13 March 2018

Escher Group Holdings plc

Robust operational performance and cash generation despite absence of major one-off licence sales

Escher Group Holdings plc (AIM: ESCH, "Escher" or "the Group"), a world leading provider of outsourced, point of service software to the postal industry, has published its results for the year ended 31 December 2017.

On 8 February 2018, Escher announced in a joint statement with Exeter Acquisition Limited ("Hanover BidCo") that both companies had reached agreement on the terms of a recommended cash offer to be made by Hanover BidCo for Escher. Under the terms of the offer, each Escher shareholder will be entitled to receive 185 pence in cash per Escher share. The Offer values Escher at approximately £35.32 million on a fully diluted basis on that date.

Financial highlights

- Group revenue US$18.2 million (2016: US$22.4 million)
  - Recurring revenue 61% of total revenues (2016: 52%) [1]
  - Maintenance revenue US$7.7 million (2016: US$8.2 million)
  - Support revenues US$2.9 million (2016: US$3.4 million)
- Adjusted EBITDA* US$2.9 million (2016: US$5.7 million)
- Profit before tax (before exceptional items) US$0.13 million (2016: US$2.7 million)
- Exceptional non-cash goodwill impairment charge US$8.5 million (2016: $nil)
- Basic loss per share US$49.1 cents (2016: earnings per share US$10.0 cents)
- Strong cash generation from recurring and repeating revenue streams resulted in net positive cash position at year end of US$0.1 million (31 December 2016: US$0.1 million), including exceptional costs of restructuring and costs associated with exploring a potential acquisition in US licensing and permitting market

Operational highlights

- Strong demand for services from existing customers looking to realise transformative projects, notably in mobile and kiosk applications
- Continued broadening of technology offering including launch of Riposte on iOS and Android
  - New licence sale of Mobile platform to North American client
- No major one-off licence sales, with multiple opportunities deferred to 2018 and beyond
- Completion of restructuring of cost base to deliver profitability and cash generation, even in years without major one-off licence sales
- Secured new US$8 million revolving credit facility extending to 2022.
- Continued investment in RiposteTrEx in support of new licensing and permitting business and in exploring paths to market for this technology in US

1) Recurring revenue includes the following revenue categories: subscription element within software licence, maintenance, and support (for further details, see "Analysis of revenue by category" in Note 1 Segment Information).

Liam Church, Escher's Chief Executive, commented:

"2017 was characterised by continuing strong demand from our customers for services including the sale of a license for our Riposte solution on IOS to a significant customer. However, the volatility in our business was emphasised by the lack of a major license sale in 2017.

"A cost base restructuring completed in 2017 and our focus on recurring revenue streams has delivered profitability and cash generation despite the absence of major one off license sales.

"We continue to invest in our Riposte technology platform, launching Riposte on iOS and Android, and are seeing strong demand for services from existing customers looking to realise transformative projects in their operations.

"The Board unanimously recommended Hanover Bidco's offer as good for shareholders and employees. The acquisition by a strategic shareholder, who has got to know us over almost a year and following our restructuring, provides a platform for us to deliver sustainable growth as a private company."

* Adjusted EBITDA represents operating profit before depreciation, amortisation, share based payment and exceptional items.

% movements are based on unrounded data, rather than the rounded information presented in this report.

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Market abuse regulation
This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Forward looking statements
This press release contains certain forward-looking statements. Actual results may differ materially from those projected or implied in such forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results.

About Escher
Escher is a world leading provider of outsourced point-of-service software for use in the worldwide postal, retail and government sectors. Its core software, Riposte®, a digital transaction management platform, enables its customers to expand their offerings, providing new services, whilst reducing costs and increasing efficiency.

Overview
2017 was a year of solid progress for the Group within the postal market. A cost reduction programme, completed during 2017, is having a positive ongoing impact on the underlying profitability of the Escher Group. The continued investment in the flagship Riposte technology has

allowed Escher to achieve a key sale to one of its largest customers. In addition, continued investment in RiposteTrEx and Interactive products has presented the Group with opportunities to create a second leg to our business.

It was disappointing that the postal procurement processes conducted did not move to award during 2017 and did not yield a major licence sale. Notwithstanding this, the Group produced adjusted EBITDA of US$2.9 million (2016: US$5.7 million), representing some 16% of revenues, thanks to strong performances in transformative Services projects for customers and recurring revenue streams of Maintenance, Support and Subscription, which underpin the profitability of the business.

The Group continues to see strong cash generation as a result of prudent cost management. A new US$8 million revolving credit facility from Bank of Ireland was secured in December 2017, effective 12 January 2018.

At the end of the year, the Board considered the appropriateness of the goodwill number carried on the balance sheet since 2007. Modelling future performance to include additional volatility in the timing of major, one-off licence sales, an impairment charge has been recognised to reduce this non-cash balance-sheet item from US$29.7 million to US$21.2 million.

Current trading and outlook

Preliminary indications suggest that 2017 was another year of growth for the worldwide postal industry. This growth is being achieved principally in the domains of domestic e-Commerce, international e-Commerce and financial services and is expected to continue.

During 2017, Escher commissioned an in-depth study of the spending intentions of postal organisations across the world to determine the key areas of investment for them and identifying new technologies which might have pertinence to them. This study confirmed that the concept of integrated platforms remains at the heart of postal transformation.

The Group expects to see increasing investment in technology by postal organisations which wish to capitalise on the growth opportunities in e-Commerce and believes that it is well positioned to benefit from these opportunities. This is evidenced by the size and quality of Escher's customer base, the relevance of its technology for this market and the success of its participation in postal innovation programs including the "Concept Store" for Canada Post and the sale of Self-Service Kiosks, mobile and loyalty solutions to multiple customers.

OPERATIONAL REVIEW

Market position

Escher remains the reference for the postal sector across the globe and continues to build both pipeline and relevant products for this market. Investment in mobility, particularly in recent deployments on Android and iOS, positions the Group to deliver on its pipeline.

