in a position to elect to participate in this Plan – this will not change in the foreseeable future.

For Employees participating in the ESP, 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.

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 58.

Tax Efficient Employee Share Scheme ('TEESP')

Neither Andrew Heath or Guy Millward have been granted share options under the TEESP.

Vesting of the share awards for employees is 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 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 2016 and 30 April 2017.

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Andrew Heath	463	106	35	8	54[4]	3	467	-		-	1,019	117[3]
Guy Millward	270	113	20	8	13	5	204	-		-	507	126
Total	**733**	**219**	**55**	**16**	**67**	**8**	**671**	**-**	**-**	**-**	**1,526**	**243**

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

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

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

Andrew Heath received a one off relocation allowance of £36,000 during 2017. The other taxable benefits relate to car allowance, private medical insurance life assurance, critical illness cover and income protection. These taxable benefits are available to both the CEO and CFO.

During the year there have been no exercises of share options by either the CEO or CFO, accordingly no gain was made by either director and is not shown within the above table.

Chairman and Non-Executive fees (audited)

Non-executive	Total amount of salary and fees		All taxable benefits		Total Single Figure	
	2017 (£)	**2016 (£)**	**2017 (£)**	**2016 (£)**	**2017 (£)**	**2016 (£)**
Bert Nordberg[4]	97,500	130,000	N/A	N/A	97,500	130,000
Peter Hill[2]	50,000	–	N/A	N/A	50,000	–
Andrew Heath	–	35,250	N/A	N/A	–	35,250
Gilles Delfassy	48,416	42,000	N/A	N/A	48,416	42,000
David Anderson[3]	61,000	47,000	N/A	N/A	61,000	47,000
Nigel Toon	49,000	–			49,000	–
Kate Rock	49,000	42,000	N/A	N/A	49,000	42,000
Ian Pearson[1]	**3,500**	42,000			**3,500**	**42,000**
Total	**358,416**	**338,250**	**–**	**–**	**358,416**	**338,250**

[1] Ian Pearson stepped down as a non-executive director in May 2016.

Peter Hill was appointed Chairman in January 2017. He receives an annual salary of £150,000 per annum

David Anderson receives an additional fee of £11,000 as SID and this fee was backdated resulting a higher total fee paid during the financial year of £61,000.

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

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

The non-executive directors' remuneration is based at £42,000 per annum. The committee Chairmen role also receives an additional annual fee of £7,000 for their services.

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	With effect from 1 April 2016 £'000	Increase	2016/17 £'000
Andrew Heath	463	0%	463
Guy Millward	270	0%	270
Average employee	47	6.7%*	50

*Employee salary increases have been deferred

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 the executive directors in June 2016. The parameters have been met and a bonus payment is due to be 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% 100% 115%	25% paid 50% paid 125% paid
Adjusted Operating Profit (AOP) (50%)	85% 100% 115%	25% paid 50% paid 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.

Bonus calculation

	Target Areas	Weighting before outperm uplifts	Maximum achievable – on base pay (non-pensionable)		Achievements FY2017 – as a % of salary		Earn Out	
			AH Target 100% of salary	**GM Target 75% of salary**	**AH**	**GM**	**AH**	**GM**
1	Adjusted Operating Profit	50%	125% (62.5% of salary)	125% (46.87% of salary)	62.5% (Max'd)	46.8% (Max'd)	£289,220.00	£126,562.50
2	Group Revenue Budget	25%	125% (31.25% of salary)	125% (23.44 % of salary)	77.4% (=14.55% of salary)	77.4% (=14.55% of salary)	£89,542.51	£39,184
3	Individual Performance Objectives	25%	25% of salary	25% (18.75% of salary)	75% of target (equate to 19% of salary)	75% of target (equate to 14.06% of salary)	£87,922.88	£37,968.75
	Totals		**118.75% of total base salary**	**89% of total base salary**	**75.4% of base salary**	**75.4% of base salary**	**£466,685.39**	**£203,715.25**

Individual Performance Objectives — **Included:**

- winning new business
- implementation of the revised business strategy announced in July 2017
- ensuring the identified restructuring was delivered including the sale or closure of non-core activities
- achievement of targeted cost savings
- improving operational performance of the business and cash generation
- strengthening the organisation and employee engagement

The following provides an overview of key achievements during the year for each Executive Director:

Andrew Heath

- Licence wins with new customers
- Strong progress in implementation of the strategy
- Completion of the restructuring programme
- Strengthening of the leadership team through internal promotion and external hires
- Implementation of a business employee engagement forum amongst other engagement initiatives

Guy Millward

- Achievement of the cost reduction and cash targets
- Led sale of Pure sold September 2016 and the sale or closure of IMG Systems
- Strengthened finance organisation including the implementation of new finance systems
- Improved investor relations

Share Incentive Plans

Awards under the LTIP were made to the CEO and CFO during the year equal to 100% and 175% of salary respectively.

For 2016/17 there were four 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

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	–	–	–	1,228,505	11/02/2019	11/02/26
Andrew Heath	22/07/16	212.67	–	271,974	–	–	271,974	22/07/19	22/07/26
Guy Millward	18/12/2015	133.20	354,836	–	–	–	354,836	18/12/2018	18/12/25
	22/07/16	212.67	–	222,175	–	–	222,175	22/07/19	22/07/26
Total			**1,583,341**	**494,149**	**–**	**–**	**2,077,490**		

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

Performance conditions for the awards made in FY15/16:

(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

Performance conditions for the awards made in FY16/17 are set out on page 51.

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 of 30 April 2017 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
Peter Hill	–	–	–
Andrew Heath	58,387	1,500,479	1,558,866
Guy Millward	1696	577,011	578,707
David Anderson	8,175	–	8,175
Gilles Delfassy*	–	–	–
Nigel Toon	–	–	–
Kate Rock	10,000	–	10,000

*Gilles Delfassy resigned as a director on 24 March 2017

There have been no further changes in the above interests between 30 April 2017 and 4 July 2017.

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

4 July 2017

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 2017 set out on pages 71 to 119. 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 2017 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 (IFRSs as adopted by the EU);
- 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the parent company's ability to continue as a going concern, in particular the substantial achievement of forecasts (including cash collection from customers, the timing and amount of proceeds of planned disposals and, if necessary, the successful execution of planned cost restructuring), the availability of such additional facilities as may be needed if forecasts are not substantially achieved, and the availability of appropriate banking facilities to replace existing facilities when they expire in June 2018. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty, which may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the parent company were unable to continue as a going concern.

2. Our assessment of risks of material misstatement

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

	Risks of material misstatement	vs 2016
New risk	Going concern assumption	▲
Recurring risks	Licensing and development revenue recognition	◀ ▶
Downgraded risks (no longer significant)	Valuation of trade investments	▼
	We no longer consider this a significant risk, due to the reduction in the company's portfolio in the previous year and reduced complexity in the judgement in the valuation.	

	The risk	Our response
Going concern *Refer to the Report of the Audit Committee and Note 1. Statement of accounting policies*	**Accounting basis and disclosure quality** The accounts are prepared on a going concern basis. On 3 April 2017, Apple Inc ("Apple") announced that it plans to discontinue the use of the group's intellectual property in the next 15-24 months. For the year ended 30 April 2017, revenues from Apple constituted c.45.2% of the group's total revenue. In response to this announcement, the Directors conducted a strategic review of the group's operations and, on 4 May 2017, announced an intention to dispose of its MIPS and Ensigma division (together "the divisions"). As part of their review, the Directors have considered the Group's business and capital structure which included the development of a Business Plan. While the Directors' are actively pursuing the sale of the divisions, the ability to complete these disposals remains uncertain. Consequently, the Business Plan includes a restructuring of the business that incorporates a significant reduction in the group's fixed cost base. The Business Plan contains cash flows that contain key inputs which are volatile and outside the control of management, thereby requiring judgement in their selection, which could have a significant impact on future cash flows. In particular the substantial achievement of forecasts includes assumptions over cash collection from customers, the timing and amount of proceeds of planned disposals and, if necessary, the successful execution of planned cost restructuring. The Business plan also makes assumptions about the requirement for additional facilities that may be needed if forecasts are not substantially achieved. The financial statements explain how the Directors have formed their judgement that there is a reasonable expectation that the going concern basis is appropriate in preparing the financial statements of the Company and the Group. However the Directors have concluded that, when taken together, the level of forecasting uncertainty represented a material uncertainty that may cast significant doubt regarding the Group's ability to continue as a going concern. As this assessment involves consideration of future events there is a risk that the judgement is inappropriate and also that the required disclosure is inappropriate or insufficient.	Our procedures included: **Key dependency assessment** Reviewing management's cash flow model ("the model") to identify the key inputs for further assessment. Key inputs included: forecast foreign exchange rates, operating costs, royalty revenues, and the timing of the sale of the MIPS and Ensigma business units. **Historical comparisons** Comparing royalty revenue forecasts for the group's key customers to historical royalty volume and revenue trends, assessing the timing of the group's key customer's receipts against historical information and assessing the forecast operating costs against historical trends. **Benchmarking assumptions** Comparing the forecast exchange rates to externally derived data. **Funding assessment** Reviewing the terms of the Facility agreement and challenging management's assessment of the group's ability to comply with the associated financial covenants based on the outputs from the model **Sensitivity testing** Performing sensitivity analysis of the cash flow forecasts considering the impact that foreign exchange movements, a delay in the payments from key customers or a delay in cost reduction would have on the available working capital headroom against committed facilities. **Tests of details** • Assessing the completeness of cash flows by reviewing the year-end balance sheet for expected realisation of assets or liabilities as well as against our knowledge obtained through other audit procedures; • Assessing the collectability of outstanding customer payments by analysing the payment history of larger customers and challenging the expectations of management regarding the collection of overdue amounts. This included, where available, corroboration of the explanations given to customer correspondence; • Assessing estimates used in the restructuring costs against an expectation we determined based on internal management plans and comparison to previous redundancy payments made by the Group. **Assessing transparency** We considered the adequacy of the Group's disclosures in respect of going concern.

