7 March 2017

Escher Group Holdings plc

Strong profitability and cash generation driven by increasing recurring revenue streams

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 2016.

Financial highlights

- Group revenue grew to US$22.4 million (2015: US$22.0 million)
  - Maintenance revenue grew 8% to US$8.2 million (2015: US$7.6 million)
  - Support revenues increased by 41% to US$3.4 million (2015: US$2.4 million)
- Adjusted EBITDA* up 41% to US$5.7 million (2015: US$4.0 million)
- Profit before tax (before exceptional items) more than doubled to US$2.7 million (2015: US$1.1 million)
- Basic earnings per share US$10.0 cents (2015: US$2.3 cents)
- Strong cash generation resulted in a net positive cash position at year end of US$0.1 million (31 December 2015: net debt $2.7m)

Operational highlights

- Continued transition to more predictable recurring revenue streams
- Strong retention within existing customer base and renewals of maintenance and support contracts
- New licence sales of Riposte digital transaction management platform, to Vietnamese and Qatari posts
- Broadened technology offerings to existing postal clients:
  - Sale of loyalty platform to Saudi Post
  - Launch of secure digital communication platform in South Africa
- Expanded product functionality based on Riposte:
  - Retail side of platform developed further to operate on additional hardware devices and operating systems
- Continued investment in RiposteTrEx in support of new licensing and permitting business

** 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.

Liam Church, Escher's Chief Executive, commented:

"Major international customer deployments in 2014 and 2015 are now producing recurring, cash-generating, revenue streams which underpin the results in 2016 as well as strengthening the outlook. Total maintenance revenue exceeded US$8m for the first time in the company's history - this number is destined to increase with the additional licence sales achieved in 2016.

"We are now focused on developing new products and services that will enhance and expand our position within our current postal customer base.

"The current financial year has started in line with the Board's expectations. Given the quality of our pipeline, current technology set and contracted revenue, we remain confident about the prospects for 2017 and beyond."

Enquiries:

Escher www.eschergroupholdings.com Liam Church, Chief Executive Officer Clem Garvey, Chief Financial Officer	+353 (0)1 254 5400
Panmure Gordon Andrew Godber/Alina Vaskina, Corporate Finance Erik Anderson, Corporate Broking	+44 (0)20 7886 2500
Instinctif Partners Adrian Duffield/Lauren Foster	+44 (0)20 7457 2020

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

2016 was another year of solid progress in the business, resulting in improved profitability in Postal and Retail Services, the core of Escher's activity.

Group revenue was US$22.4 million (2015: US$22.0 million) generating US$5.7 million adjusted EBITDA* (2015: US$4.0 million), an increase of 41% year on year. Cash generation permitted the Group to finish the year in a net-cash-positive position.

The main drivers behind this increase in profitability were the 8% increase in Maintenance revenues and the 41% increase in Support revenues. At the same time, Escher's costs remained under control and the Group achieved a 2% reduction in operating expenses before exceptional items.

The Group reinforced its position as the premier provider of point-of-service software to the postal sector. In 2016, Escher concluded new licence sales of the Riposte digital transaction management platform to Vietnam Post and Qatar Post. These customer acquisitions are major achievements in Escher's continued pursuit of being the number one trusted advisor for postal organisations throughout the world.

Escher's core product remains the reference for the postal sector across the globe, giving customers a scalable platform to digitise the processing of complex transactions in omni-channel environments. The Group continues to enjoy strong retention within the existing customer base, with renewals of maintenance and support contracts in line with previous years.

Escher is also focused on developing new products and services that enhance its position within its current postal customer base, as well as expanding that base.

The Group continued to invest in its RiposteTrEx product in 2016. This product is the digital platform being used for its licensing and permitting solutions. It was rolled out in partnership with An Post, during 2016, to enable Irish businesses to digitally access the licences and permits they need, via *Licences.ie*.

Current trading and outlook

During 2015 and the first half of 2016, the global postal industry's revenues have continued to show growth. This growth is achieved from domestic ecommerce, international ecommerce and financial services. This trend is expected to continue.

The Group expects to see further investment in technology by postal organisations who wish to capitalise on these growth opportunities. The Group is well positioned to benefit from this context.

Escher is an important brand name in the postal industry world-wide and continues to build both pipeline and relevant product for this market. Escher sees that its investment in mobility, particularly in deployments on smartphones, positions the Group to deliver on its pipeline.

