

7 June 2018

INTERCEDE GROUP plc
(“Intercede”, the “Group” or the “Company”)

Preliminary Results for the Year Ended 31 March 2018

Intercede, the leading specialist in digital identity, credential management and secure mobility, today announces its preliminary results for the year ended 31 March 2018.

Financial Highlights

- Revenues of £9.2m (2017: £8.3m), an 11% increase compared to last year. This reflects a strong end to the year and growth in Intercede’s core markets of government, defence contractors and large, highly secure corporate enterprises.
- Loss for the year of £3.8m (2017: loss of £3.9m).
- A cost-cutting exercise removed significant costs from the business without impacting operational capability. Intercede started the new financial year with an operating cost run rate that is more than 20% lower (approximately £3m per annum) than at this point last year.
- Gross cash balances of £2.3m at 31 March 2018 (2017: £6.9m). The impact of significant orders received in the last two months of the year resulted in increased gross cash balances of £4.7m as at 30 April 2018.

Operating Highlights

- Significant first half contract wins include an award from a major US Aerospace & Defence contractor and a sale to a large UK defence organization. In addition there were initial MyID license sales to the largest US military shipbuilding company and to one of the world’s largest diversified natural resource companies.
- The second half of the year saw the sale of a mobile national identity solution to a Middle Eastern country and a license order from another major US healthcare provider.
- The mobile national identity solution sale incorporates Intercede’s MyID mobile authentication technology to allow citizens to generate a digital identity on their smart phone via a government app. Intercede’s accredited technology, and continued work with a range of Mobile Device Managers (MDMs), means it is well placed to meet the markets’ demand for mobile authentication solutions.
- Following second half cost reductions, the number of employees and contractors as at 31 March 2018 has been reduced to 98 (2017: 121).
- New Chief Executive and reorganized management team appointed to return Intercede to profitability.

Chuck Pol, Chairman, said:

“The new leadership team are fully focused on building on recent successes and are committed to improving standards, enhanced operating performance and the conversion of recent product development into meaningful revenue generation and growth.

The investment in the MyID platform puts Intercede in a strong position to provide the market with reliable Digital Trust. This is demonstrated by the large orders that were received in the last two months of the year. Following the second half restructuring, the cost base has been brought back in line with future revenue forecasts and the Board are confident that Intercede will grow and return to profit within the next two years.”

Contact

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Corporate Finance
Corporate Finance

About Intercede

Intercede is a cybersecurity company specialising in digital identities, derived credentials and access control, enabling digital trust in a mobile world.

Headquartered in the UK, with offices in the US, we believe in a connected world in which people and technology are free to exchange information securely, and complex insecure passwords become a thing of the past.

Our vision is to make the highest levels of cybersecurity available to organizations and consumers alike, solving complexity and scalability issues by managing high volumes of digital credentials.

We have been delivering trusted solutions to high profile customers for over 20 years. Our team of experts has deployed millions of identities to governments, most of the largest aerospace and defence corporations, and major financial services and healthcare organizations, as well as leading telecommunications, cloud services and information technology firms, providing industry-leading employee and customer credential management systems.

For more information visit: www.intercede.com

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2018

CHAIRMAN'S STATEMENT

The last financial year was another difficult period for Intercede, following a challenging 2016/2017. The Board remains confident in the Company, its products and the potential to be a leading player in the fast-evolving cybersecurity market.

Following review, the Board agreed to make several changes and brought in a new Chief Executive and reorganized the management team. The new leadership team are fully focused on building on recent successes and are committed to improving standards, enhanced operating performance and the conversion of recent product development into meaningful revenue generation and growth.

Strategy & Partnerships

At the heart of Intercede's strategy remains its market leading product MyID. With over 80 blue chip deployments worldwide and a number of important contract wins that have been added in the last 12 months, MyID continues to be the solution of choice for major public key infrastructure (PKI) system deployments. Intercede is working closely with some of the leading industry IT majors and looking to form more partnerships, from which a commercial relationship could result in a significant increase in sales revenues.

Results

Revenue for the year was £9.2m (2017: £8.3m), which represents an 11% increase on the previous year. This revenue generation has predominantly come from existing customers in Intercede's core markets of government, defence contractors and large, highly secure corporate enterprises. Against a backdrop of continued investment in technology, the Group made a loss for the year of £3.8m in the year ended 31 March 2018 (2017: £3.9m).