	The risk	Our response
Licensing and development revenue recognition *£34,134,000 (2016: £18,573,000)* *Refer to page 40 (Audit Committee statement), page 78 (Accounting Policy) and page 83 (financial disclosure)*	There are several areas of judgement in determining the appropriate revenue recognition of license contracts, the main ones being: **Accounting treatment** Determining whether license contracts should be separated into individual components or whether the contract is to be treated as a single component for revenue recognition purposes; **Subjective estimate:** • determining the fair value of the components in order to allocate revenue to these components; and • determining the percentage of completion of the undelivered components of the contract	Our procedures included: **Personnel interviews** Obtaining an understanding of the nature of each deliverable through discussions with the project managers and business management team to assess the Group's judgements as to whether there were elements that should be accounted for separately; **Our sector experience** Analyzing the terms of the contract to determine whether the contract specifically identified separate deliverables and assessing other contract terms, in particular any specific terms related to acceptance by the customer that might impact the timing of revenue recognition. **Benchmarking assumptions** Assessing the fair values allocated to separately identified components against the fair values as demonstrated by sales to other customers. **Control design** Assessing the Group's controls over monitoring progress of license development and forecasting costs by discussion with the business management team and reviewing the Executive Management Board meeting minutes at which performance of individual contracts is discussed. **Test of detail** Challenging the Group's percentage of completion estimates by comparing the costs assumptions to payroll records and external invoices and service agreements. For costs to complete, we corroborated estimates by discussions with project level staff. **Reperformance** Recalculating revenue recognition based on the costs to complete and forecast costs recorded by the Group. **Assessing transparency** Assessing the Group's disclosures about the significant judgements and estimates made in respect of the revenue generated from license contracts.

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 £800,000 (2016: £860,000), determined with reference to a benchmark of revenue from continuing operations, of which it represents 0.6% (2016: 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 £40k (2016: £50k), in addition to other identified misstatements that we believe warranted reporting on qualitative grounds.

Full scope audits for group reporting purposes were performed at the UK, US and parent components by the same audit team. These audit procedures covered 99% (2016: 99%) of total Group revenue; 94% (2016: 81%) of the total profits and losses that made up Group loss before tax and 99% (2016: 98%) of total Group assets.

The audits undertaken for group reporting purposes were performed to a materiality level of £533,000 (2016: £800,000) for the UK component; £400,000 (2016: £600,000) for the US component; and £533,000 for the parent component (2016: £800,000).

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.

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

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

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' statement on Viability on page 31, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the period to 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 Audit Committee Report on page 39 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 30 and 31, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 35 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 30, 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

4 July 2017

Consolidated income statement

		Notes	Year to 30 April 2017 Total Continuing £'000	Year to 30 April 2016 Total Continuing £'000
Revenue		1, 2	**145,213**	**121,553**
Operating expenses		2	**(137,417)**	**(148,320)**
Operating profit / (loss) from continuing operations		2,3	**7,796**	**(26,767)**
Financial income			**65**	**37**
Financial expenses			**(5,491)**	**(2,667)**
Net financing expense			**(5,426)**	**(2,630)**
Profit / (loss) before tax		2	**2,370**	**(29,397)**
Taxation (charge) / credit		5	**(18,450)**	**3,294**
Loss from continuing operations		2	**(16,080)**	**(26,103)**
Loss from discontinued operations (net of tax)		2	**(11,828)**	**(54,756)**
Loss for the financial year attributable to equity holders of the parent			**(27,908)**	**(80,859)**
Loss per share	Basic	6	**(10.1)p**	(29.8)p
	Diluted		**(10.1)p**	(29.8)p
Loss per share (continuing activities only)	Basic	6	**(5.8)p**	(9.6)p
	Diluted		**(5.8)p**	(9.6)p

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

Consolidated statement of comprehensive income

	Notes	Year to 30 April 2017 £'000	Year to 30 April 2016 £'000
Loss for the financial year attributable to equity holders of the parent		**(27,908)**	(80,859)
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		**(4,898)**	(1,630)
Exchange differences on translation of part of the net investment in foreign operations		**4,392**	1,711
Change in fair value of assets classified as available for sale	10	**580**	(499)
Tax on items that are or may be reclassified subsequently to profit or loss		**-**	-
Total other comprehensive income / (expense) for the financial year, net of income tax		**74**	(418)
Total comprehensive expense for the financial year attributable to equity holders of the parent		**(27,834)**	(81,277)

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

Consolidated statement of financial position

	Notes	At 30 April 2017 £'000	At 30 April 2016 £'000
Non-current assets			
Other intangible assets	7	**38,411**	42,679
Goodwill	7	**48,716**	48,773
Property, plant and equipment	8	**63,982**	69,752
Investment property	9	**-**	5,475
Investments	10	**5,097**	4,626
Deferred tax	5	**98**	12,923
Corporation tax	5	**1,280**	889
Other debtors		**199**	3,238
		157,783	188,355
Current assets			
Inventories	11	**76**	220
Trade and other receivables	12	**31,471**	24,421
Accrued Income	12	**28,423**	29,695
Corporation tax	5	**1,014**	952
Assets held for resale	18	**-**	5,255
Cash and cash equivalents	13	**17,171**	5,820
		78,155	66,363
Total assets		**235,938**	254,718
Current liabilities			
Trade and other payables	14	**(39,175)**	(39,814)
Provisions	15	**(7,118)**	(8,936)
Liabilities held for resale	18	**(244)**	(6,312)
Interest bearing loans and borrowings	16	**(3,861)**	(38,789)
Corporation tax payable	5	**(6,058)**	(1,480)
		(56,456)	(95,331)
Non-current liabilities			
Other payables	17	**(5,572)**	(7,158)
Provisions	15	**(400)**	(1,893)
Interest bearing loans and borrowings	16	**(41,742)**	–
Deferred tax liability	5	**(10,840)**	(12,912)
Corporation tax	5	**(1,547)**	(4,583)
		(60,101)	(26,546)
Total liabilities		**(116,557)**	(121,877)
Net assets		**119,381**	132,841
Equity			
Called up share capital	19	**28,394**	27,663
Share premium account	19	**105,027**	103,277
Other capital reserve	19	**1,423**	1,423
Merger reserve	19	**2,402**	2,402
Revaluation reserve	19	**1,088**	508
Translation reserve	19	**570**	1,076
Retained earnings	19	**(19,523)**	(3,508)
Total equity attributable to equity holders of the parent		**119,381**	132,841

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

These financial statements were approved by the Board of Directors on 4 July 2017 and were signed on its behalf by:

Guy Millward
Director

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 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 charge 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
At 1 May 2016	**27,663**	**103,277**	**1,423**	**2,402**	**508**	**1,076**	**(3,508)**	**132,841**
Loss for the year	–	–	–	–	–	–	**(27,908)**	**(27,908)**
Other comprehensive income for the year:								
Exchange differences on translation of the balance sheets of foreign operations	–	–	–	–	–	**(4,898)**	–	**(4,898)**
Exchange differences on translation of part of the net investment in foreign operations	–	–	–	–	–	**4,392**	–	**4,392**
Change in fair value of assets classified as available for sale	–	–	–	–	**580**	–	–	**580**
Total other comprehensive income for the year	–	–	–	–	**580**	**(506)**	–	**74**
Transactions with owners:								
Share based remuneration	–	–	–	–	–	–	**12,682**	**12,682**
Tax credit in respect of share-based incentives	–	–	–	–	–	–	**(150)**	**(150)**
Issue of shares for SIP	**79**	–	–	–	–	–	**(79)**	–
Issue of shares at nil cost	**560**	–	–	–	–	–	**(560)**	–
Issue of new shares	**92**	**1,750**	–	–	–	–	–	**1,842**
At 30 April 2017	**28,394**	**105,027**	**1,423**	**2,402**	**1,088**	**570**	**(19,523)**	**119,381**

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

Consolidated statement of cash flows

	Notes	Year to 30 April 2017 £'000	Year to 30 April 2016 £'000
Cash flows from operating activities			
Loss after tax		**(27,908)**	(80,859)
Tax charge / (credit)		**18,450**	(6,641)
Loss before tax		**(9,458)**	(87,500)
Adjustments for:			
Depreciation and amortization and impairment	3	**15,703**	34,603
Loss on disposal of fixed assets		**29**	293
Net financing charge		**5,239**	1,717
Share-based remuneration	4	**12,682**	7,750
Release from contract obligation		**-**	-
Impairment of investments	10	**2**	11,387
(Gain) / loss on disposal of business units		**(424)**	-
Contingent acquisition consideration release	2	**(1,280)**	(1,726)
Acquisition costs		**590**	1,125
Exchange difference		**56**	1,225
Operating cash flows before movements in working capital		**23,139**	(31,126)
Change in working capital:			
(Increase) / decrease in inventories		**(812)**	5,148
(Increase) / decrease in receivables		**(7,209)**	23,706
(Decrease) / increase in payables		**(4,161)**	18,172
Cash generated / (utilised) by operations		**10,957**	15,900
Interest paid		**(1,751)**	(835)
Taxes paid		**(2,405)**	(3,025)
Net cash flows from operating activities		**6,801**	12,040
Cash flows from investing activities			
Investments made in the year	10	**-**	(523)
Disposal of investments in the year	10	**108**	4,410
Disposal of business units		**2,550**	-
Disposal of Investment properties		**4,500**	-
Acquisition of intangible assets		**(2,864)**	(3,727)
Acquisition of property, plant and equipment		**(1,949)**	(16,571)
Interest received		**65**	37
Payment of deferred acquisition consideration		**(763)**	-
Net cash from / (used in) investing activities		**1,647**	(16,374)
Cash flows from financing activities			
Proceeds from the issue of share capital	19	**426**	184
Draw down of facilities	16	**23,750**	30,000
Repayment of borrowings		**(19,715)**	(22,298)
Finance lease payments		**(1,862)**	(699)
Net cash from financing activities		**2,599**	7,187
Net increase / (decrease) in cash and cash equivalents		**11,047**	2,853
Effect of exchange rate fluctuation		**304**	316
Cash and cash equivalents at the start of the period		**5,820**	2,651
Cash and cash equivalents at the end of the period	13	**17,171**	5,820

During the year, discontinued operations absorbed £13.7m 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 disposal of Pure generated a £2.6m cash receipt.