The evolving shape of Escher's business, with its increasingly strong recurring revenue streams, which now represent more than 50% of turnover, allows the Group to begin 2017 with a greater degree of confidence than previously experienced.

The proportionate weighting of Maintenance and Support revenue streams, compared to Software Development and Consulting Services, produces a positive gross margin mix effect, which should continue.

However, selling cycles in the governmental and quasi-governmental sectors are long and unpredictable, and Escher's software licence sales remain susceptible to these inconsistencies.

Although slower than anticipated, the licensing and permitting platform, *Licences.ie,* continued to broaden its reach by adding licensing and public authorities throughout Ireland during 2016. The Group expects this trend to continue in 2017, as the platform becomes more embedded as a government digital service initiative.

The digitisation of governmental services globally continues to show growth. The Group will continue to monitor the US market during 2017 to determine if there is an opportunity to commercialise its licensing and permitting platform developed for use in Ireland.

Operational Review

Organisation

In 2016, the Group merged its Interactive Services business with its Retail Services business to consolidate these activities under a Postal and Retail Services unit. This allows the Group to better focus its efforts on the changing needs of its postal customer base.

During 2016, the Group also decided that the focus of its Digital Services unit should primarily be on developing licensing and permitting management solutions.

Postal and Retail Services

New licence sales of the Riposte digital transaction management software in 2016 confirmed the Group's position as the vendor of choice for postal organisations across the world in the management of complex digital transactions in omni-channel environments.

As anticipated, the major customer rollouts of 2015 have resulted in increases in Maintenance and Support revenue streams. This has brought balance to the business model with more than 50% of revenue now recurring.

Total Maintenance revenue in 2016 exceeded US$8 million for the first time in the Group's history and this number should increase with the additional licence sales achieved this year.

The broadening of Escher's technological offerings to its postal clientele continued throughout 2016 with the sale of its loyalty platform to Saudi Post, the launch of its secure digital communication platform in South Africa and Isle of Man's e-wallet for benefit payment, being rolled-out.

2016 also saw the development of Canada Post's *Concept Store* installations, designed to facilitate ecommerce transactions for its customers. Customers can pick-up or drop-off parcels, try-on clothing purchased on the web, access individually-reserved parcel-lockers and process ecommerce returns. Escher's software powers much of this functionality and renders it accessible to customers 24 hours per day, seven days per week.

The business model that Escher has developed, whereby initial sales of licences and projects deliver strong recurring revenue streams, applies as much for these new offerings as it does in the more traditional activities.

2015's deployment of some 15,000 mobile solutions for the Pick-Up-Drop-Off points of a major international logistics company, seeking to strengthen its ecommerce offer, produced revenues of some US$750,000 during 2016.

Each of these projects is, in itself, a demonstration of the potential that Escher has to bring its technologies to bear in postal organisations' activities outside of the retail counter and point-of-service domains, where the Group has, traditionally been strong.

Escher continued to augment its capacities in the loyalty and e-Money activities adding additional payment functionality, amongst others, to its platforms.

Escher's project to deliver a new point-of-service, branch-banking solution to the Irish bank, *permanent tsb* achieved a significant milestone at year-end with the completion of the core functionality. Escher is now engaged with *permanent tsb* in preparing for the deployment of the system during 2017.

The Group's experience with *permanent tsb* has reinforced its capacity to accompany postal organisations in their expansion into payments and other financial services.

Digital Services

Licensing and Permitting

Licensing and permitting has traditionally been a complex paper-based government service. Across the world, state and local governments are now looking to digitise their 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 believes that the RiposteTrEx platform positions it well to play an important role in this market.

The Irish *Licences.ie* platform, based on RiposteTrEx, continued to broaden its reach across licensing and public authorities during 2016. Ireland's Property Services Regulatory Authority (PSRA) adopted the platform for the regulation of more than 20,000 registered Property Services Providers in the State.

During the course of 2016 the Group explored the potential of this market in a number of geographies, in particular in the United States. Potential routes to market have been identified for further development during 2017.

Start-Up Investments

During 2016, the Group granted loan notes of €125,000 and €100,000, respectively to two Irish start-up companies, Deposify and CircIt. Both companies wished to use the RiposteTrEx platform as the technology enabler for their business plans.

The Group recognised revenues in the amount of US$0.5m in respect of licence and services provided to these entities in return for equity.