In the second half of the year, a cost-cutting review removed significant costs from the business without impacting our operational capability. The Group has started the new financial year with an operating cost run rate that is more than 20% lower (approximately £3m per annum) than at this point last year.

Board Changes

The founder of Intercede, Richard Parris, ceased his roles as Chairman & Chief Executive and became a Non-Executive Director of the Company on 28 March 2018. I would like to thank Richard for his many years of service to Intercede. His vision and hard work have helped make the Company what it is today.

Jayne Murphy ceased her role as Operations Director on 19 April 2018. I thank Jayne for her professionalism and hard work during her many years of service to Intercede.

I was appointed as Non-Executive Chairman on 28 March 2018 and Klaas van der Leest was appointed as Chief Executive on 10 April 2018.

I have been on the Intercede Board since 1 June 2017 as the Company's Senior Independent Non-Executive Director. Prior to this I was Chairperson of Vodafone Americas, a role held since 2013 and in which I led the development of applications for the Internet of Things ("IoT"). I joined Vodafone Americas as President of its Global Enterprise division where I built a US-wide mobile business focused exclusively on

Enterprises. I have also held senior roles at BT Americas including Chief Operating Officer and President. On leaving BT in 2008, I was President of BT Global Financial Services and was responsible for BT's relationships with the top 40 global investment banks.

Klaas is an experienced executive with extensive sales, marketing, business development and general management experience in IT and IT services. He has significant international knowledge and experience as a result of various roles with remits across EMEA, Asia-Pac and North America. Klaas has worked for a number of large and small, quoted and privately owned organizations in market leading and turnaround situations including CA Technologies, Intelcom UK, Amulet Hotkey, Global Crossing, Attenda and Logica. He has proven expertise in the development and execution of national and international sales growth, 'go to market' initiatives and customer focused expansion strategies.

Outlook

Cyber-threats, whether driven by individuals, organizations or nation states are increasing in sophistication and the economic and reputational cost is growing exponentially. Intercede's MyID continues to enable our customers to eliminate reliance on the use of potentially insecure passwords for secure authentication. In doing so, they become increasingly resistant to social engineering and other cyber-attacks based on compromising employee (or end customer) login details.

The investment in new formats and components of MyID puts Intercede in a strong position to provide the market with reliable Digital Trust. Intercede experienced a strong end to the financial year which included the receipt of a large US Federal Government license order on 28 March 2018. License orders relating to this deployment have historically been received every 12 months or so and therefore the revenue for the years ending 31 March 2019 and 2020 is particularly sensitive to the timing of future orders. Following reviews, the cost base has been brought back in line with future revenue forecasts and the Board are confident that Intercede will grow and return to profit within the next two years.

Chuck Pol
Chairman
7 June 2018

INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2018

STRATEGIC REPORT

Introduction

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

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

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

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

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

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

Operational Review

It has been a year of major change. As well as the Board and senior management changes already highlighted in the Chairman's Statement, actions have been taken to reduce the cost base and there is a renewed focus on the MyID platform at the core of Intercede's strategy.

Customers and partners recognize Intercede's leading expertise in cryptographic key management, which form market leading solutions that cannot be readily duplicated by the industry majors themselves. To widen the market into which Intercede can sell its products MyID can be deployed in various formats; namely on-premise, cloud-based and via web and mobile applications. One of the cornerstones of the

Group's strategy is to utilize the various formats and components of our MyID technology to provide a solution tailored to the user; be they a government, an employee or the enterprise's end customer.

An exciting example of this in action is the recent sale of a MyID solution to a Middle Eastern country to issue mobile government identities to its citizens. This solution incorporates Intercede's mobile application authentication technology to allow citizens to easily and securely generate a digital identity on their smart phone via a government app. Using Intercede's MyID software, the digital identity can then be used for accessing a mobile eco-system of government services, healthcare, banking and e-commerce. This solution catapults them to being a world-leading nation for the mobile-first delivery of digital services.

There is also demand for Intercede's mobile authentication technology from existing US Federal agency customers. Intercede continues to work with a range of Mobile Device Managers (MDMs), including AirWatch, MobileIron, Citrix and Blackberry to extend the PIV program to issue derived credentials to a federal user's smartphone, tablet or laptop. Intercede's MyID was the first derived PIV Credential solution to receive an Authority to Operate (ATO) for a US Federal agency. It is pleasing to note that the pipeline for the next financial year contains a number of derived proof of concept opportunities for various US Federal agencies.