The comparative cash flow has been restated to reclassify certain items, including representing cash flows on finance lease payments and foreign exchange movements. This is explained in Note 1.

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 115 to 119.

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:

- clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- equity Method in Separate Financial Statements – Amendments to IAS 27
- disclosure Initiative – Amendments to IAS 1
- Annual Improvements to IFRSs – 2012-2014 Cycle

This cycle of improvements contains amendments to the following four standards.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in method for disposal
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits – Discount rate in a regional market sharing the same currency – e.g. the Eurozone
- IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'

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

In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

At the date of this report, the group has drawn down bank facilities of £45.6m which are scheduled to expire during June 2018.

On 3 April 2017, the Group announced that Apple Inc. ("Apple") has asserted that it will no longer use the Group's intellectual property in its new products in 15 months to 2 years' time. Apple revenues constitute 45.2% of the group's revenue from continuing activities for the year ended 30 April 2017. The group is in dispute with Apple and has reserved its rights. While the Directors' have no reason to believe that Apple will withhold or delay payments during this process, should this occur, the group would likely need to seek additional funding beyond the facilities that are currently available to it.

As announced on 4 May 2017, the Directors are undertaking a review of the group's operations. This includes, but is not limited to, a sale of its MIPS and Ensigma businesses. On 22 June 2017, the group announced it had received interest from a number of parties for a potential acquisition of the whole Group. The Board therefore decided to initiate a formal sale process for the Group and is engaged in preliminary discussions with potential bidders. The Directors have determined that, should the sales process not be concluded as planned, the Group will need to take decisive measures to improve profitability and cash generation.

The Directors have reviewed the Group's business and capital structure and developed the Business Plan ("the Plan") in order to consider the measures that would need to be undertaken. In the absence of significant proceeds being generated by the planned disposal of its MIPS and Ensigma businesses, the Plan assumes a significant reduction of fixed cost expenses while preserving the ability of the business to continue to deliver on existing customer contracts and continue targeted development of its core intellectual property. The plan sees debt paid down in full before the end of FY18. There is further opportunity to sell certain property assets to accelerate cash generation and/or mitigate risk.

The Directors have prepared cash flow forecasts for a period in excess of 12 months. Various scenarios have been considered to test the Group's resilience against operational risks including:

- adverse movements in US Dollar exchange rate;
- delays in executing the reduction in costs should the disposals not proceed as planned; and
- delays in cash receipts from significant customers

The potential impact of changes in assumptions arising from matters outside the Group's control, or the unlikely event of a culmination of events, may result in the group requiring additional working capital beyond the group's existing facilities. This represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern such that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, based on the Group's assessment of the Plan, the Directors' believe that the Group will continue to have acceptable financial resources to meet obligations as they fall due and comply with its financial covenants and accordingly have formed a judgement that is appropriate to prepare the financial statements on a going concern basis. Therefore, these financial statements do not include any adjustments that would result if the going concern basis of preparation is inappropriate.

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.

Restatement of Consolidated Statement of Cashflows

The comparative cash flow has been restated to reclassify certain items, including representing cash flows on finance lease payments and foreign exchange movements. The net impact is to reduce net cashflows from operating activities by £805,000 and increase effect of exchange rate fluctuations by the same amount. Similarly, the adjustment relating to finance lease payments has decreased net cash used in investing activities by £699,000 and increased net cash from financing activities by the same amount.

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 Intellectual property 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 Intellectual property 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 Intellectual property 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 Intellectual property 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 Intellectual property 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 an Intellectual property product is technically feasible, production and sale are intended, an end market for the Intellectual property 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 Intellectual property product. The Group believes these requirements are only satisfied in their entirety once the Intellectual property 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 15 years

During the year, Imagination changed the useful economic life of patents from 5 to 10 years and trademarks from 5 to 15 years. The impact of this change in estimate was to reduce the amortization charge in the consolidated income statement by £788,000.

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 finance 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.

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.

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
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.

With the exception of IFRS15 and IFRS16 it is considered that the above standards and amendments will not have a significant effect on the consolidated or Company results or net assets. IFRS15 is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted. It establishes a comprehensive framework for determining whether, how much and when revenue should be recognised and it replaces existing revenue recognition guidance, including IAS 18 Revenue. Under IFRS15, revenue earned from contracts with customers will be recognised based on a five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to the customer. The transaction price will be the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The incremental costs of obtaining a contract and contract fulfilment costs will be recognised as an expense consistent with the transfer of the related goods or services to the customer. Depending on the particular contractual arrangements in place, application of the new standard may change the amount of revenue recognised on a contract and/or its timing compared with current accounting policies. The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS15 and will disclose additional information before it adopts IFRS15.

IFRS16 was published in January 2016 and will become effective in January 2019. IFRS16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard. The Group has not started to assess the potential impact of the adoption of IFRS16 on its consolidated financial statements.

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. The Group sub divides the Technology segment into five smaller segments or business units ('BU's) – PowerVR, MIPS, Ensgima, IMGworks and IMG Systems. Whilst these BU's 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. Included within the Corporate segment are costs associated with maintaining the Group's head office function. In addition, this segment includes revenue and costs associated with certain contracts relating to IMGworks which currently remain with the Group, even though the IMGworks business was sold after the year end. There is no inter-segment trading and no significant seasonality in the Group's operations.

Information regarding the operations of each reportable segment is included below. Note that during the year management reassessed the method by which certain overhead costs were allocated across the BU's. The April 2016 comparatives have been restated to reflect this change in methodology.

Performance is measured based on adjusted operating profit as shown in the table at the end of this note.

Year ended 30 April 2017	TOTAL 2017 £'000	PVR 2017 £'000	MIPS 2017 £'000	ENS 2017 £'000	CORP 2017 £'000	TOTAL CONT 2017 £'000	PURE 2017 £'000	IMGWKS 2017 £'000	IMGSYST 2017 £'000	TOTAL DISC 2017 £'000
		CONTINUING					DISCONTINUED			
Revenue										
Pure	6,059					0	6,059			6,059
Licensing	34,134	14,540	7,210	6,020	6,079	33,849			285	285
Royalties	111,316	80,256	28,147	1,632	1,068	111,103			213	213
Other	395		111		150	261			134	134
Total Revenue	**151,904**	**94,796**	**35,468**	**7,652**	**7,297**	**145,213**	**6,059**	**(0)**	**632**	**6,691**
Operating expenses										
Cost of sales	(8,760)	(493)	(717)	(883)	(2,157)	(4,250)	(4,406)	(1)	(103)	(4,510)
R&D	(77,215)	(34,486)	(25,164)	(9,085)	(1,845)	(70,580)	(1,743)	(3,931)	(961)	(6,635)
SG&A incl in adj operating profit	(45,656)	(21,986)	(10,785)	(4,215)	(4,241)	(41,227)	(435)	(2,958)	(1,036)	(4,429)
SG&A excl in adj operating profit - below	(24,305)	(5,371)	(6,847)	(2,573)	(6,569)	(21,360)	(821)	(1,318)	(806)	(2,945)
Total operating expenses	**(155,936)**	**(62,336)**	**(43,513)**	**(16,756)**	**(14,812)**	**(137,417)**	**(7,405)**	**(8,208)**	**(2,906)**	**(18,519)**
Operating profit / (loss)	**(4,032)**	**32,460**	**(8,045)**	**(9,104)**	**(7,515)**	**7,796**	**(1,346)**	**(8,208)**	**(2,274)**	**(11,828)**
Net financing expense	(5,426)				(5,426)	(5,426)				0
Profit / (loss) before tax	**(9,458)**	**32,460**	**(8,045)**	**(9,104)**	**(12,941)**	**2,370**	**(1,346)**	**(8,208)**	**(2,274)**	**(11,828)**
Taxation (charge) / credit	(18,450)				(18,450)	(18,450)				0
Profit / (loss) for the year	**(27,908)**	**32,460**	**(8,045)**	**(9,104)**	**(31,391)**	**(16,080)**	**(1,346)**	**(8,208)**	**(2,274)**	**(11,828)**

Adjusted profit is used by management to measure the performance of the business by excluding non-recurring items (items which typically do not occur every year), items relating to acquisitions, disposals and investments, non-cash based share incentive charges, and amortization of intangible assets acquired from acquisitions. Management believes that adjusted profit provides the clearest measure of the performance of the continuing business and the most meaningful comparison of performance year on year.

		CONTINUING					DISCONTINUED			
	TOTAL 2017 £'000	PVR 2017 £'000	MIPS 2017 £'000	ENS 2017 £'000	CORP 2017 £'000	TOTAL CONT 2017 £'000	PURE 2017 £'000	IMGWKS 2017 £'000	IMGSYST 2017 £'000	TOTAL DISC 2017 £'000
Reported operating profit / (loss) - (from above)	(4,032)	32,460	(8,045)	(9,104)	(7,515)	7,796	(1,346)	(8,208)	(2,274)	(11,828)
Share based payments	12,682	5,218	2,104	1,372	2,286	10,980	216	1,116	370	1,702
Amortisation of intangibles from acquisitions	6,037		4,863	1,174	0	6,037				0
Acquisition related costs	590				590	590				0
Release of deferred & contingent consideration	(1,280)				(1,280)	(1,280)				0
Gain on investments	(24)				(24)	(24)				0
Loss on disposal of businesses	1,369				56	56	770	232	311	1,313
Loss on disposal of Investment Property	2,027				2,027	2,027				0
Corporate restructuring costs	1,001	154	(120)	27	885	946	(147)	(30)	232	55
Provision for onerous contracts	2,069				2,069	2,069				0
Provision for onerous leases	(145)				(20)	(20)	(17)	0	(108)	(125)
Dilapidations	(22)				(22)	(22)				0
Adjusted operating profit / (loss)	**20,272**	**37,832**	**(1,198)**	**(6,531)**	**(948)**	**29,155**	**(524)**	**(6,890)**	**(1,469)**	**(8,883)**
Net financing expense	(5,426)				(5,426)	(5,426)				0
Adjusted profit before tax	**14,846**	**37,832**	**(1,198)**	**(6,531)**	**(6,374)**	**23,729**	**(524)**	**(6,890)**	**(1,469)**	**(8,883)**

The credit for acquisition related costs in 2017 resulted from the release of an accrual for contingent acquisition consideration. Acquisition related costs in 2016 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.