However, as seen in 2017 and as announced to the market in the trading updated of November 2017, selling cycles in the governmental and quasi-governmental sector are long and unpredictable and Escher's software licence sales remain susceptible to this unpredictability. It is this volatility, duly integrated into the Group's financial modelling, that gave rise to the Board's decision to write-down the goodwill.

The digitisation of governmental services globally continues to show growth. The Group made a significant exceptional investment in 2017 in exploring opportunities to penetrate the US Licensing and Permitting market in a meaningful way, including through acquisition.

Organisation

The Group completed a project to re-define its cost structure and organisation, with the clear objective of arriving at a new fixed-cost base allowing the Group to generate satisfactory EBITDA, on an on-going basis, with minimal one-off licence sales.

Exceptional restructuring costs of US$277,000 were incurred in the year and in combination with the benefits of the prior year's reorganisation, resulted in an overall decline in operating expenses in 2017 of some US$0.9 million and a decline in Cost of Sales of a further US$0.7 million. Costs incurred in 2017 will further reduce the Group's fixed costs on an annualised basis, going forward.

The consolidation of the Group's Interactive Services and Retail Services businesses into a single Postal and Retail Services unit, facilitated improved focus on the changing needs of the postal customer base.

Postal and Retail Services

Postal organisations worldwide are continuing to invest in postal retail technology and the Group has been engaged in a number of procurement processes throughout the world during 2017. It was disappointing that none of these moved to finalisation and contract award in 2017.

At the same time, these procurement processes themselves highlighted the relevance of the Group's products and services to today's postal market where Escher remains the premier provider of point-of-service software.

As expected, in the recurring revenue streams, no new Maintenance revenues came on stream as the most recent licence sales have yet to produce Maintenance income. An existing customer's maintenance service contract ended in 2017 and this resulted in a $500,000 reduction in the maintenance line.

A renegotiation of two Support contracts during 2016 and 2017, coupled with a reclassification of some revenue from Support to Services, following a change of contract terms has resulted in a reduction of $500,000 in the Support line.

The solidity of the recurring revenue streams, which brings balance to Escher's business, underpins the Group's profitability and cash generation. Overall, for 2017, Subscription, Maintenance and Support represented more than 61% of revenues (2016: 52%).[2]

Escher's technological offerings to its postal clientele expanded throughout 2017 with the sale of its mobile platform to a major customer in North America and the implementation of systems for Self-Service Kiosks and other e-Commerce-enabling solutions.

As the postal clientele embraces new sources of revenue generation and growth, the integrated platforms provided by Escher continue to become increasingly pertinent in their IT strategies and, over time, will present the Group with opportunities to sell additional product to a growing customer base.

Escher's new point-of-service, branch-banking solution for the Irish bank, *permanent tsb*, went live in its pilot branch, at the end of 2017.

Escher continues to invest in developing new products and services that enhance and expand the core postal offering, reinforcing the Group's position as the number one trusted advisor for postal organisations throughout the world.

2) Recurring revenue includes the following revenue categories: subscription element within software licence, maintenance, and support (for further details, see "Analysis of revenue by category" in Note 1 Segment Information).

Digital Services

Licensing and Permitting

Since 2016 the focus of the Group's Digital Services unit has been primarily on developing Licensing and Permitting management solutions.

Across the world, state and local governments are looking to digitise their current paper based processes in these areas in order to maximise revenue generation through compliance, to minimise costs of operation, and to simplify the citizen's experience.

Escher's experience in developing and deploying, in partnership with Irish post office, An Post, the Irish national Licensing and Permitting platform, *Licences.ie,* confirmed that the RiposteTrEx platform positions it well to play an important role in this market.

In 2017, the Board decided to invest in the exploration of paths to market in the Licensing and Permitting market in the US. Having test-marketed Escher's technology in this geography by investigating a significant number of opportunities in 2016, the importance of having qualified references in this market became evident.

The Board decided to actively pursue a potential acquisition of an established company in this marketplace during 2017, in order to accelerate Escher's entry into the marketplace through a referenced and recognised American company.

A mergers and acquisitions advisor was retained and mandated to accompany Escher in this project. A large number of potential targets were scoped and investigated, a shortlist was established and negotiations were engaged with a number of entities. The total costs associated with this project appear as an exceptional charge in the accounts in the amount of US$400,000, mainly comprising fees arising from the M&A assignment, due diligence exercises and legal fees.

Start-Up Investments

During 2016, the Group invested in two Irish, Fintech start-up companies, Deposify and Circit. Both companies wished to use the RiposteTrEx platform as a technology enabler for their business plans. The Group provided licences and services to these entities in return for equity. Both companies continue to evolve positively.

The Group did not pursue further start-up investments during 2017 and no further such investments are intended at this point in time.

FINANCIAL REVIEW

Introduction

The financial results for the year to 31 December 2017 reflect progress in the management of the fixed-cost base and confirm the importance of the recurring revenue streams in underpinning profit and cash generation. The absence of a major, one-off licence sale in the year is the principal driver of the decline in revenue and profitability.

A good performance in Software Development and Consulting Services, the strong contributions of the recurring Maintenance, Support and Subscription revenue streams and tight cost control (at levels of Cost of Sales and of Operating Expenses), resulted in an adjusted EBITDA of US$2.9 million (2016:US$ 5.7 million), representing some 16% of revenues (2016:25%).

Notwithstanding the absence of a major, one-off licence sale and the exceptional expenditures on restructuring and a potential acquisition in the Licensing and Permitting activity in the United States, the Group ended the year in a net cash positive position.

Revenue
Revenue was US$18.2 million (2016: US$22.4 million), reflecting the substantial decrease in software license revenue streams.

Analysis of revenue by category	**2017 US$'000**	2016 US$'000	Change %	Contribution to Group %
Software licences	**1,117**	4,613	(76%)	6%
Software development and consulting services	**6,450**	6,209	4%	36%
Maintenance	**7,673**	8,222	(7%)	42%
Support	**2,914**	3,367	(13%)	16%
	18,154	22,411	(19%)	100%

Licence revenue was US$1.1 million (2016: US$4.6 million) representing the licence element in major Subscription contract and the sale in May 2017 of a licence for a Mobile platform to a major customer in North America.