Markets and Products

Intercede's solutions are deployed in many market sectors for a variety of customers from governments to defence contractors and large enterprises. MyID is particularly well known within US Federal agencies as Intercede were one of the first to issue and manage FIPS-201 compliant PIV credentials to cards and derived PIV credentials to mobile devices.

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

Sample customers



Technology partners



Devices

- [AET](#)
- [Athena \(NXP\)](#)
- [Gemalto](#)
- [Giesecke & Devrient](#)
- [IDEMIA \(Oberthur\)](#)
- [SafeNet](#)
- [SafeNet AT](#)
- [TCOS](#)
- [TicTok](#)
- [Yubico](#)



PKI

- [DigiCert \(Symantec\)](#)
- [EJBCA \(PrimeKey\)](#)
- [Entrust](#)
- [Microsoft](#)
- [Verizon \(Unicert\)](#)



Mobile

- [Google/Android](#)
- [Apple/iOS](#)
- [AirWatch](#)
- [Citrix](#)
- [MobileIron](#)
- [Blackberry](#)
- [Centrify](#)



Card Printers

- [DataCard \(Entrust\)](#)
- [DIGID](#)
- [Fargo \(HID\)](#)
- [Get Group](#)
- [Magicard](#)
- [Zebra](#)

Customers and partners value MyID because it is highly configurable and feature-rich and interfaces with a broad range of third party technologies that make up a PKI infrastructure. Intercede's product strategy continues to be working with partners where possible to sell MyID to an end user as part of an end-to-end PKI solution. The Group sells its products through a global network of authorised partners. They vary in size from large international consultancies and cybersecurity companies to local system integrators and value added resellers.

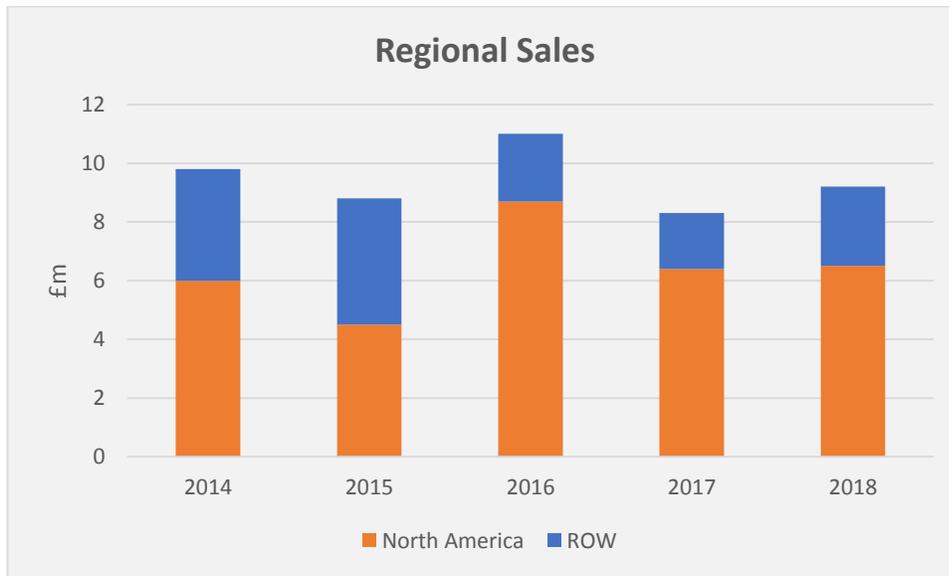
It is important to make MyID customisable so it can be easily integrated into a partner's solution but this can be achieved by giving the partner the toolkit to do it themselves, rather than Intercede continually changing the core MyID product to address each individual solution. This modular approach means Intercede only produces core formats of MyID (on-premise, Cloud, mobile etc), which become modules around which a partner can customise their solution using either a simple API (Application Programming Interface) or an SDK (Software Development Kit).