The loss on disposal of business in 2017 relates mostly to the sale of Pure during the year.

The loss on disposal of Concept House in 2017 relates to the sale of one of the Group's Kings Langley properties (classified as an investment property), and certain tangible fixed assets that were included in the sale.

Within the provision for onerous contracts charge to the income statement is £2,007,000 (2016: £6,182,000) relating to four IMGworks revenue contracts (see also note 15).

The impairment of goodwill in 2016 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 in 2016 largely relates to the £6,458,000 impairment of Concept House.

The contingent acquisition consideration release in both 2016 and 2017 relates to contingent consideration that has not crystallised relating to the acquisition of Posedge Inc.

Year ended 30 April 2016 (restated)	TOTAL 2016 £'000	CONTINUING PVR 2016 £'000	MIPS 2016 £'000	ENS 2016 £'000	CORP 2016 £'000	TOTAL CONT 2016 £'000	DISCONTINUED PURE 2016 £'000	IMGWKS 2016 £'000	IMGSYST 2016 £'000	TOTAL DISC 2016 £'000
Revenue										
Pure	18,819						18,819			18,819
Licensing	18,573	10,156	6,439	2,025		18,620		(1,549)	1,502	(47)
Royalties	103,626	77,708	23,473	1,499		102,680			946	946
Other	356		213		40	253			103	103
Total Revenue	**141,374**	**87,864**	**30,125**	**3,524**	**40**	**121,553**	**18,819**	**(1,549)**	**2,551**	**19,821**
Operating expenses										
Cost of sales	(18,935)	30	(742)	42		(670)	(17,967)	(109)	(189)	(18,265)
R&D	(89,802)	(30,979)	(22,126)	(9,306)		(62,411)	(6,843)	(16,239)	(4,309)	(27,391)
SG&A incl in adj operating profit	(57,117)	(25,955)	(12,253)	(5,955)	(3,790)	(47,953)	(1,756)	(4,732)	(2,676)	(9,164)
SG&A excl in adj operating profit - below	(60,389)	(3,429)	(6,693)	(2,297)	(24,867)	(37,286)	(1,113)	(7,679)	(14,311)	(23,103)
Total operating expenses	**(226,243)**	**(60,333)**	**(41,814)**	**(17,516)**	**(28,657)**	**(148,320)**	**(27,679)**	**(28,759)**	**(21,485)**	**(77,923)**
Operating profit / (loss)	**(84,869)**	**27,531**	**(11,689)**	**(13,992)**	**(28,617)**	**(26,767)**	**(8,860)**	**(30,308)**	**(18,934)**	**(58,102)**
Net financing expense	(2,630)				(2,630)	(2,630)				0
Profit / (loss) before tax	**(87,499)**	**27,531**	**(11,689)**	**(13,992)**	**(31,247)**	**(29,397)**	**(8,860)**	**(30,308)**	**(18,934)**	**(58,102)**
Taxation (charge) / credit	6,640				3,294	3,294	1,772		1,574	3,346
Profit / (loss) for the year	**(80,859)**	**27,531**	**(11,689)**	**(13,992)**	**(27,953)**	**(26,103)**	**(7,088)**	**(30,308)**	**(17,360)**	**(54,756)**

Adjusted profit	TOTAL 2016 £'000	CONTINUING PVR 2016 £'000	MIPS 2016 £'000	ENS 2016 £'000	CORP 2016 £'000	TOTAL CONT 2016 £'000	DISCONTINUED PURE 2016 £'000	IMGWKS 2016 £'000	IMGSYST 2016 £'000	TOTAL DISC 2016 £'000
Reported operating profit / (loss) - (from above)	(84,869)	27,531	(11,689)	(13,992)	(28,617)	(26,767)	(8,860)	(30,308)	(18,934)	(58,102)
Share based payments	7,750	2,667	980	802	1,312	5,761	370	975	644	1,989
Amortisation of intangibles from acquisitions	8,712	622	4,863	1,420		6,905			1,807	1,807
Acquisition related costs	1,125				1,125	1,125				0
Loss / (gain) on investments	11,387				11,387	11,387				0
Corporate restructuring costs	6,591	140	595	75	3,716	4,526	743	522	800	2,065
Provision for onerous contracts	6,735		256		297	553		6,182		6,182
Provision for onerous leases	1,907				1,907	1,907				0
Impairment of goodwill	11,061					0			11,061	11,061
Impairment of tangible fixed assets	6,851				6,851	6,851				0
Contingent acquisition consideration release	(1,726)				(1,726)	(1,726)				0
Adjusted operating profit / (loss)	**(24,476)**	**30,960**	**(4,995)**	**(11,695)**	**(3,748)**	**10,522**	**(7,747)**	**(22,629)**	**(4,622)**	**(34,998)**
Net financing expense	(2,630)				(2,630)	(2,630)				0
Adjusted profit before tax	**(27,106)**	**30,960**	**(4,995)**	**(11,695)**	**(6,378)**	**7,892**	**(7,747)**	**(22,629)**	**(4,622)**	**(34,998)**

Revenue is reported by geographical area of sales as follows:

	2017 £'000	2016 £'000
USA	**99,405**	92.177
Asia	**27,778**	30.006
United Kingdom	**2,759**	1.096
Rest of Europe	**11,694**	(2.625)
Rest of North America	**1,160**	2.164
Rest of the world	**2,417**	(1,265)
	145,213	121,553
Discontinuing	**6,691**	19.821
	151,904	141.374

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 £65.350.000. 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.

3 Expenses

	Continuing		Discontinued		Total	
	2017 £'000	2016 (restated) £'000	**2017 £'000**	2016 (restated) £'000	**2017 £'000**	2016 (restated) £'000
Operating loss is stated after charging / (crediting):						
Staff costs - salaries	**73,314**	61,950	**2,170**	16,077	**75,484**	78,027
Staff costs - social security	**5,433**	4,109	**864**	1,310	**6,297**	5,419
Staff costs - pensions	**3,112**	2,944	**347**	669	**3,459**	3,613
Staff costs - Share incentives	**10,980**	5,761	**1,702**	1,989	**12,682**	7,750
Staff costs - indirect overheads	**4,517**	6,218	**(229)**	885	**4,288**	7,103
Total staff costs	**97,356**	80,982	**4,854**	20,930	**102,210**	101,912
Subcontractors	**3,972**	4,488	**417**	991	**4,389**	5,479
Depreciation, amortization and impairment						17,084
of tangible and intangible assets	**13,641**	15,277	-	1,807	**13,641**	11,061
Impairment of goodwill	-	-	-	11,061	-	6,458
Impairment of investment property	-	6,458	-	-	-	293
Loss on disposal of fixed assets	**29**	293	-	-	**29**	-
Foreign exchange loss / (gain)	**1,414**	2,030	-	-	**1,414**	2,030
Operating lease rentals:						
Property	**2,436**	3,674	-	9	**2,436**	3,683
Other	**8,003**	9,753	-	50	**8,003**	9,803
Other operating expenses	**10,566**	25,365	**13,248**	43,075	**23,814**	68,440
Total operating expenses	**137,417**	148,320	**18,519**	77,923	**155,936**	226,243

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	**181**	213
Audit-related assurance services	**12**	12
Taxation compliance services	–	–
Other tax advisory services	–	7
Corporate finance services	**580**	25
All other services	-	–
	798	282

Not included in the auditor's remuneration above are expenses incurred by the auditor for which they are reimbursed by the company of £14,000 (2016: £16,000).

4 Employees

The average number of persons employed by the Group (including directors) was:	Continuing 2017	Continuing 2016 restated	Discontinued 2017	Discontinued 2016 restated	Total 2017	Total 2016 restated
Research and development	**1,042**	1,006	**152**	378	**1,194**	1,384
Production	**-**	-	**8**	27	**8**	27
Administration	**136**	156	**1**	4	**137**	160
Sales and marketing	**55**	62	**9**	35	**64**	97
	1,233	1,224	**170**	444	**1,403**	1,668

The aggregate payroll costs of these persons were:	Continuing 2017	Continuing 2016 restated	Discontinued 2017	Discontinued 2016 restated	Total 2017	Total 2016 restated
Wages and salaries	**73,314**	61,950	**2,170**	16,077	**75,484**	78,027
Social security costs	**5,433**	4,109	**864**	1,310	**6,297**	5,419
Other pension costs	**3,112**	2,943	**347**	669	**3,459**	3,612
Share-based payments	**10,980**	5,761	**1,702**	1,989	**12,682**	7,750
	92,839	74,763	**5,083**	20,045	**97,922**	94,808

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 46 to 64

In addition to the above employee costs, redundancy costs of £474,000 were incurred during the year.