Maintenance revenue was US$7.7 million (2016: US$8.2 million) following the arrival at term of one particular maintenance contract which did not renew in 2017. As expected, no new Maintenance contracts activated in 2017.

Support revenue was US$2.9 million (2016: US$3.4 million) following the renegotiation at the end of 2017 of the biggest Support contract. No renegotiation of this contract has taken place for 2018 and some new Support arrangements have been concluded towards the end of 2017.

The Group continues to focus on its strategy to capitalise on one-off licence sales to produce strong recurring revenue streams. Maintenance, Support and Subscription recurring revenue streams now amount to 61% of overall revenue (2016: 52%).

Software development and consulting services increased by 4% to US$6.5 million (2016: US$6.2 million) as a number of customers engaged Escher to accompany them in transformative projects, notably in areas such as Mobile and Self-Service-Kiosks.

Gross profit
Gross profit was US$11.5 million (2016: US$15.0 million). The gross profit margin rate decreased to 63% (2016: 67%) reflecting the absence of the major, one-off licence sales which carry very high gross margins.

Exceptional items
During the year, Escher completed an extensive restructuring of its operations with a view to arriving at a level of fixed-costs which will allow it to be profitable, even in the absence of one-off licence sales. Exceptional costs of US$0.3 million (2016: US$0.3 million) were recognised in relation to this restructuring.

Also Escher incurred costs of US$0.4 million (2016: US$nil) in relation to the potential acquisition of a company in the US with a view to accelerating Escher's penetration of the Licensing and Permitting market in that jurisdiction.

There was an exceptional goodwill impairment charge of US$8.5 million passed in the 2017 accounts (2016: US$nil) to reduce the value of intangible assets held by Escher at year end. This charge was the result of the Group's having integrated a higher degree of volatility in major, one-off licence sales in its modelling of future revenues and profits.

Operating expenses/profit (before exceptional items)
Operating expenses before exceptional items decreased by US$0.9 million or 8% to US$10.9 million due to tight cost management. Decreases of 8% were recorded in sales and marketing, 3% in administrative expenses and 13% in research and development (R&D), reflecting prudent cost management.

Analysis of operating expenses (before exceptional items)	**2017 US$'000**	2016 US$'000	Change %
Research and development	**3,328**	3,830	(13%)
Sales and marketing	**3,245**	3,520	(8%)
Administrative expenses	**4,345**	4,472	(3%)
Total	**10,918**	11,822	(8%)

The Group capitalised US$1.1 million of R&D costs (2016: US$1.3 million), gross of government grants of US$0.2 million (2016: US$0.3 million) in respect of internally generated intangible assets. The amortisation charge for intangible assets was US$2.0 million (2016: US$1.9 million). The split between the projects and the amortisation charges are shown below.

	2017 US$'000	2016 US$'000
RiposteTrEx capitalised cost	**420**	460
Riposte capitalised cost	**695**	886
Total capitalised cost during year	**1,115**	1,346
RiposteTrEx amortisation	**(636)**	(697)
Riposte amortisation	**(1,344)**	(1,244)
Total amortisation cost during year	**(1,980)**	(1,941)
Net impact on the income statement	**(865)**	(595)

Adjusted EBITDA
Adjusted EBITDA was US$2.9 million (2016: US$5.7 million), reflecting the decrease in revenue offset by the reduction in costs of sales and in operating expenses. Adjusted EBITDA represents operating profit before depreciation, amortisation, share based payments and exceptional items.

	2017 US$'000	2016 US$'000
Operating (loss)/profit	**(8,664)**	2,866
Add back:		
Depreciation	**215**	282
Amortisation	**1,980**	1,941
EBITDA	**(6,469)**	5,089
Share based payment	**171**	281
Exceptional items	**9,208**	287
Adjusted EBITDA	**2,910**	5,657

Net finance expense
Net finance expense reduced by US$0.1 million to US$0.4 million (2016: US$0.5 million) as a result of Escher's reduced debt level. The amortisation charge for deferred financing costs was US$0.1 million (2016: US$0.1 million).

Profit before tax (and exceptional items)
The profit before tax was US$0.1 million (2016: US$2.7 million). Adjusted profit before tax excluding share based payments and exceptional items was to US$0.3 million (2016: US$2.9 million).

Income tax expense
The income tax expense after exceptional items is US$0.1 million (2016: US$0.5 million). The goodwill impairment charge of US$8.5 million for 2017 (2016: US$nil) is non-deductible for tax purposes.

Loss per share
The Group reported a basic loss per share (LPS) of US$49.1 cents per share (2016: earnings per share US$10.0 cents per share). Diluted LPS was US$49.1 cents (2016: earnings US$9.8 cents per share).

Dividend
The Board is not proposing to pay a dividend for the year.

Cash flow and net cash
Net cash remained consistent year on year at US$0.1 million on 31 December 2017 (2016: Net cash US$0.1 million).

Cash at the end of 2017 was US$5.1 million (2016: US$6.1 million) and borrowings were US$5.0 million (2016: US$6.0 million).

The net cash movement comprises net cash generated from operations of US$1.5 million (2016: US$4.2 million) offset by cash flows from investing activities which were US$1.5 million (2016: US$1.5 million).

Cash used in investing activities resulted from investments in intangible assets net of government grants (2017: US$1.0 million; 2016: US$1.1 million); acquisitions of investments of US$nil (2016: US$0.3 million) and purchases of property, plant and equipment (2017: US$0.5 million; 2016: US$0.1 million).

Net cash used in financing activities was US$1.0 million (2016: US$4.0 million). During 2017 scheduled loan repayments totalling US$1.0 million were made (2016: US$1.0 million and US$3.0 million on our drawn debt revolver).