Deposify's aim is to bring trust to the landlord/tenant relationship and Circit aims to create a secure environment in which auditors and banks can share information.

The Group does not intend to participate in further start-up investments in 2017.

FINANCIAL REVIEW

Introduction

The financial results for the year to 31 December 2016 reflect a year of progress. Escher further increased its recurring revenue levels to more than 50% of total revenue and maintained control over operating costs.

Cash generation from operating activities during the year was strong and resulted in Escher being in a net cash positive position at year end.

Revenue

Revenue for the year ended 31 December 2016 was US$22.4 million (2015: US$22.0 million), an increase of 2%, driven by the substantial increase in recurring revenue streams of maintenance and support.

Analysis of revenue by category	**2016** **US$'000**	2015 US$'000	Change %	Contribution to Group %
Software licences	**4,613**	4,138	11	20
Software development and consulting services	**6,209**	7,873	(21)	28
Maintenance	**8,222**	7,606	8	37
Support	**3,367**	2,393	41	15
	22,411	22,010	2	100

Licence revenue was US$4.6 million (2015: US$4.1 million) mainly as a result of licence wins in Vietnam and Qatar which further demonstrated Escher's position as market leader in its traditional Postal Market.

Maintenance revenue increased 8%, or US$0.6 million to US$8.2 million (2015: US$7.6 million) and Support revenue increased by 41% to US$3.4 million (2015: US$2.4 million). These increases reflect the Group's continuing ability to capitalise on licence sales to produce strong recurring revenue streams. Maintenance and support recurring revenue streams now amount to 52% of overall revenue.

Software development and consulting services reduced by 21% to US$6.2m (2015: US$7.9m) as expected. This reduction reflects the conclusion of two major rollouts during 2015.

Gross profit

Gross profit was US$15.0 million (2015: US$13.6 million). The gross profit margin rate increased to 67% (2015: 62%) reflecting increases in the higher-margin revenue lines (software licences, maintenance and support) and reductions in lower margin lines (software development and consulting services).

Exceptional items

In August 2016, Escher reorganised its service operations. Exceptional costs of US$0.3m (2015: US$nil million) were recognised during 2016 in relation to this restructuring.

Operating expenses/profit (before exceptional items)

Operating expenses before exceptional items decreased by US$0.2 million or 2% to US$11.8 million due to tight cost management. Decreases of 2%–3% were recorded in sales and marketing and administrative expenses, reflecting prudent cost management and favourable exchange rates. These were offset by a slight increase of US$0.1 million in research and development (R&D).

Analysis of operating expenses (before exceptional items)	**2016 US$'000**	2015 US$'000	Change %
Research and development	**3,830**	3,770	2
Sales and marketing	**3,520**	3,612	(3)
Administrative expenses	**4,472**	4,613	(3)
Total	**11,822**	11,995	(2)

The Group capitalised US$1.3 million of R&D costs (2015: US$1.3 million), gross of government grants of US$0.3 million (2015: US$0.1 million) in respect of internally generated intangible assets. The amortisation charge for intangible assets was US$1.9 million (2015: US$1.8 million). The split between the projects and the amortisation charges are shown below.

	2016 US$'000	2015 US$'000
RiposteTrEx capitalised cost	**460**	528
Riposte capitalised cost	**886**	782
Total capitalised cost during year	**1,346**	1,310
RiposteTrEx amortisation	**(697)**	(900)
Riposte amortisation	**(1,244)**	(945)
Total amortisation cost during year	**(1,941)**	(1,845)
Net impact on the income statement	**(595)**	(535)

Adjusted EBITDA

Adjusted EBITDA increased by US$1.7 million, or 41%, to US$5.7 million (2015: US$4.0 million), reflecting the increase in revenue coupled with reduction in costs. Adjusted EBITDA represents operating profit before depreciation, amortisation, share based payments and exceptional items.

	2016 US$'000	2015 US$'000
Operating profit	**2,866**	1,654
Add back:		
Depreciation	**282**	372
Amortisation	**1,941**	1,845
EBITDA	**5,089**	3,871
Share based payment	**281**	131
Exceptional items	**287**	-
Adjusted EBITDA	**5,657**	4,002

Net finance expense

Net finance expense reduced by US$0.1m to US$0.5 million (2015: US$0.6 million) as a result of Escher's reduced debt level. The amortisation charge for deferred financing costs was US$0.1 million (2015: US$0.1 million).