5 Taxation

	2017 £'000	2016 £'000
Analysis of tax charge in the year		
Current tax charge		
UK corporation tax	**-**	202
Foreign tax	**3,296**	3,980
Total current tax charge	**3,296**	4,182
Deferred tax		
Origination and reversal of temporary differences	**(609)**	(12,180)
Effect of changes in tax rates on deferred tax balances	**576**	1,200
Adjustments in respect of prior periods	**(119)**	158
Reversal of tax assets	**15,306**	–
Total deferred tax charge / (credit)	**15,154**	(10,822)
Total income tax charge / (credit)	**18,450**	(6,640)

The total tax charge for the year of £18,450,000 (2016: £6,640,000 tax credit) is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.92% (2016: 20.00%). The difference is explained below:

	2017 £'000	2016 £'000
Loss before taxation	**(9,458)**	(87,500)
Notional tax (credit) at UK standard rate of 19.92% (2016: 20.00%)	**(1,884)**	(17,500)
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)*	**1,902**	2,763
Utilization of previously unrecognised tax assets	**14**	239
Tax assets not recognised (primarily relates to US tax losses)	**–**	3,655
Reversal of deferred and corporate tax assets	**16,955**	–
Effect of tax rate change	**–**	(489)
Adjustments in respect of prior periods	**(448)**	(1,852)
Withholding tax	**2,337**	902
Increase in uncertain tax positions	**468**	3,430
Different tax rates on overseas earnings	**(662)**	–
Effect of R&D tax relief	**(232)**	–
Total income tax (credit) / charge	**18,450**	(6,640)
Tax on items charged / (credited) to equity:		
Deferred tax	**150**	687
Current tax	**-**	(202)

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 £7,397,000 – of which £1,164,000 reflected a true up of the 2016 P&L charge once the final RDEC claim for 2016 had been* submitted during the year (2016: £4,751,000) – which is then taxed at the prevailing UK corporation tax rate. If the UK 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 £1,280,000 (2016: £889,000) and receivable in less than one year of £1,014,000 (2016: £952,000). The assets relate to prepayments of tax by overseas *subsidiaries.*

Current tax liabilities

At 30 April 2017, there is a current tax liability due in less than one year of £6,058,000 relating to the Group's overseas subsidiaries (2016: £1,480,000). The IRS audit in the US continues and focuses on the tax position related to the Group's acquisition of MIPS in 2013. A determination has been raised by the authorities that the Group is appealing. It is expected that the audit will conclude within the next financial year, and the provision made in respect of the audit has been reclassified from a tax liability due in more than one year, to be included within the current tax liability noted above.

At 30 April 2017 there is a current tax liability due in more than one year of £1,547,000 (2016: £4,583,000). 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 2016 £'000	Recognised in income statement £'000	Recognised in equity £'000	As at 30 April 2017 £'000
Tax losses	14,586	(10,624)	–	**3,962**
Share based payments (note 24)	2,206	(799)	(150)	**1,257**
Other timing differences	284	(205)	19	**98**
Capital allowances	(6,683)	1,464	-	**(5,219)**
Gain on foreign exchange contract	47	(47)	-	**–**
Acquisition of intangible assets	(10,429)	(411)	-	**(10,840)**
	11	(10,622)	(131)	**(10,742)**

	2017 £'000	2016 £'000
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset	**98**	12,923
Deferred tax liability	**(10,840)**	(12,912)
At end of the period	**(10,742)**	11

Given the uncertainty of future profit generation, and taking into account the factors discussed in note 1, management have decided to reverse the UK deferred tax assets at 30 April 2017. The remaining £98,000 asset relates to overseas territories where profits are certain due to transfer pricing arrangements that are in place (2016: £12,923,000).

The deferred tax liability reduced during the year to £10,840,000 (2016: £12,912,000) 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

UK deferred tax assets of £15,306,000 have been reversed during the year. These assets are still available to the Group.

The Group has Federal US tax losses of $60,082,000 (2016: $53,482,000), tax credits of $12,560,000 (2016: $10,211,000) and other temporary differences of $24,889,000 (2016: $28,651,000). The Federal tax losses and tax credits expire progressively from 2020.

In addition the Group has State US tax losses of $59,938,000 (2016: $44,199,000), tax credits of $9,351,000 (2016: $8,819,000) and other temporary differences of $50,990,000 (2016: $59,915,000). The State tax losses expire progressively from 2017.

State research tax credits 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 US unrecognised deferred tax assets, an asset of £40,506,000 ($52,455,000) (2016: of £32,734,000 ($47,831,000)) reported at the applicable tax rates, would be recognised.

At 30 April 2017, there was no recognised deferred tax liability (2016: $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 2% to 17% 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 2017, nor do the Directors consider it will be beneficial to do so in the short term.

No UK centric deferred tax assets or liabilities are recognised, however if they were they would be recognised at the main rate of UK Corporation Tax of 17% with the exception of the deferred tax on share options, which would be expected to largely reverse before 1 April 2020 and would therefore be provided at 19%.

6 Earnings per share

From continuing and discontinuing operations	2017 £'000	2016 £'000
Loss attributable to equity holders of the parent	**(27,908)**	(80,859)

	2017 Shares '000	2016 Shares '000
Weighted average number of shares in issue	**280,582**	273,562
Less: Weighted average number of shares held by Employee Benefit Trust / company registrars	**(3,560)**	(1,868)
Effect of dilutive shares: Employee incentive schemes	**16,159**	15,279
Weighted average number of shares potentially in issue	**293,181**	286,973

		2017	2016
Loss per share	Basic	**(10.1)p**	(29.8)p
	Diluted	**(10.1)p**	(29.8)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	2017 £'000	2016 £'000
Adjusted (loss) / profit before tax – (see note 2)	**14,846**	(27,106)
Adjusted taxation (charge) / credit	**(17,240)**	1,987
Adjusted (loss) / profit attributable to equity holders of the parent	**(2,394)**	(25,119)

	2017 Shares '000	2016 Shares '000
Weighted average number of shares in issue	**280,582**	273,562
Less: Weighted average number of shares held by Employee Benefit Trust / company registrars	**(3,560)**	(1,868)
Effect of dilutive shares: Employee incentive schemes	**16,159**	15,279
Weighted average number of shares potentially in issue	**293,181**	286,973

		2017	2016
Adjusted loss per share	Basic	**(0.9)p**	(9.2)p
	Diluted	**(0.9)p**	(9.2)p

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

	2017 £'000	2016 £'000
Loss attributable to equity holders of the parent	**(16,080)**	(26,103)

	2017 Shares '000	2016 Shares '000
Weighted average number of shares in issue	**280,582**	273,562
Less. Weighted average number of shares held by Employee Benefit Trust / company registrars	**(3,560)**	(1,868)
Effect of dilutive shares: Employee incentive schemes	**16,159**	15,279
Weighted average number of shares potentially in issue	**293,181**	286,973

		2017	2016
(Loss) / profit per share	Basic	**(5.8)p**	(9.6)p
	Diluted	**(5.8)p**	(9.6)p

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

		2017	2016
Loss per share	Basic	**(4.3)p**	(20.2)p
	Diluted	**(4.3)p**	(20.2)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 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
At 1 May 2016	**63,351**	**71,406**	**19,896**	**154,653**
Reclassification	–	–	**133**	**133**
Additions	–	–	**2,685**	**2,685**
Disposals			**(73)**	**(73)**
At 30 April 2017	**63,351**	**71,406**	**22,641**	**157,398**
Amortization				
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
At 1 May 2016	**14,578**	**34,203**	**14,420**	**63,201**
Reclassification	–	–	**109**	**109**
Charge for the year	–	**6,036**	**909**	**6,945**
Disposals	–	–	**(41)**	**(41)**
Impairment	**57**	–	–	**57**
At 30 April 2017	**14,635**	**40,239**	**15,397**	**70,271**
Net book value at 30 April 2016	48,773	37,203	5,476	91,452
Net book value at 30 April 2017	**48,716**	**31,167**	**7,244**	**87,127**

* Intangible assets from acquisitions are those assets recognized 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	Total £'000
Cost				
At 1 May 2015	60,919	8,890	1,597	71,406
At 30 April 2016	60,919	8,890	1,597	71,406
At 1 May 2016	**60,919**	**8,890**	**1,597**	**71,406**
Transfer between asset categories	–	–	–	–
At 30 April 2017	**60,919**	**8,890**	**1,597**	**71,406**
Amortization				
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
At 1 May 2016	**30,603**	**3,254**	**346**	**34,203**
Charge for the year	**4,866**	**1,063**	**107**	**6,036**
At 30 April 2017	**35,469**	**4,317**	**453**	**40,239**
Net book value at 30 April 2016	30,316	5,636	1,251	37,203
Net book value at 30 April 2017	**25,450**	**4,573**	**1,144**	**31,167**

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 2016 £'000	Impairment £'000	Carrying value 30 April 2017 £'000
PowerVR	14,067	–	14,067
MIPS	23,236	–	23,236
Ensigma	11,414	–	11,414
IMG Systems	–	–	–
Pure	56	56	–
Total	**48,773**	**56**	**48,717**

The key assumptions in the value in use calculations applicable to all business units in FY16 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. 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 8.97%, 7.9% and 9.3% 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.

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

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.

As confirmed in the announcement on 22 June 2017 the group has received a number of offers from third parties for the MIPS and Ensigma divisions. Based on these offers which remain conditional at the date of this report, the Directors consider that the carrying value of assets allocated to these cash generating units are recoverable based on their carrying value being less than their fair value less costs to sell.

The Directors have considered the carrying value of assets allocated to PowerVR and have determined that these are supported by their fair value less costs to sell. In part, this is based on the ongoing negotiations for the sale of the entire group.

In making their assessment, the Directors have considered the range of offers received and the conditions attached to them. For both MIPS and PowerVR, the Directors consider that there is no reasonably foreseeable scenario which would lead to the carrying value being lower than the recoverable amount. For Ensigma, the range of offers received indicate that no impairment is required; however, the headroom may be reduced or eliminated once the conditions of the offer have been fulfilled.

8 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and equipment £'000	Total £'000
Cost				
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
At 1 May 2016	**52,179**	**5,869**	**39,388**	**97,436**
Reclassification between asset class		**–**	**(134)**	**(134)**
Additions	**46**	**64**	**1,849**	**1,959**
Disposals	**(14)**	**(320)**	**(2,151)**	**(2,485)**
At 30 April 2017	**52,211**	**5,613**	**38,952**	**96,776**
Depreciation				
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	–	–	393	393
At 30 April 2016	2,617	3,829	21,238	27,684
At 1 May 2016	**2,617**	**3,829**	**21,238**	**27,684**
Reclassification between asset class		**–**	**(109)**	**(109)**
Charge for the year	**883**	**505**	**5,296**	**6,684**
Disposals	**(14)**	**(300)**	**(1,151)**	**(1,465)**
At 30 April 2017	**3,486**	**4,034**	**25,274**	**32,794**
Net book value at 30 April 2016	49,562	2,040	18,150	69,752
Net book value at 30 April 2017	**48,725**	**1,579**	**13,678**	**63,982**

	2017 £'000	2016 £'000
The net book value of freehold land and buildings comprises:		
Land	**7,422**	7,422
Buildings	**41,303**	42,140
	48,725	49,562

Contained within Plant and Equipment is CAD equipment with a net book value of £5,446,000 which is deemed to have been acquired under a finance lease.