On 18 December 2017, the Group agreed a revised banking facility with Bank of Ireland Corporate Banking comprising a revolving four-year facility for US$8.0 million, which was effective from 12 January 2018. The amended term loan runs to January 2022.

Consolidated income statement

For the financial year ended 31 December 2017

	Notes	**2017 Before Exceptional items US$'000**	**2017 Exceptional items US$'000**	**2017 After exceptional items US$'000**	2016 Before Exceptional items US$'000	2016 Exceptional items US$'000	2016 After exceptional items US$'000
Revenue	1	**18,154**	—	**18,154**	22,411	—	22,411
Cost of sales	2	**(6,692)**	—	**(6,692)**	(7,436)	—	(7,436)
Gross profit		**11,462**	—	**11,462**	14,975	—	14,975
Operating expenses	2	**(10,918)**	**(9,208)**	**(20,126)**	(11,822)	(287)	(12,109)
Operating (loss)/profit		**544**	**(9,208)**	**(8,664)**	3,153	(287)	2,866
Finance income	5	**5**	—	**5**	2	—	2
Finance costs	5	**(421)**	—	**(421)**	(490)	—	(490)
Net finance costs		**(416)**	—	**(416)**	(488)	—	(488)
(Loss)/profit before income tax		**128**	**(9,208)**	**(9,080)**	2,665	(287)	2,378
Income tax expense	6	**(178)**	**35**	**(143)**	(547)	36	(511)
(Loss)/Profit for the financial year		**(50)**	**(9,173)**	**(9,223)**	2,118	(251)	1,867
(Loss)/Earnings per share (in US$ cents per share)	18						
– Basic				**(49.1)**			10.0
– Diluted				**(49.1)**			9.8

Reconciliation of EBITDA and adjusted EBITDA	Notes	**2017 US$'000**	2016 US$'000
Operating (loss)/profit		**(8,664)**	2,866
Depreciation	7	**215**	282
Amortisation	8	**1,980**	1,941
EBITDA		**(6,469)**	5,089
Share options expense	4	**171**	281
Exceptional items	3	**9,208**	287
Adjusted EBITDA		**2,910**	5,657

Consolidated statement of comprehensive income

For the financial year ended 31 December 2017

	2017 US$'000	2016 US$'000
(Loss)/profit for the financial year	**(9,223)**	1,867
Other comprehensive income:		
Items that may be reclassified to the income statement		
Currency translation differences	**85**	(348)
Total comprehensive (loss)/income for the financial year	**(9,138)**	1,519

Consolidated statement of financial position

At 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Assets			
Non-current assets			
Property, plant and equipment	7	**524**	218
Goodwill and intangible assets	8	**25,493**	35,020
Deferred tax assets	6	**477**	534
Investments in equity instruments	12	**746**	746
		27,240	36,518
Current assets			
Trade and other receivables	10	**7,340**	6,712
Cash and cash equivalents	11	**5,092**	6,055
		12,432	12,767
Total assets		**39,672**	49,285
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital presented as equity	16	**128**	128
Share premium	16	**26,909**	26,909
Other reserves		**999**	743
Retained earnings		**196**	9,419
Total equity		**28,232**	37,199
Non-current liabilities			
Borrowings	14	—	4,954
Provisions for other liabilities and charges		**22**	21
		22	4,975
Current liabilities			
Borrowings	14	**5,000**	939
Trade and other payables	13	**6,418**	5,960
Current income tax liabilities		—	212
		11,418	7,111
Total liabilities		**11,440**	12,086
Total equity and liabilities		**39,672**	49,285

Consolidated statement of changes in equity

For the financial year ended 31 December 2017

	Equity share capital US$'000	Share premium US$'000	Cumulative foreign currency translation reserve US$'000	Share based payment reserves US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2016	128	26,909	(1,570)	2,380	7,552	35,399
Profit for the financial year	—	—	—	—	1,867	1,867
Other comprehensive income	—	—	(348)	—	—	(348)
Total comprehensive income for the financial year	—	—	(348)	—	1,867	(1,519)
Share based payments	—	—	—	281	—	281
Balance at 1 January 2017	128	26,909	(1,918)	2,661	9,419	37,199
Loss for the financial year	—	—	—	—	(9,223)	(9,223)
Other comprehensive income	—	—	85	—	—	85
Total comprehensive loss for the financial year	—	—	85	—	(9,223)	(9,138)
Share based payments	—	—	—	171	—	171
Balance at 31 December 2017	**128**	**26,909**	**(1,833)**	**2,832**	**196**	**28,232**

Consolidated statement of cash flows

For the financial year ended 31 December 2017

	Notes	**2017 US$'000**	2016 US$'000
Cash flows from operating activities			
Cash generated from operations	15	**1,543**	4,827
Interest received		**5**	2
Interest paid		**(313)**	(348)
Income tax paid		**(285)**	(289)
R&D Tax Credit Received		**543**	—
Net cash generated from operating activities		**1,493**	4,192
Cash flows from investing activities			
Purchases of property, plant and equipment	7	**(519)**	(117)
Additions to intangible assets	8	**(1,115)**	(1,346)
Purchase of loan notes	12	—	(251)
Government grant received		**162**	254
Net cash used in investing activities		**(1,472)**	(1,460)
Cash flows from financing activities			
Repayment of borrowings	14	**(1,000)**	(4,000)
Borrowing costs		—	(6)
Net cash used in financing activities		**(1,000)**	(4,006)
Net decrease in cash and cash equivalents		**(979)**	(1,274)
Cash and cash equivalents at beginning of financial year		**6,055**	7,346
Foreign exchange adjustments		**16**	(17)
Net decrease in cash and cash equivalents		**(979)**	(1,274)
Cash and cash equivalents at end of financial year	11	**5,092**	6,055

Selected accounting policies applied in the preparation of these consolidated financial statements are as follows:

Basis of preparation

The financial information contained in this results announcement has been extracted from the Group financial statements for the year ended 31 December 2017 and is presented in US$, rounded to the nearest thousand. The financial information does not include all the information and disclosures required in the annual financial statements. The Group financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations endorsed by the European Union and were approved by the Board of Directors on 13 March 2018. The accounting policies used in preparing the group financial statements for 31 December 2017 are consistent with those applied in the prior year. The 2017 Annual Report will be distributed to shareholders and made available on the Company's website www.eschergroup.com. It will also be filed with the Companies Registration Office. The auditors have reported on the financial statements for the year ended 31 December 2017 and their report was unqualified.