Trading Results

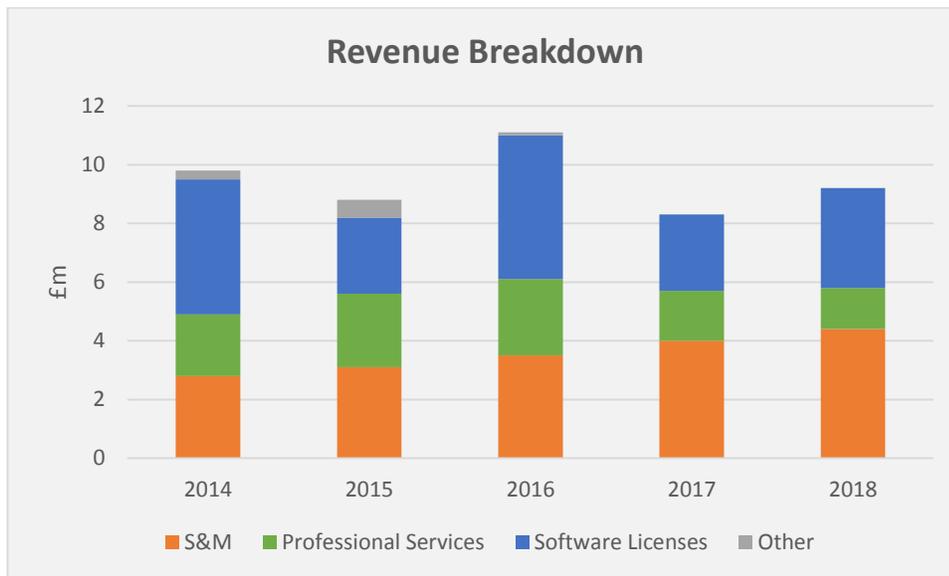
Revenues for the year ended 31 March 2018 totalled £9,204,000, an 11% increase on the previous year's revenues of £8,286,000. Although orders from US Federal agencies have been slower than expected, it is pleasing to see growth in newer markets and revenues generated in the second half of the year represent a high for the Group.

As previous reported, the first half of the year saw significant contract wins including an award from a major US Aerospace & Defence contractor, to manage digital identities for 130,000 devices, and a sale to a large UK defence organization. In addition there were initial MyID license sales to the largest US military shipbuilding company and to one of the world's largest diversified natural resource companies. Although both of these initial sales were small, they will help to drive future revenue growth as successful implementation should lead to follow-on orders for tens of thousands of licenses.

The second half of the year saw improvement, with significant revenue generated from existing customers as well as new customers. This includes the aforementioned sale to allow a Middle Eastern country to issue mobile national identities to its citizens. For Intercede, this is a strategically important project that exploits many of the new technologies Intercede has developed over the past few years. This Middle Eastern country is a top tier reference customer for other nations to follow and, through Intercede's network of partners, the target is to replicate this solution in multiple geographic territories. In addition to this win, Intercede secured a license order with another major healthcare provider, converted a pilot deployment with a large European bank into a full deployment and secured an initial proof of concept sale in respect of the 2020 US Census. All of these wins are expected to generate incremental revenue in the next financial year.



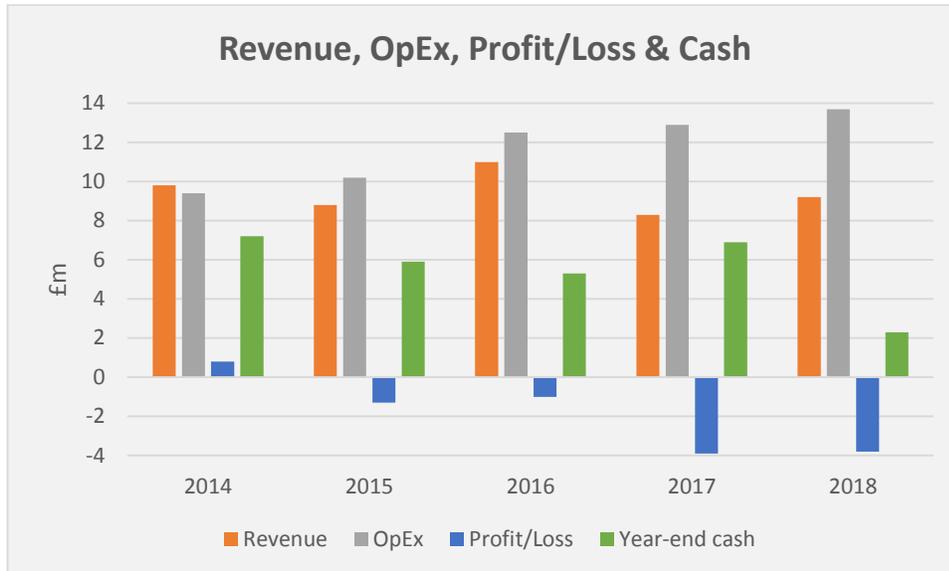
The US represents Intercede’s largest market with sales to North America making up 71% of total sales during FY 2018.