Included within Plant and Equipment is £833,000 that is assets under construction and has not been depreciated.

9 Investment property

Cost basis	2017 £'000	2016 £'000
At 1 May	**5,475**	**-**
Transfer from property, plant and equipment during the year	**–**	**11,933**
Impairment during the year	**(975)**	**(6,458)**
Disposed of during the year	**(4,500)**	
At 30 April	**-**	**5,475**

During the year, the group's investment property was disposed of for consideration of £4,500,000 in January 2017. An impairment was recognized on October 2016 to reflect the fact that, at that date, the recoverable amount of the asset was less than its previous carrying value.

The recoverable amount of the group's investment property at 30 April 2016, and the resulting impairment during that year, was 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 was recognised.

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

10 Investments

	2017 £'000	2016 £'000
Trade investments classified as available for sale	**5,097**	4,626

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

	% of shares held as at 30 April 2017	Carrying value at 1 May 2016 £'000	Increased holding in investments £'000	Disposal £'000	Fair value movement during period: Income statement £'000	Fair value movement during period: Statement of comprehensive income £'000	Carrying value at 30 April 2017 £'000
7digital Group plc	0.0%	109	-	(108)	(1)	–	–
NetSpeed	3.8%	1,095	–	–	–	141	1,236
Atomos	20.7%	3,422	–	–	–	439	3,861
Ineda*	8.1%	-	-	-	–	–	–
Orca*	9.4%	–	–	–	–	–	-
Blu-Wireless*	6.0%	–	–	-	–	–	–
Total		**4,626**	**–**	**(108)**	**(1)**	**580**	**5,097**

7digital – The remaining shares that were not able to be sold last financial year due to certain criteria meaning they were being held in trust, were sold as soon as they were out of trust. There was a small loss on disposal of £1,000.

NetSpeed – At the balance sheet date a gain of £141,000 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 £439,000 arose due to foreign exchange movements and this has been recognised in the consolidated statement of comprehensive income.

* – The carrying value of these trade investments has been fully impaired to £nil

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.

The Group values these investments (Level 3) using a combination of techniques, but primarily by reference to the latest funding rounds. The Directors' also consider other factors such as management accounts and latest forecasts in determining whether there are any indicators of impairment.

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

	2017 £'000	2016 £'000
Raw materials and components	**22**	48
Finished goods	**54**	172
	76	220

No provisions (2016: £323,000) recognised in operating expenses were made against inventories. During the period, £84,000 (2016: £1,444,000) of the provision against inventories was utilised for the write-down and write off of inventories. As at 30 April 2017 the provision for obsolescence of inventories was nil (2016: £84,000).

Raw materials, consumables and changes in finished goods and work in progress recognised as operating expenses in the period amounted to £103,000 (2016: £77,000).

12 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	**16,081**	10,452
Accrued income	**28,423**	29,695
Prepayments	**3,508**	3,933
Other receivables	**2,204**	1,956
R&D credit receivable	**9,678**	8,080
	59,894	54,116

Provision for impairment of trade receivables as at 30 April 2017 was £44,000 (2016: £948,000), with the 2016 provision fully utilised during the year, and the 2017 balance recognised in the income statement during the year.

During the year the Group received £424,000 (2016: £nil) against invoices that had previously been provided for. These items were recognised as a credit to the income statement. Other than the £44,000 provision noted above, there were no further bad debt write offs during the year (2016: £1,580,000).

13 Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank – current account	**17,171**	5,820
Cash and cash equivalents as per consolidated statement of financial position	**17,171**	5,820
Cash and cash equivalents as per consolidated statement of cash flows	**17,171**	5,820

14 Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**7,144**	5,731
Other taxes and social security	**1,609**	4,394
Other payables	**2,358**	2,837
Accruals	**16,403**	11,078
Deferred income	**11,661**	13,548
Deferred and contingent consideration	**-**	2,226
	39,175	39,814

There is £1,571,000 (2016: £1,713,000) 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 creditor related to the acquisitions of Posedge and Kisel in August and December 2013 respectively. During the year the 2016 creditor was either utilised (£1,180,000) or released (£1,046,000) as appropriate. The three year anniversary of the acquisitions was the final crystallisation date for any deferred or contingent consideration.

15 Provisions

	2017 £'000	2016 £'000
Restructuring provision	**20**	872
Onerous revenue contract provision	**4,668**	6,182
Other	**2,830**	3,775
	7,518	10,829

	Restructuring provision £'000	Onerous revenue contract provision £'000	Other £'000	Total £'000
At 1 May	**872**	**6,182**	**3,775**	**10,829**
Additional provision required	**–**	**2,007**	**951**	**2,958**
Release of provision	**–**	**–**	**(803)**	**(803)**
Utilisation of provision	**(852)**	**(3,521)**	**(1,093)**	**(5,466)**
At 30 April	**20**	**4,668**	**2,830**	**7,518**

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, £400,000 (2016: £1,893,000) is expected to fall due after more than one year and has shown as a non-current liability.

16 Interest bearing loans and borrowings

	2017 £'000	2016 £'000
Current liabilities		
Revolving credit facility	-	16,000
Bank loan	3,861	22,789
Non-current liabilities		
Revolving credit facility	23,750	-
Bank loan	17,992	-
	45,603	38,789
Borrowings to be repaid within one year	3,861	38,789
Borrowings to be repaid between one and five years	41,742	-
Borrowings to be repaid over five years	-	-
	45,603	38,789

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 2.05% above 3 month LIBOR on the outstanding balance.

At the balance sheet date the Group's bank loan equated to £3,861,000 (2016: £22,789,000), which is due within one year, with £17,992,000 due after one year but less than five years (2016: £nil due after one year but less than five years).

The movement of loans and borrowing year on year between current and non-current liabilities is due to the fact that on 30 April 2016, the Group breached one of the financial covenants associated with the terms of the lending agreement. Accordingly, all comparative amounts were shown as current liabilities. Subsequent to the prior year balance sheet date, the lender agreed to waive the breach and reset the covenants.

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 £48,725,000 (2016: £55,037,000).

17 Other payables

Other non-current payables

	2017 £'000	2016 £'000
Other payables	4,742	6,305
Deferred income	830	853
Deferred and contingent consideration	-	-
	5,572	7,158

Contained within other payables is £3,498,000 (2016: £4,956,000) 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 IMGworks BU were made available for sale. As at 30 April 2017, the relevant assets and liabilities of IMGworks were reclassified as assets and liabilities held for sale.

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

	2017	2016		
	IMGworks £'000	Pure £'000	IMG Systems £'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	51	2,253
Prepayments	–	22	-	22
	–	**5,204**	**51**	**5,255**
Liabilities held for sale				
Trade creditors	**–**	846	99	945
Accruals	**115**	3,922	1,445	5,367
Other taxes and social security	**129**	–	–	–
	244	**4,768**	**1,544**	**6,312**

The sale of the Pure BU completed on 30 September 2016 for cash consideration of £2,724,000.

The assets and liabilities, and their respective book values, that were disposed of are shown below:

Intangible assets	£107,000
Tangible assets	£177,000
Stock	£3,340,000
Trade debtors & prepayments	£1,860,000
Trade creditors	(£646,000)
Accruals	(£2,849,000)
Book value of net assets disposed	£1,989,000

When the costs of disposal, and other costs relating to the discontinuation of the Pure business are taken into account, the loss on disposal of the Pure Business Unit was £795,000.

19 Capital and reserves

Called-up share capital

	Authorised		Allotted, called-up and fully paid	
Ordinary shares of 10p each	No	£'000	No	£'000
At 1 May 2016	300,000,000	30,000	276,626,851	27,663
Issued during period	–	-	7,314,512	731
At 30 April 2017	**300,000,000**	**30,000**	**283,941,363**	**28,394**

The rights attached to ordinary shares are as set out in the Directors' report on page 27.

Share capital and share premium

The movement on the share capital and share premium reserve in the period arises from the issue of 7,314,512 ordinary shares as follows:

- Issue of 224.815 shares relating to share options. Cash consideration of £391.000 was received in lieu of these options. Share capital increased by £22,000 and share premium by £369,000 as a result.

- 6,300,047 fully paid shares were issued at nil cost pursuant to the terms of various Employee Share Option Schemes. £630,000 relating to these shares was debited to reserves.

- 733,414 shares were issued during the year relating to the 'free share' element of the SIP award in July 2016. The shares will be held in trust until at least July 2019 – the earliest date they are available to employees. £73,000 relating to these shares was debited to reserves.

- 56,236 shares were issued during the year relating to the 'matching' element of SIP 'partnership' shares purchased by employees. £6,000 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	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Within one year	**3,072**	3.273	**9,651**	4.669
In two to five years	**7,591**	6,682	**12,213**	10.851
After five years	**11**	1,600	**336**	–
	10,674	11,555	**22,200**	15.520

Other operating leases include the rental of software and vehicles.

21 Capital commitments

At 30 April 2017, the Group had contractual capital commitments of £318,000 (2016: £15,000).

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	2017 £'000	2016 £'000
Financial assets			
Loans and receivables			
Trade and other receivables	12	**28,164**	23,726
Cash and cash equivalents	13	**17,171**	5,820
Assets held for sale	18	–	5,255
Available for sale investments	10	**5,097**	4,626
Total financial assets		**50,432**	39,427

	Notes	2017 £'000	2016 £'000
Financial liabilities			
Borrowings	16	**45,603**	38,789
Trade and other payables	14	**27,090**	25,376
Liabilities held for sale	18	**244**	6,312
Non-current payables	17	**5,572**	5,427
Total financial liabilities		**78,509**	75,904

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.