Notes to the financial statements

1 Segment information

In line with the requirements of IFRS 8 "Operating Segments", the Group has identified its chief operating decision maker (CODM) as the Board of the Company. The Board reviews the Group's internal reporting in order to assess the performance of the Group and allocate resources. The Board considers the business from a product perspective and reviews working capital and overall statement of financial position performance on a Group-wide basis. Consequently, the Board determined there to be only one segment.

The Board assesses the performance of the segment based primarily on measures of revenues, adjusted EBITDA and profit before tax. These revenues derive from the following main sources:

Analysis of revenue by category	**2017 US$'000**	2016 US$'000
Software licences	**1,117**	4,613
Software development and consulting services	**6,450**	6,209
Maintenance	**7,673**	8,222
Support	**2,914**	3,367
	18,154	22,411

The entity is domiciled in the Republic of Ireland. The Group's external revenues are derived from the following main geographic locations:

	2017 US$'000	2016 US$'000
Ireland	**1,052**	1,508
UK	**301**	609
Other Europe	**4,724**	4,768
North America	**7,788**	7,769
Asia-Pacific region	**899**	4,570
Africa and Middle East	**3,390**	3,187
	18,154	22,411

Fluctuations in revenues with individual customers are typically due to a combination of the number of upfront perpetual licence contracts as well as the level and timing of development and other software customisation requirements with that customer (the latter being from both initial customisation work following a new licence win and periodic projects driven by a customer's internal requirements and software upgrades).

During the year, the Group derived revenues from the following external customers who individually represented 10% or more of total reported revenues for that year:

	2017 %	2016 %
Customer A	**41%**	30%
Customer B	—	13%
Customer C	**11%**	8%
% of total reported revenues	**52%**	51%

The total of non-current assets (other than deferred income tax assets and investments in equity instruments) located in the Republic of Ireland is US$3.4 million (2016: US$8.9 million), and the total of non-current assets located in other countries, primarily North America, is US$22.6 million (2016: US$26.4 million).

2 Expenses by nature

	2017 US$'000	2016 US$'000
Employee benefit expense (note 4)	**8,952**	10,043
Directors' remuneration	**1,461**	1,292
Total employee benefit expense and directors' remuneration	**10,413**	11,335
Rental and utilities expense	**1,189**	1,124
Travel costs	**673**	673
Consulting and contractors expense	**1,068**	1,226
Insurance	**567**	640
(Gain)/loss on foreign exchange	**(172)**	(11)
Legal fees	**329**	315
Selling and marketing costs	**375**	407
Depreciation (note 7)	**215**	282
Amortisation of intangible assets (note 8)	**1,980**	1,941
Data communications	**181**	305
Professional fees	**818**	679
Provision for impaired receivables	**617**	24
Other expenses	**65**	605
Goodwill Impairment	**8,500**	—
Total	**26,818**	19,545
Analysed as:		
Cost of sales	**6,692**	7,436
Research and development	**3,328**	3,830
Sales and marketing	**3,245**	3,520
Administrative expenses	**4,345**	4,472
Operating costs before exceptional items	**10,918**	11,822
Exceptional items (Note 3)	**9,208**	287
Operating costs	**20,126**	12,109
Total	**26,818**	19,545

3 Exceptional Items

	2017 US$'000	2016 US$'000
Employee Termination Benefits	**277**	287
Acquisition Related Costs	**431**	—
Impairment in Goodwill	**8,500**	—
	9,208	287

During 2017, Escher announced to its employees that they were undertaking an additional program of restructuring, resulting in a Group-wide headcount reduction. The program of restructuring is fully concluded and all termination benefits have been paid in the current reporting period. All termination benefits related to the restructuring from the date of notification have been included in the calculation of the exceptional item. A similar restructuring program was undertaken in 2016 and all related termination benefits have been paid in the 2016 financial year. The total termination benefits that were incurred was US$277,000 (2016: US$287,000). During 2017, Escher investigated the possibility of acquiring another entity in the US and the associated costs related to this investigation have been included above as a separate line item.

4 Employee benefit expense

	2017 US$'000	2016 US$'000
Wages and salaries	**8,877**	10,002
Social insurance costs	**656**	674
Pension costs – defined contribution scheme	**257**	281
	9,790	10,957
Capitalised labour (note 8)	**(1,115)**	(1,346)
	8,675	9,611
Employee share based payments (see note 17)	—	145
Exceptional costs	**277**	287
	8,952	10,043

Total share based payments for the period amounted to US$171,000 (2016: US$281,000), of which US$nil (2016: US$145,000), disclosed above, related to employees excluding Directors. The remaining US$171,000 (2016: US$137,000) related to Directors' remuneration.

The average number of persons employed by the Group during the period was:

	2017 Number	2016 Number
Development	**78**	93
Selling and distribution	**20**	21
Administration	**20**	25
	118	139

The number of persons employed by the Group (including Executive Directors) at 31 December 2017 was 108 (2016: 126).

The Group operates a number of defined contribution pension schemes in which the majority of Group employees participate. The assets of these schemes are held separately from those of the Group in independently administered funds. The pension charge represents contributions payable by the Group to the schemes and amounted to US$257,000 for employees excluding Directors in respect of 2017 (2016: US$276,000), of which US$97,000 was accrued at the year-end (2016: US$89,000).