The last five years has seen progressive growth in recurring Support & Maintenance (S&M) revenues due to a cumulative increase in customers. Software license revenues from the traditional MyID business tend to be lumpy. Professional services is slightly down on last year partly due to large license orders received in the second half of the year that are expected to be implemented in the next financial year. Intercede is also encouraging new customers to stick to core product configurations, thereby reducing the need to implement costly customisations.

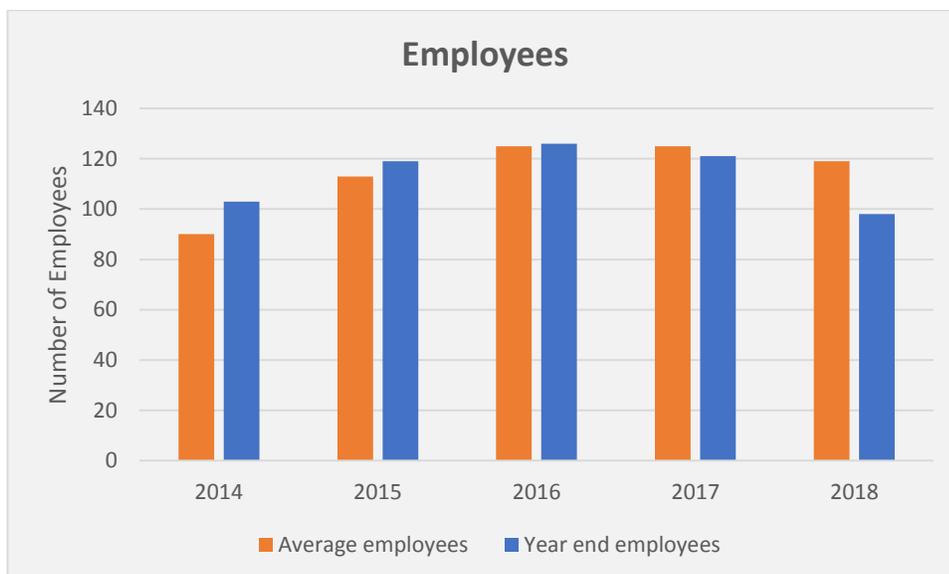
In the second half of the year, a cost-cutting review removed significant costs from the business without impacting our operational capability. This year contains exceptional one-off costs connected with the savings, such as Settlement Agreement costs, which are primarily responsible for a 6% increase in operating expenses from £12,891,000 to £13,669,000. The Group has started the new financial year with an operating cost run rate that is more than 20% lower (approximately £3m per annum) than at this point last year.

The increase in revenues is largely offset by the increase in operating expenses, leading to a £4,506,000 operating loss (2017: £4,721,000 operating loss).



The substantial increase in operating expenses (OpEx) over the last five years primarily reflects high levels of strategic investment to exploit new market opportunities. This investment is expected to result in increased revenue and cash flow generation in future periods. The 2018 year end cash does not include the impact of significant orders received in the last two months of the year with gross cash balances as at 30 April 2018 increasing to £4.7m.

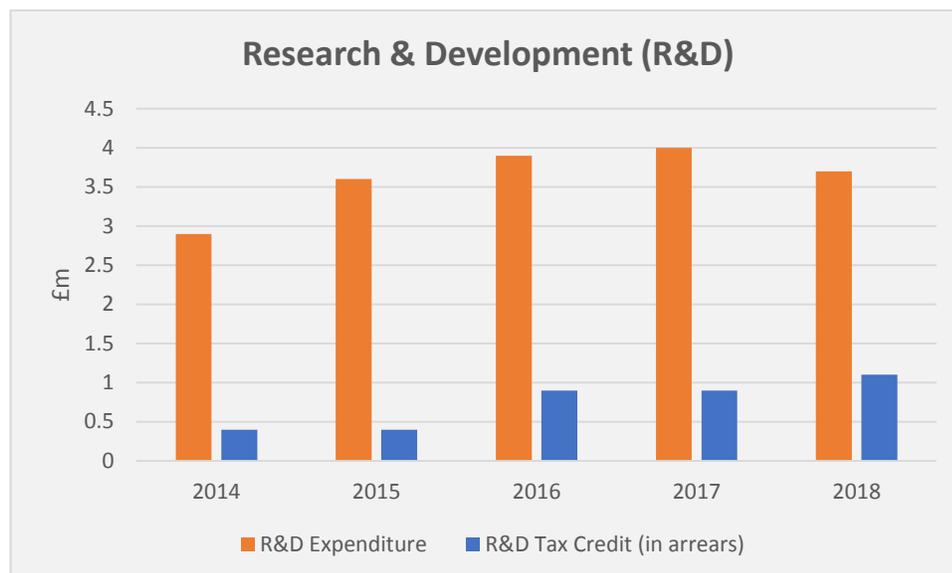
Staff costs continue to represent the main area of expense, representing 76% of total operating expenses (2017: 78%). The average number of employees and contractors was 119, down from the previous year's average of 125. However, as a result of the second half cost reductions referred to above, the number of employees and contractors as at 31 March 2018 had been reduced to 98 (2017: 121).