Net financing expense

The net finance expense in the Consolidated income statement is evidence of this risk. The Group's net finance expense for the year ended 30 April 2017 was £5,426,000 (2016: £2,630,000). The increase of £2,797,000 is largely due to the movement in the USD FX rate from 1.4612 at 30 April 2016 to 1.295 at 30 April 2017, on the translation of the Group's USD denominated term loan and finance lease balances, and the USD denominated interest charges on the term loan.

a) Foreign currency risk

The Group transacts licence and development agreements with customers 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 $19,800,000 or £15,817,000 (2016: £36,041,000). As at 30 April 2017 the outstanding currency contracts amounted to £3,198,000 (2016: £9,827,000). The fair value of these outstanding currency contracts was £109,000 gain (2016: £235,000 loss). The movement in fair value of £344,000 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 2017					30 April 2016				
	£	**$**	**€**	**Other**	**Total**	£	$	€	Other	Total
Trade receivables	**540**	**15,539**	**–**	**3**	**16,082**	535	9,917	-	–	10,452
Other receivables	**10,733**	**457**	**9**	**883**	**12,082**	12,269	340	2	663	13,274
Cash and cash equivalents	***11,362***	***4,426***	***(83)***	***1,466***	***17,171***	*2,897*	*142*	*911*	*1,870*	*5,820*
Assets held for sale	**–**	**–**	**–**	**–**	**–**	4,350	124	783	(2)	5,255
Available for sale investments	**–**	**5,097**	**–**	**–**	**5,097**	109	4,517	–	–	4,626
Trade payables	**(2,007)**	**(4,852)**	**(125)**	**(160)**	**(7,144)**	(2,139)	(3,428)	(57)	(107)	(5,731)
Other payables	**(11,588)**	**(7,219)**	**(12)**	**(1,127)**	**(19,946)**	(6,889)	(11,222)	(121)	(1,413)	(19,645)
Liabilities held for sale	**(244)**	**–**	**–**	**–**	**(244)**	(5,283)	(598)	(398)	(33)	(6,312)
Borrowings	**(23,750)**	**(21,853)**	**–**	**–**	**(45,603)**	(16,000)	(22,789)	–	–	(38,789)
Non-current payables	**(53)**	**(5,435)**	**–**	**(84)**	**(5,572)**	–	(5,427)	–	–	(5,427)
	(15,007)	***(13,840)***	***(211)***	***981***	***(28,077)***	*(10,151)*	*(28,424)*	*1,120*	*978*	*(36,477)*

The significant foreign exchange risks for the Group are USD receivables of £8,173,000 held by Imagination Technologies Limited and Imagination Technologies AB and the USD loan of £21,853,000 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 2017, each additional one cent increase or decrease in the US Dollar exchange rate against Sterling would have decreased or increased revenues by circa £1,127,000 (2016: £823,000) and profit by circa £774,000 (2016: £287,000).

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.

	2017				2016			
	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		**11,363**	**–**	**11,363**		2,897	–	2,897
US Dollar		**4,426**	**–**	**4,426**		142	–	142
Euro		**(83)**	**–**	**(83)**		911	–	911
Japanese Yen		**98**	**–**	**98**		255	–	255
Indian Rupee		**615**	**–**	**615**		595	–	595
Chinese Yuan		**247**	**–**	**247**		310	–	310
Polish Zloty		**101**	**–**	**101**		102	–	102
New Zealand Dollar		**-**	**–**	**-**		41	–	41
Australian Dollar		**181**	**–**	**181**		122	–	122
Swedish Krona		**127**	**–**	**127**		183	-	183
Korean Won		**43**	**–**	**43**		58	–	58
New Taiwan Dollar		**7**	**–**	**7**		179	–	179
Israeli Shekel		**46**	**–**	**46**		25	–	25
		17,171	**–**	**17,171**		5,820	–	5,820
Floating rate	**0.0%**	**17,171**	**–**	**17,171**	0.0%		5,820	–
Fixed rate		**–**	**–**	**–**			-	–
		17,171	**–**	**17,171**		5,820	–	5,820
Bank Loan								
*RCF draw down**	**3.3%**	**–**	**(23,750)**	**(23,750)**	3.1%	(16,000)	–	(16,000)
Secured bank loan - USD*	**3.3%**	**(3,861)**	**(17,992)**	**(21,853)**	3.1%	(22,789)	-	(22,789)
		(3,861)	**(41,742)**	**(45,603)**		(38,789)	–	(38,789)

* 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 2.05% above quarterly LIBOR and the unexpired term is 1 years and 2 months.

Interest rate sensitivity analysis

In the financial year to 30 April 2017, 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 £1.013.000 (2016: decreased by circa £788.000). 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 £251,000 (2016: circa £412,000).

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 2017 £'000	Impairment 2017 £'000	Gross 2016 £'000	Impairment 2016 £'000
Not past due	**9,804**	**–**	9,348	(747)
Past due 0-90 days	**5,492**	**–**	1,685	–
Past due greater than 90 days	**785**	**–**	230	(64)
	16,081	**–**	11,263	(811)

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 2017	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	**21,853**	**21,853**	**3,861**	**17,992**	**–**	**–**
RCF draw down	**23,750**	**23,750**	**–**	**23,750**	**–**	**–**
Trade and other payables	**27,090**	**27,090**	**27,090**	**–**	**–**	**–**
Liabilities held for sale	**244**	**244**	**244**	**–**	**–**	**–**
Non-current payables	**5,572**	**5,572**	**5,572**	**–**		
	78,509	**78,509**	**36,767**	**41,742**	**–**	**–**

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	–	–	–

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	2017 Carrying amount and fair value £'000	2016 Carrying amount and fair value £'000
Financial assets:			
Trade and other receivables	12	**28,164**	23,726
Cash and cash equivalents	13	**17,171**	5,820
Assets held for sale		**–**	5,255
Available for sale investments	10	**5,097**	4,626
Financial liabilities:			
Borrowings	16	**(45,603)**	(38,789)
Trade and other payables	14	**(27,090)**	(25,376)
Liabilities held for sale	18	**(244)**	(6,312)
Non-current payables	17	**(5,572)**	(5,427)

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:

	2017 £'000	2016 £'000
Level 1	–	109
Level 2	–	–
Level 3	**5,097**	4,517
	5,097	4,626

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 2016	4,517
Investment in the year	–
Total gains and losses:	
In income statement	–
In other comprehensive income	580
Disposals	-
At 30 April 2017	**5,097**

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 2017 or 30 April 2016.

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 2017:

Year of Issue	Outstanding at 30 April 2017	Exercise price	Date from which first exercisable	Expiry date
2013	175,581	228p	2016	2017

Year of Issue	Outstanding at 30 April 2017	Exercise price	*Date from* which first exercisable	Expiry date
2008	25,000	0p	2011	2016
2009	127,902	0p	2012	2017
2009	746,492	0p	2012	2017
2010	180,976	0p	2013	2018
2010	12,616	0p	2012	2017
2010	6,861	0p	2013	2018
2011	341,344	0p	2014	2019
2011	364,551	0p	2014	2019
2012	410,011	0p	2015	2020
2012	148,865	0p	2015	2020
2012	540,701	0p	2015	2020
2013	570,371	0p	2016	2021
2013	758,817	0p	2016	2021
2013	60,020	0p	2016	2021
2014	1,136,516	0p	2017	2022
2014	68,000	0p	2017	2022
2014	731,706	0p	2017	2022
2014	64,422	0p	2017	2022
2015	1,899,648	0p	2018	2023
2015	66,765	0p	2018	2023
2015	*354,836	0p	2018	2025
2016	1,328,736	0p	2019	2024
2016	49,612	0p	2019	2024
2016	*1,228,505	0p	2019	2026
2016	1,487,862	0p	2019	2024
2016	128,653	0p	2019	2024
2016	3,066,771	0p	2019	2024
2016	124,267	0p	2019	2024
2016	231,578	0p	2019	2024
2016	161,403	0p	2019	2024
2016	16,000	0p	2019	2024
2016	43,846	0p	2019	2024
2016	*494,149	0p	2019	2026
Sub-total of nil cost options	16,977,802			
	17,153,383			

*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 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the period	**226p**	**597,839**	213p	1,242,887
Exercised during the period	**174p**	**(224,815)**	65p	(283,053)
Granted during the period	**-**	**–**	–	-
Lapsed during the period	**285p**	**(197,443)**	305p	(361,995)
Outstanding at the end of the period	**228p**	**175,581****	226p	597,839**
Exercisable at the end of the period	**228p**	**175,581****	223p	185,519

The average share price during the year was 217.56p (2016: 197.71p).

The options outstanding at the year end have an exercise price in the range of 0p to 228p and a weighted average contractual life of 1.2 years.

**Excludes 16,977,802 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 2017:

Year of Issue	Outstanding at 30 April 2017	Date from which first exercisable	Expiry date
2014	309.584	2017	2017
2014	339.601	2017	2018
2015	576.123	2018	2018
2016	381.761	2019	2019
2014	463.233	2017	* None
2015	228.907	2018	* None
2015	109.834	2018	* None
2016	109.484	2019	* None
2016	394,556	2019	* None
2016	725,821	2019	2019
2016	640.077	2019	2019
2016	155.000	2019	2019
2016	586.121	2019	* None
2016	144,889	2020	* None
	5,164,991		

* 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 2017	Number of share awards and options 2016
Outstanding at the beginning of the period	**22,325,189**	19,452,803
Exercised during the period	**(6,446,481)**	(3,433,827)
Granted during the period	**8,582,259**	9.666.851
Lapsed during the period	**(2,318,174)**	(3.360.638)
Outstanding at the end of the period	**22,142,793**	22,325.189
Exercisable at the end of the period	**4,294,527**	5.691.605

As at 30 April 2017 978.312 (2016: 1.867.924) shares are held by the Company's Employee Benefit Trust, and 2,582,073 shares (2016 1.945.009 shares) relating to the Company's Share Incentive Plan ('SIP') are held by the Company's registrars.