5 Finance income and costs

	2017 US$'000	2016 US$'000
Finance income		
Interest income	**5**	2
Finance costs		
Interest on bank borrowings	**(314)**	(346)
Amortisation of deferred financing costs	**(107)**	(138)
Finance charges	—	(6)
	(421)	(490)
Net finance costs	**(416)**	(488)

6 Income tax expense

(a) Recognised in the income statement

	2017 US$'000	2016 US$'000
Current income tax		
Irish corporation tax at 12.5%	**8**	107
Foreign corporation tax	**117**	255
Adjustments in respect of current income tax of previous years	**(40)**	(40)
Total current tax	**85**	322
Deferred tax		
Origination and reversal of temporary differences	**58**	189
Total deferred tax	**58**	189
Total income tax charge recognised in the income statement	**143**	511

(b) Reconciliation of the total actual tax charge

The tax charge in the income statement for the year differs from the standard rate of corporation tax in the Republic of Ireland of 12.5%. The differences are reconciled below:

	2017 US$'000	2016 US$'000
(Loss)/profit before taxation	**(9,080)**	2,378
Tax calculated at the Irish standard rate of corporation tax of 12.5%	**(1,135)**	297
Effects of:		
Income taxable at higher rates in other jurisdictions	**23**	173
Expenses not deductible for tax purposes	**1,154**	17
Impact of US tax reform	**55**	—
R&D tax credit – non-taxable	**(17)**	(38)
Other adjustments	**14**	19
Foreign withholding tax suffered	**89**	83
Adjustment in respect of current income tax of previous years	**(40)**	(40)
Total income tax charge	**143**	511

(c) Deferred tax

The deferred tax included in the consolidated statement of financial position and the movement in each year is as follows:

	1 January 2016 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2016 US$'000
Deferred tax assets			
Unrealised foreign exchange transactions	8	2	10
Foreign R&D tax credits	180	(1)	179
Intangible assets	231	(231)	—
Share options	220	41	261
Other	84	—	84
	723	(189)	534

(c) Deferred tax (continued)

	1 January 2017 US$'000	Recognition in income statement credit/(charge) US$'000	**31 December 2017 US$'000**
Deferred tax assets			
Trade losses carried forward	—	22	**22**
Unrealised foreign exchange transactions	10	(36)	**(26)**
Foreign R&D tax credits	179	(1)	**178**
Intangible assets	—	32	**32**
Share options	261	(31)	**230**
Other	84	(43)	**41**
	534	(57)	**477**

Analysis of non-current and current portions of deferred tax assets and liabilities:

	2017 US$'000	2016 US$'000
Deferred tax assets		
Non-current	**408**	439
Current	**69**	95
	477	534

7 Property, plant and equipment

	Computer equipment US$'000	Fixtures and fittings US$'000	Equipment US$'000	Leasehold improvements US$'000	Total US$'000
Cost					
At 31 December 2015	1,490	468	248	217	2,423
Additions	98	16	3	—	117
Exchange differences	(16)	(4)	(4)	(2)	(26)
At 31 December 2016	1,572	480	247	215	2,514
At 31 December 2016	1,572	480	247	215	2,514
Additions	115	31	97	276	519
Exchange differences	17	1	2	8	28
At 31 December 2017	**1,704**	**512**	**346**	**499**	**3,061**
Accumulated depreciation					
At 31 December 2015	(1,358)	(297)	(190)	(195)	(2,040)
Charge for the financial year	(119)	(92)	(57)	(14)	(282)
Exchange differences	15	3	6	2	26
At 31 December 2016	(1,462)	(386)	(241)	(207)	(2,296)
At 31 December 2016	(1,462)	(386)	(241)	(207)	(2,296)
Charge for the financial year	(82)	(77)	(14)	(42)	(215)
Exchange differences	(16)	(1)	(1)	(8)	(26)
At 31 December 2017	**(1,560)**	**(464)**	**(256)**	**(257)**	**(2,537)**
Net book value					
At 31 December 2015	132	171	58	22	383
At 31 December 2016	110	94	6	8	218
At 31 December 2017	**144**	**48**	**90**	**242**	**524**

Depreciation of US$111,000 (2016: US$160,000) has been charged in administrative expenses and US$104,000 (2016: US$122,000) in cost of sales in the income statement.

8 Goodwill and intangible assets

	Goodwill US$'000	*RiposteTrEx* US$'000	*Riposte* US$'000	Total US$'000
Cost				
At 31 December 2015	29,853	5,494	5,883	41,230
Additions	—	460	886	1,346
Government grants	—	—	(254)	(254)
Exchange differences	(182)	—	—	(182)
At 31 December 2016	29,671	5,954	6,515	42,140
At 31 December 2016	29,671	5,954	6,515	42,140
Additions	—	420	695	1,115
Government grants	—	—	(162)	(162)
At 31 December 2017	**29,671**	**6,374**	**7,048**	**43,093**
Accumulated amortisation				
At 31 December 2015	—	(3,611)	(1,568)	(5,179)
Charge for the financial year	—	(697)	(1,244)	(1,941)
At 31 December 2016	—	(4,308)	(2,812)	(7,120)
At 31 December 2016	—	(4,308)	(2,812)	(7,120)
Charge for the financial year	—	(636)	(1,344)	(1,980)
Goodwill Impairment	(8,500)	—	—	(8,500)
At 31 December 2017	**(8,500)**	**(4,944)**	**(4,156)**	**(17,600)**
Net book value				
At 31 December 2015	29,853	1,883	4,315	36,051
At 31 December 2016	29,671	1,646	3,703	35,020
At 31 December 2017	**21,171**	**1,430**	**2,892**	**25,493**

The additions of US$1,115,000 (2016: US$1,346,000), gross of government grants, all relate to capitalised labour (see note 4).

Amortisation of US$0.6 million (2016: US$0.7 million) on RiposteTrEx and amortisation of US$1.4 million (2016: US$1.2 million) on Riposte is included in operating costs in the income statement. As at 31 December 2017, there were product development assets of US$2.1 million (2016: US$1.3 million) which are currently under development and are not yet ready for use. The amortisation of these assets had not started as at 31 December 2017. The average remaining amortisation period of the RiposteTrEx development is 11 months (2016: 25 months). In the year there was US$1.3 million (2016: US$1.9 million) of research and development expenditure (excluding amortisation) recognised as an expense in the income statement as the research activity was not viewed as being sufficiently developed to warrant capitalisation.