Intercede employ one of the largest teams with cryptographic key management experience and expertise anywhere in the world.

Expenditure on research and development (R&D) activities totaled £3,736,000 (2017: £3,994,000), approximately 57% of which related to the areas of strategic investment outlined above (2017: 62%). In

accordance with the IFRS recognition criteria, the Board has continued to determine that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2018 (2017: £nil).



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

The net finance cost for the year was £442,000 (2017: £57,000). This reflects a full year of interest payable on the convertible loan notes that were issued in January 2017 and a partial year of interest payable on the additional £510,000 convertible loan notes that were issued, under the same instrument, on 25 August 2017.

A £1,118,000 taxation credit in the period (2017: £888,000 taxation credit) primarily reflects cash received following the 2017 R&D claim as a result of the investment activities outlined above. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits.

A loss for the year of £3,830,000 (2017: loss of £3,890,000) resulted in a basic and fully diluted loss per share of 7.6p (2016: loss per share 8.0p).

Financial Position

The Group's cash position at 31 March 2018 was £2,272,000 (2017: £6,891,000), but it is worth noting that the year end cash position does not include the impact of significant orders received in the last two months of the year. As at 30 April 2018, gross cash balances totalled £4.7m.

The cost-cutting review has enabled the Group to exit one of its UK properties, which has been put up for sale and is expected to realise a net receipt of £0.4m during the new financial year.

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

Treasury

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

Key Performance Indicators (KPIs)

	2014	2015	2016	2017	2018
Sales growth	45%	(10%)	25%	(25%)	11%
Export sales	91%	85%	96%	95%	94%
North American sales	61%	51%	79%	77%	71%
New deployments with revenues over £20,000	10	6	6	8	10

Principal Risks and Uncertainties

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

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

By order of the Board

Klaas van der Leest
Chief Executive

7 June 2018

Andrew Walker
Finance Director

7 June 2018

INTERCEDE GROUP plc**Consolidated Statement of Comprehensive Income for the year ended 31 March 2018**

	2018	2017
	£'000	£'000
Continuing operations		
Revenue	9,204	8,286
Cost of sales	<u>(41)</u>	<u>(116)</u>
Gross profit	9,163	8,170
Operating expenses	<u>(13,669)</u>	<u>(12,891)</u>
Operating loss	(4,506)	(4,721)
Finance income	10	13
Finance costs	<u>(452)</u>	<u>(70)</u>
Loss before tax	(4,948)	(4,778)
Taxation	<u>1,118</u>	<u>888</u>
Loss for the year	<u>(3,830)</u>	<u>(3,890)</u>
Total comprehensive expense attributable to owners of the parent company	<u>(3,830)</u>	<u>(3,890)</u>
Loss per share (pence)		
- basic	(7.6)p	(8.0)p
- diluted	<u>(7.6)p</u>	<u>(8.0)p</u>

INTERCEDE GROUP plc**Consolidated Balance Sheet as at 31 March 2018**

	2018 £'000	2017 £'000
Non-current assets		
Property, plant and equipment	<u>195</u>	<u>695</u>
Current assets		
Assets held for sale	373	-
Trade and other receivables	4,709	1,280
Cash and cash equivalents	<u>2,272</u>	<u>6,891</u>
	<u>7,354</u>	<u>8,171</u>
Total assets	<u>7,549</u>	<u>8,866</u>
Equity		
Share capital	505	499
Share premium	673	673
Equity reserve	66	60
Merger reserve	1,508	1,508
Accumulated deficit	<u>(5,719)</u>	<u>(2,354)</u>
Total equity	<u>(2,967)</u>	<u>386</u>
Non-current liabilities		
Convertible loan notes	4,670	4,124
Deferred revenue	<u>324</u>	<u>141</u>
	<u>4,994</u>	<u>4,265</u>
Current liabilities		
Trade and other payables	1,857	1,390
Deferred revenue	<u>3,665</u>	<u>2,825</u>
	<u>5,522</u>	<u>4,215</u>
Total liabilities	<u>10,516</u>	<u>8,480</u>
Total equity and liabilities	<u>7,549</u>	<u>8,866</u>