The Company has share option schemes and an employee share plan scheme, details of which are contained in the Director's report on page 27.

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

Date of share option grant	July 2016	July 2016	Dec 2016	Dec 2016
Share price at grant date (pence)	203.0	203.0	241.0	241.0
Exercise price (pence)	–	–	–	–
Expected volatility	n/a	54.1%	n/a	54.1%
Risk free interest rate	n/a	0.15%	n/a	0.29%
Time to maturity (years)	1-3*	3	1-3*	3
Fair value per option (pence)	203.0	203.0	241.0	241.0

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	July 2016	Dec 2016
Share price at grant date (pence)	230.0	230.0	223.0	223.0	136.0	136.0	203.0	241.0
Expected volatility	53.4%	n/a	52.1%	n/a	54.8%	n/a	n/a	n/a
Risk free interest rate	0.73%	n/a	0.84%	n/a	0.65%	n/a	n/a	n/a
Time to maturity (years)	3	3	3	3	3	1-3*	1-3*	1-3*
Fair value per option (pence)	230.0	230.0	223.0	223.0	136.0	136.0	203.0	241.0

* One third of share awards will vest each year on the anniversary of the grant date in years 1-3.

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	2017 £'000	2016 £'000
2012/13	-	548
2013/14	**1,560**	2,062
2014/15	**2,828**	2,610
2015/16	**4,821**	2,530
2016/17	**3,473**	–
	12,682	7,750

The future estimated expense for share award schemes outstanding at 30 April 2017 is:

Year of Award	2017 £'000	2016 £'000
To be incurred within one year	**9,778**	8,459
To be incurred after one year	**7,463**	6,146
	17,241	14,605

A deferred tax asset of £1,257,000 (2016: £2,206,000) 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

	2017 £'000	2016 £'000
Consolidated Income Statement		
Revenue – Ineda	–	175
Revenue - Atomos	**446**	(1,527)
Revenue – Toumaz*	–	1,501
Operating expense - Orca	**(259)**	–
Operating expense - Netspeed	**(552)**	(64)
	(365)	85
Statement of Financial Position		
Trade Debtors - Atomos	**193**	–
Trade Debtors – Toumaz*	–	940
Trade Creditors - Netspeed	**(116)**	–
	77	940

The above entities are deemed to be related parties under IAS24 due to the shareholding that Imagination Technologies Group plc has in these entities (see note 10).

* Following the disposal Imagination's final shareholding in Toumaz during 2016, this entity ceased to be a related party.

Transactions with key management personnel

Key management personnel comprise the executive directors. In addition to their salaries, the Group also provides non-cash benefits to executive directors and contributes to post-employment benefit schemes on their behalf. Executive 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 executive directors' compensation, including post-employment benefits is given in the Directors' remuneration report on pages 46 to 64.

The key management personnel compensations are as follows:

	2017 £'000	2016 £'000
Emoluments	**1,471**	892
Pension contributions	**55**	61
Share based payments*	**820**	(854)
	2,346	99

* During 2016, 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 46 to 64.

26 Subsidiaries

Details of the Group's subsidiary 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	Address of registered office	Type of shares	**100% Percentage of issued share capital held
Imagination Technologies Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	100%
Imagination Technologies GmbH	Hansenweg 54, 60599 Frankfurt am Main, Germany	Ordinary	**100%
Imagination Technologies, Inc.	3201 Scott Blvd. Santa Clara, CA 95054, USA	Ordinary	**100%
Imagination Technologies KK	AIOS Gotanda Annex Bldg 3F, Tokyo 141-0022, Japan	Ordinary	100%
Imagination Technologies India Private Limited	2nd Floor, Bajaj IT Tower, Building Bajaj Brandview, Survey no. 25, A/1, Plot No. 38, Wakdewadi, Shivajinagar, Pune, Maharashtra 411005, India	Ordinary	**100%
Pure Australasia Pty Limited	9 Help Street, Level 4, Chatswood, NSW 2067, Australia	Ordinary	**100%
Bristol Interactive Limited*	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%
Caustic Graphics, Inc.	3201 Scott Blvd. Santa Clara, CA 95054, USA	Ordinary	**100%
HelloSoft, Inc.	3201 Scott Blvd. Santa Clara, CA 95054, USA	Ordinary	100%
Imagination Technologies AB	Luntmakargatan 18, SE-111 37, Stockholm, Sweden	Ordinary	100%
Imagination Technologies Hyderabad Private Limited	3rd & 4th floors, Tower-A, Plot No 39, Ananth Info Park, Madhapur, Hyderabad 500081,India	Ordinary	**100%
Imagination Technologies LLC.	3201 Scott Blvd. Santa Clara, CA 95054,US	Ordinary	**100%
MIPS Technologies International Limited	International Corporation Services Ltd Harbour Place, 2nd Floor PO Box 472 103 South Church Street, Grand Cayman, KY1-1106, Cayman Islands	Ordinary	**100%
Imagination Technologies (Shanghai) Co. Ltd	Room 1711-1712, 333 Huai Hai Zhong Road, Huangpu District, Shanghai 200021,China	Ordinary	**100%
Imagination Technologies B.V. (Netherlands)	Kabelweg57, Unit 1, 06.05 A, 1014 BA, Amsterdam, Netherlands	Ordinary	**100%
Hellosoft Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%
MILL LINK 1 Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%
MILL LINK 2 Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%
MILL LINK 3 Limited	Imagination House, Home Park Estate, Kings Langley, WD4 8LZ, UK	Ordinary	**100%

All of the above companies are included in the Group financial statements. *non-trading **indirect holding

27 Subsequent events

After the balance sheet date, the Group completed a deal which saw the employees of IMGworks and the System-on-Chip development function they provide sold to Mill Link 1 Limited for consideration of £1.

Mill Link 1 Limited was a wholly owned subsidiary of Imagination Technologies Limited. As part of the IMGworks transaction, the entire share capital of Mill Link 1 Limited was acquired by Sondrel (Holdings) Limited for consideration of £1.

When the costs of disposal, and other costs relating to the discontinuation of the IMGworks business are taken into account, the loss on disposal of the IMGworks Business Unit was £220,000.

As announced on 4 May 2017, the Directors are undertaking a further review of the group's operations. This includes, but is not limited to, a sale of its MIPS and Ensigma businesses. On 22 June 2017, the group announced it had received interest from a number of parties for a potential acquisition of the whole Group. The Board therefore decided to initiate a formal sale process for the Group and is engaged in preliminary discussions with potential bidders.

Imagination Technologies Group plc parent company balance sheet

	Notes	As at 30 April 2017 £'000	As at 30 April 2016 £'000
Fixed assets			
Investment in subsidiary undertakings	3	**152,259**	142,050
Current assets			
Debtors (including £50,707,000 (2016: £42,416,000) *due after more than one year)*	4	**81,365**	72,430
Cash		**412**	807
		81,777	73,237
Current liabilities			
Creditors: amounts falling due within one year	5	**(4,179)**	(23,517)
Net current assets		**77,598**	49,720
Total assets less current liabilities		**229,857**	191,770
Non-current liabilities			
Creditors: amounts falling due after one year	5	**(17,992)**	–
Net assets		**211,865**	191,770
Capital and reserves			
Called up share capital	8	**28,394**	**27,660**
Share premium account		**105,027**	**103,277**
Other capital reserve		**1,423**	**1,423**
Share based payment reserve		**80,423**	**67,741**
Retained earnings		**(3,402)**	**(8,331)**
Equity shareholders' funds	9	**211,865**	**191,770**

These financial statements were approved by the Board of Directors on 4 July 2017 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 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
At 1 May 2016	**27,660**	**103,277**	**1,423**	**67,741**	**(8,331)**	**191,770**
Profit for the financial year	**–**	**–**	**–**	**–**	**5,570**	**5,570**
Issue of new shares	**734**	**1,750**	**–**	**–**	**–**	**2,484**
Shares issued at nil cost	**–**	**–**	**–**	**–**	**(641)**	**(641)**
Share-based remuneration	**–**	**–**	**–**	**12,682**	**–**	**12,682**
At 30 April 2017	**28,394**	**105,027**	**1,423**	**80,423**	**(3,402)**	**211,865**

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 £5,570,000 (2016: Profit £3,303,000).

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.

The assets and liabilities of the Trust are accounted for as assets and liabilities of the entity on the basis that the trust is merely acting as an agent of the entity. Under this treatment, the accounting in the entity's separate financial statements is the same as the accounting in the consolidated financial statements.

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 26) and with its Board of Directors (see the Directors' Remuneration Report on pages 46 to 64). 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 46 to 64. The non-executive directors are remunerated by the Group.

3 Investments in subsidiary undertakings

	2017 £'000	2016 £'000
Cost and net book value		
At beginning of period	**142,050**	134,300
Disposals – Dormant subsidiaries	**(2,473)**	-
Addition – Share based payment to employees of subsidiary	**12,682**	7,750
At end of period	**152,259**	142,050

4 Debtors

	2017 £'000	2016 £'000
Other debtors	**36**	27
Amounts owed by subsidiary undertakings	**30,622**	29,987
	30,658	30,014

Additionally, £50,707,000 (2016: £42,416,000) 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

	2017 £'000	2016 £'000
Bank loan	**3,861**	22,789
Accruals and deferred income	**54**	471
Deferred and contingent consideration	**264**	257
	4,179	23,517

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 £21,853,000 (2016: £22,789,000), of which £3,861,000 is due within one year (2016: £22,789,000) and £17,992,000 due after one year but less than five years (2016: £nil).

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 £48,725,000 (2016: £49,562,000).

6 Operating leases

At 30 April 2017, the Company had no operating lease commitments (2016: £nil).

7 Capital commitments

At 30 April 2017, the Company had no capital commitments (2016: £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

	2017 £'000	2016 £'000
Equity shareholders' funds at the start of the period	**191,770**	179,336
Profit for the financial year	**5,570**	3,303
Share-based remuneration	**12,682**	7,750
Issue of new shares	**1,843**	1,381
Equity shareholders' funds at the end of the period	**211,865**	191,770