Goodwill was tested for impairment as at 31 December 2017 and an impairment charge of US$8.5 million arose. The Board of Directors reviewed the goodwill valuation in the light of the absence of any major, one-off licence sale in 2017. While the Board remains confident in the Company's potential and capacity to grow, it concluded that an increasing volatility in the current business model of selling individually significant licences into the postal and quasi-governmental sectors could impact the forecasted future revenue levels which underpin the goodwill valuation, which had remained unchanged since 2007 (other than effects of exchange rates) . Consequently, a goodwill impairment charge was recognised in the current year to reduce the goodwill valuation. Following the impairment charge, the recoverable amount of the goodwill and the intangible assets of the group of CGU's is US$25.5 million.

9 Government grants

Government grants of US$162,000 (2016: US$254,000) were recognised in the year and were netted against the development cost of the related intangible assets. For further details, please see note 8.

10 Trade and other receivables

	2017 US$'000	2016 US$'000
Current		
Trade receivables	**5,517**	4,399
Less provision for impaired receivables	**(795)**	(775)
Trade receivable – net	**4,722**	3,624
Accrued income	**1,767**	1,953
Amounts owed by subsidiaries	—	—
Prepayments	**250**	265
Other receivables	**178**	150
Recoverable taxes	**423**	720
	7,340	6,712

The carrying value of trade receivables and other receivables approximates to their fair value.

Trade receivables are non-interest bearing and are generally settled within a 45-day period.

(a) Ageing of trade receivables

The ageing analysis of past due trade receivables is set out below:

	2017 US$'000	2016 US$'000
Neither impaired nor past due	**1,223**	1,872
Less than 30 days past due	**1,499**	812
Between 31–90 days past due	**1,058**	535
More than 90 days past due	**942**	405
Impaired	**795**	775
	5,517	4,399

As of 31 December 2017, trade receivables of US$1,223,000 (2016: US$1,872,000) were fully performing.

As of 31 December 2017, trade receivables of US$3,499,000 (2016: US$1,752,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2017, trade receivables of US$795,000 (2016: US$775,000) were impaired. The individually impaired receivables mainly relate to six customers (2016: three customers).

(b) The majority of the Group's customers operate within the postal service industry, primarily representing national post offices. As at 31 December 2017, a significant portion of the trade receivables of the Group related to five customers (2016: five customers) as follows:

	2017 %	2016 %
Customer A	**10%**	19%
Customer B	**22%**	17%
Customer C	**5%**	12%
Customer D	**28%**	12%
Customer E	**19%**	8%

No credit limits were exceeded during the year and management does not expect any losses from non-performance by the counterparties.

11 Cash and cash equivalents

	2017 US$'000	2016 US$'000
Cash at banks and in hand	**5,092**	6,055

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

The Group's currency exposure is set out below. Such exposure comprises the cash and cash equivalents of the Group that are denominated other than in US Dollars. As at 31 December 2017 these exposures were as follows:

	2017 US$'000	2016 US$'000
Non-US Dollar denominated cash balances		
Euro	**1,090**	2,228
Sterling	**128**	236
Singapore Dollar	**88**	100
South African Rand	**16**	9
Total non-US Dollar	**1,322**	2,573

12 Investments in equity instruments and loan notes

Available-for-sale financial assets include the following classes of financial assets:

	2017 US$'000	2016 US$'000
Non-current assets		
Investments carried at cost	**495**	495
Convertible loan notes	**251**	251
	746	746

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold on to them for the medium to long term. The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within twelve months of the end of the reporting period.

Given the nature of these investments and that they do not have a quoted price in an active market, the fair value cannot be reliably measured. Consequently, the investments have been measured at cost less impairment

To determine if an available-for-sale financial asset is impaired, the Group evaluates the duration and extent to which the recoverable value is less than its cost, and the financial health of and short-term business outlook for the investee. The Group determined that there has been no decline in fair value of the convertible loan notes or the cost of the investments as at the 31 December 2017 year end.

13 Trade and other payables

	2017 US$'000	2016 US$'000
Current		
Trade payables	**806**	243
Amounts owed to subsidiaries	—	—
Accruals	**1,163**	1,220
Other creditors including tax and social insurance	**473**	532
Deferred revenue	**3,976**	3,965
	6,418	5,960

Amounts owed to subsidiary companies are unsecured and interest free.

	2017 US$'000	2016 US$'000
Other creditors including tax and social insurance comprise:		
Income tax deducted under PAYE	**239**	303
Pay related social insurance	**109**	115
Other creditors	**125**	114
	473	532

14 Borrowings

	Book value		Fair value	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Non-current liabilities				
Bank loans	—	5,000	—	4,730
Deferred financing costs	—	(46)	—	(46)
Borrowings	—	4,954	—	4,684
Current liabilities				
Bank loans	5,000	1,000	5,000	1,000
Deferred financing costs	—	(61)	—	(61)
Borrowings	**5,000**	939	**5,000**	939
Total borrowings	**5,000**	5,893	**5,000**	5,623

On 9 October 2013, the Group agreed a banking facility with Bank of Ireland Corporate Banking comprising a US$9.0 million five-year term loan facility and a revolving twelve-month facility for US$3.0 million, which was undrawn at year end (2016: undrawn). On 18 December 2017, this facility was modified when the Group agreed a revised banking arrangement with Bank of Ireland Corporate Banking, effective 12 January 2018. Please see note 19 Subsequent Events for further details.

All of the Group's borrowings are denominated in US Dollars.