INTERCEDE GROUP plc

Consolidated Statement of Changes in Equity for the year ended 31 March 2018

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	Accumulated deficit £'000	Total equity £'000
As at 1 April 2016	487	232	-	1,508	1,131	3,358
Purchase of own shares	-	-	-	-	(143)	(143)
Employee share option plan charge	-	-	-	-	60	60
Employee share incentive plan charge	-	-	-	-	488	488
Issue of new shares	12	441	-	-	-	453
Equity component of convertible loan notes	-	-	60	-	-	60
Loss for the year and total comprehensive expense	-	-	-	-	(3,890)	(3,890)
As at 31 March 2017	499	673	60	1,508	(2,354)	386
Purchase of own shares	-	-	-	-	(147)	(147)
Employee share option plan charge	-	-	-	-	(19)	(19)
Employee share incentive plan charge	-	-	-	-	493	493
Issue of new shares	6	-	-	-	-	6
Re-issuance of treasury shares	-	-	-	-	138	138
Equity component of convertible loan notes	-	-	6	-	-	6
Loss for the year and total comprehensive expense	-	-	-	-	(3,830)	(3,830)
As at 31 March 2018	<u>505</u>	<u>673</u>	<u>66</u>	<u>1,508</u>	<u>(5,719)</u>	<u>(2,967)</u>

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

INTERCEDE GROUP plc

Consolidated Cash Flow Statement for the year ended 31 March 2018

	2018 £'000	2017 £'000
Cash flows from operating activities		
Operating loss	(4,506)	(4,721)
Depreciation	156	194
Loss on disposal of property, plant and equipment	-	48
Employee share option plan (credit)/charge	(19)	60
Employee share incentive plan charge	493	488
Employee unit incentive plan charge/(credit)	2	(20)
Employee unit incentive plan payment	(8)	(28)
Increase in trade and other receivables	(3,340)	(364)
Increase/(decrease) in trade and other payables	434	(417)
Increase in deferred revenue	1,023	820
	<hr/>	<hr/>
Cash used in operations	(5,765)	(3,940)
Finance income	13	14
Finance costs on convertible loan notes	(344)	-
Taxation	1,118	888
	<hr/>	<hr/>
Net cash used in operating activities	(4,978)	(3,038)
 Investing activities		
Purchases of property, plant and equipment	(29)	(73)
	<hr/>	<hr/>
Cash used in investing activities	(29)	(73)
 Financing activities		
Purchase of own shares	(141)	(143)
Proceeds from issue of ordinary share capital	-	453
Proceeds from re-issuance of treasury shares	138	-
Proceeds from issue of convertible loan notes	510	4,495
Convertible loan note issue costs	(27)	(321)
	<hr/>	<hr/>
Cash generated from financing activities	480	4,484
 Net (decrease)/increase in cash and cash equivalents	(4,527)	1,373
Cash and cash equivalents at the beginning of the year	6,891	5,289
Exchange (losses)/gains on cash and cash equivalents	(92)	229
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	2,272	6,891
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INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2018

NOTES

1. The financial information set out in this announcement does not constitute the Group's Statutory Accounts for the years ended 31 March 2018 or 2017, but is derived from those accounts. Statutory Accounts for 2017 have been delivered to the Registrar of Companies and those for 2018, which have been approved by the Board of Directors, will be delivered following the Group's Annual General Meeting. The Company's auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498 of the Companies Act 2006.

The Annual General Meeting will be held at 2.00 pm on Wednesday 19 September 2018 at the registered office of the Company. Copies of the full Statutory Accounts and the Notice of Annual General Meeting will be despatched to shareholders in due course. Copies will also be available on the website (www.intercede.com) and from the registered office of the Company: Lutterworth Hall, St. Mary's Road, Lutterworth, Leicestershire, LE17 4PS.

2. SEGMENTAL REPORTING

All of the Group's revenue, operating losses and net liabilities originate from operations in the United Kingdom. The Directors consider that the activities of the Group constitute a single business segment.

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

	2018 £'000	2017 £'000
UK	533	403
Rest of Europe	963	960
North America	6,506	6,367
Rest of World	1,202	556
	<u>9,204</u>	<u>8,286</u>

3. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	2018 £'000	2017 £'000
Staff costs	9,868	10,049
Settlement Agreement costs	190	-
Compensation for loss of office paid to directors and key management	334	-
Foreign exchange loss/(gain)	155	(165)
Depreciation of property, plant and equipment	156	194
Operating lease rentals	397	390
Cost of sales	41	116
Other expenses	2,569	2,423
	<u>13,710</u>	<u>13,007</u>

Included in the costs above is research and development expenditure totalling £3,736,000 (2017: £3,994,000).

4. TAXATION

The tax credit comprises:	2018 £'000	2017 £'000
Current year – UK corporation tax	-	-
Current year – US corporation tax	(30)	(34)
Research and development tax credits relating to prior years	<u>1,148</u>	<u>922</u>
Taxation	<u>1,118</u>	<u>888</u>

The Group has unused tax losses of £13,854,000 (2017: £11,773,000) and unrecognised deferred tax assets of £2,355,000 (2017: £2,001,000) calculated at the UK corporation tax rate of 17% (2017: 17%).

5. LOSS PER SHARE

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

	2018 £'000	2017 £'000
Loss for the year	<u>(3,830)</u>	<u>(3,890)</u>
	Number	Number
Weighted average number of shares – basic	50,212,714	48,835,080
– diluted	<u>50,212,714</u>	<u>48,835,080</u>
	Pence	Pence
Loss per share – basic	(7.6)p	(8.0)p
– diluted	<u>(7.6)p</u>	<u>(8.0)p</u>

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

	2018 Number	2017 Number
Issued ordinary shares at start of year	49,903,143	48,735,005
Effect of treasury shares	(115,623)	(294,000)
Effect of issue of ordinary share capital	<u>425,194</u>	<u>394,075</u>
Weighted average number of shares – basic	<u>50,212,714</u>	<u>48,835,080</u>
Add back effect of treasury shares	N/A	N/A
Effect of share options in issue	N/A	N/A
Effect of convertible loan notes in issue	<u>N/A</u>	<u>N/A</u>
Weighted average number of shares – diluted	<u>50,212,714</u>	<u>48,835,080</u>

6. DIVIDEND

The Directors do not recommend the payment of a dividend.

7. ASSETS HELD FOR SALE

An office based in the UK is presented as an asset held for sale following the commitment of the Group, on 23 February 2018, to a plan to sell the property. Efforts to sell the asset have commenced and a sale is anticipated within the next 12 months.

The asset has been reclassified from Property, plant and equipment into Current assets at its carrying value of £373,000. This is estimated to be lower than its fair value less costs to sell, so no impairment loss is required.

8. SHARE CAPITAL

	2018 £'000	2017 £'000
<i>Authorised</i>		
481,861,616 ordinary shares of 1p each (2017: 481,861,616)	<u>4,819</u>	<u>4,819</u>
<i>Issued and fully paid</i>		
50,523,926 ordinary shares of 1p each (2017: 49,903,143)	<u>505</u>	<u>499</u>

The increase in issued and fully paid ordinary shares of 1p each represents the issue of 620,783 shares on 25 July 2017 to facilitate the July 2017 Free Share award.

As at 31 March 2018, the Company had 41,645 ordinary shares held in treasury (2017: 294,000). During the year, the Company re-issued 252,355 treasury shares to a director and a senior manager.

9. Convertible loan notes

	2018 £'000	2017 £'000
Non-current		
8% Convertible loan notes (29 December 2021)	<u>4,670</u>	<u>4,124</u>

Borrowings are repayable as follows:

	2018 £'000	2017 £'000
Between two and five years	<u>4,670</u>	<u>4,124</u>

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

On 25 August 2017 the Company issued £510,000 convertible loan notes under the same convertible loan note instrument.

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

	2018 £'000	2017 £'000
Nominal value of convertible loan note issue	5,005	4,495
Issue costs	(348)	(321)
Equity component at date of issue	<u>(66)</u>	<u>(60)</u>
Liability component at date of issue	4,591	4,114
Effective interest rate adjustment	<u>79</u>	<u>10</u>
Liability component at 31 March	<u>4,670</u>	<u>4,124</u>