Maturity of financial borrowings

The maturity profile of the carrying amount of the Group's borrowings is set out below:

	Within 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	After 5 years US$'000	Total US$'000
Group					
Bank loans	1,000	5,000	—	—	6,000
Deferred financing	(61)	(46)	—	—	(107)
Borrowings at 31 December 2016	939	4,954	—	—	5,893
Bank loans	5,000	—	—	—	5,000
Deferred financing	—	—	—	—	—
Borrowings at 31 December 2017	**5,000**	—	—	—	**5,000**

Borrowings are secured by fixed and floating charges over all the Group's assets, including the guarantee of the holding Company.

15 Cash generated from operations

	2017 US$'000	2016 US$'000
(Loss)/profit before tax	**(9,080)**	2,378
Adjustments for:		
R&D Tax Credit	**(128)**	173
Depreciation	**215**	282
Amortisation of intangible assets	**1,980**	1,941
Amortisation of deferred financing	**107**	138
Impairment of Goodwill	**8,500**	—
Finance income	**(5)**	(2)
Finance costs	**313**	352
Employee share based payments	**171**	281
Effect of foreign exchange	**(172)**	(11)
Non-cash revenue transactions (Note 12)	—	(495)
Changes in working capital		
Trade and other receivables	**(820)**	515
Trade and other payables	**462**	(379)
Cash generated from operations	**1,543**	4,827

16 Share capital and share premium

Authorised share capital	Number of ordinary shares	Ordinary shares US$'000	Total US$'000
Equity share capital			
At 1 January 2016, 31 December 2016 and 31 December 2017			
A ordinary shares of €0.005 each	201,000,000	1,395	1,395

Issued share capital	Number of shares	Equity share capital (presented as equity) US$'000	Share premium US$'000	Total US$'000
A ordinary shares of €0.005 each				
At 1 January 2016	18,706,571	128	26,909	27,037
Shares issued during the financial year	27,264	—	—	—
At 31 December 2016	18,733,835	128	26,909	27,037
Shares issued during the financial year	73,919	—	—	—
At 31 December 2017	**18,807,754**	**128**	**26,909**	**27,037**

During 2017, 73,919 shares (2016: 27,264) were exercised during the year as part of the Group's share based payment scheme. For further details, please see note 17.

17 Share based payments

In 2017, no options were granted through the Company's share option scheme (2016: 360,000). In 2016, the options were granted in one tranche with an exercise price of US$0.014, 180,000 of which vest in 2017, 2018 and 2019, with the remaining 180,000 options vesting when various market share price milestones are reached. The Group has no legal or constructive obligation to repurchase or settle the options in cash. Under the main share option plan the options have a seven-year life from their date of vesting. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Average exercise price in US$ per share option	**Options**	Average exercise price in US$ per share option	Options
At 1 January	**0.965**	**795,690**	1.794	491,644
Granted	—	—	0.014	360,000
Forfeited	**3.887**	**(14,402)**	3.887	(28,685)
Exercised	**0.006**	**(73,919)**	0.007	(27,269)
At 31 December	**1.019**	**707,369**	0.965	795,690

Out of the 2017: 707,369 outstanding options (2016: 795,690 options), 2017: 407,369 options (2016: 435,692) were exercisable at 31 December 2017.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

		Exercise price in US$ per share options	Share options	
Grant – vest	Vesting year		**2017**	2016
2012–15	2013	0.007	**50,500**	60,012
	2014	0.007	**53,333**	62,845
	2015	0.007	**60,170**	77,932
2013–16	2014	3.887	**59,252**	62,933
	2015	3.887	**62,049**	67,417
	2016	3.887	**62,065**	67,417
2015–16	2015	0.006	—	10,134
	2016	0.005	—	27,000
2016–19	2017	0.014	**60,000**	60,000
	2018	0.014	**60,000**	60,000
	2019	0.014	**60,000**	60,000
2016 onwards	subject to market conditions	0.014	**180,000**	180,000
			707,369	795,690

For the 180,000 options granted in 2016 and vesting over the next three years: the weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was US$2.7437 per option. The significant inputs into the model were the weighted average share price of US$2.633 at the grant date, the exercise price shown above, dividend yield of nil, an expected option life of three years, volatility of 41.76% based on the past movement in the share price and an annual risk free interest rate of 4.25%. The possibility that the share price targets might not be achieved is taken into account when estimating the fair value of the options at grant date. The fair value of the 180,000 options granted with market conditions attached has been considered to be nil. See note 8 for the total expense recognised in the income statement for share options granted to Directors and employees. See note 4 for the total expense recognised in the income statement for share options granted to Directors and employees.

18 (Loss)/earnings per share

Basic (loss)/earnings per share amounts are calculated by dividing (loss)/profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss)/earnings per share amounts are calculated by dividing the (loss)/profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted (loss)/earnings per share computations.

	2017 US$'000	2016 US$'000
(Loss/profit attributable to ordinary shareholders	**(9,223)**	1,867
	Number	Number
Weighted average number of shares used in basic (LPS)/EPS	**18,778,929**	18,714,690
Effects of:		
Employee share options	—	300,875
Weighted average number of shares used in diluted (LPS)/EPS	**18,778,929**	19,015,565
Basic (loss)/earnings per share (in US$ cents per share)	**(49.1)**	10.0
Diluted (loss)/earnings per share (in US$ cents per share)	**(49.1)**	9.8

19 Subsequent events

On 18 December 2017, the Group agreed a revised banking facility with Bank of Ireland Corporate Banking comprising a revolving four-year facility for US$8.0 million, which was effective from 12 January 2018. The amended term loan runs to January 2022. An interest rate equivalent to Libor plus 2.7% will apply to drawn amounts and undrawn amounts will be subject to a 1% facility charge. Outstanding balances must be cleared down every 6 months, commencing 1 July 2018.

On 4 January 2018, the Group announced the intention of Liam Church to retire as Chief Executive Officer at the next Annual General Meeting of the Company and no later than 31 May 2018.

On 8 February 2018 the boards of the Company and Hanover Active Equity Fund LP announced that they had agreed the terms of an offer for the entire issued and to be issued share capital of the company not already owned by Hanover, at a price of 185 pence sterling per share. The offer is conditional on the achievement of acceptance of at least 50% of the share capital of the Company.