Profit before tax (and exceptional items)

The profit before tax increased by 152% to US$2.7 million (2015: US$1.1 million). Adjusted profit before tax excluding share based payments and exceptional items more than doubled to US$2.9 million (2015: US$1.2 million).

Income tax expense

The income tax expense is US$0.5 million (2015: US$0.6 million). The effective tax rate is 21% (2015: 60%). The reduction is due to the conclusion of the corporate restructuring in 2015.

Earnings per share

The Group reported a basic earnings per share (EPS) of US$10.0 cents per share (2015: US$2.3 cents per share), an increase of over 300% from 2015. Diluted EPS for 2016 also increased by over 300% to US$9.8 cents from US$2.2 cents per share in the prior year.

Dividend

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

Cash flow and net cash

Net cash at 31 December 2016 was US$0.1 million (2015: Net debt US$2.7 million) an improvement of US$2.8 million year on year.

Cash at the end of 2016 was US$6.1 million (2015: US$7.3 million) and borrowings were US$6.0 million (2015: US$10.0 million).

The net cash improvement of US$2.8m comprises of net cash generated from operations of US$4.2 million (2015: US$4.2 million) offset by cash flows from investing activities which were US$1.5m (2015: US$1.2m).

Cash used in investing activities resulted from investments in intangible assets net of government grants (2016 US$1.1m; 2015 US$1.2m); acquisitions of investments of US$0.3m (2015 US$nil) and purchases of property, plant and equipment (2016 US$0.1m; 2015 US$0.1m).

Net cash used in financing activities was US$4.0 million (2015: US$1.0 million). During 2016 scheduled loan repayments totalling US$1.0 million were made (2015: US$1.0 million) in addition to repaying the drawn debt revolver of US$3.0 million (2015: US$0 million). This facility is still available.

Consolidated income statement

For the financial year ended 31 December 2016

	Notes	**2016 Before Exceptional items US$'000**	**2016 Exceptional items US$'000**	**2016 After exceptional items US$'000**	2015 US$'000
Revenue	1	**22,411**	—	**22,411**	22,010
Cost of sales	2	**(7,436)**	—	**(7,436)**	(8,361)
Gross profit		**14,975**	—	**14,975**	13,649
Operating expenses	2	**(11,822)**	**(287)**	**(12,109)**	(11,995)
Operating profit		**3,153**	**(287)**	**2,866**	1,654
Finance income	5	**2**	—	**2**	2
Finance costs	5	**(490)**	—	**(490)**	(598)
Net finance costs		**(488)**	—	**(488)**	(596)
Profit before income tax		**2,665**	**(287)**	**2,378**	1,058
Income tax expense	6	**(547)**	**36**	**(511)**	(632)
Profit for the financial year		**2,118**	**(251)**	**1,867**	426
Earnings per share (in US$ cents per share)	18				
– Basic				**10.0**	2.3
– Diluted				**9.8**	2.2

Reconciliation of EBITDA and adjusted EBITDA	Notes	**2016 US$'000**	2015 US$'000
Operating profit		**2,866**	1,654
Depreciation	7	**282**	372
Amortisation	8	**1,941**	1,845
EBITDA		**5,089**	3,871
Share options expense	4	**281**	131
Exceptional items	3	**287**	-
Adjusted EBITDA		**5,657**	4,002

Consolidated statement of comprehensive income

For the financial year ended 31 December 2016

	2016 US$'000	2015 US$'000
Profit for the financial year	**1,867**	426
Other comprehensive income:		
Items that may be reclassified to the income statement		
Currency translation differences	**(348)**	(589)
Total comprehensive income for the financial year	**1,519**	(163)

Consolidated statement of financial position

At 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
Assets			
Non-current assets			
Property, plant and equipment	7	**218**	383
Goodwill and intangible assets	8	**35,020**	36,051
Deferred tax assets	6	**534**	723
Investments in equity instruments	12	**746**	-
		36,518	37,157
Current assets			
Trade and other receivables	10	**6,712**	7,164
Cash and cash equivalents	11	**6,055**	7,346
		12,767	14,510
Total assets		**49,285**	51,667
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		**743**	810
Retained earnings		**9,419**	7,552
Total equity		**37,199**	35,399
Non-current liabilities			
Borrowings	14	**4,954**	5,844
Provisions for other liabilities and charges		**21**	21
		4,975	5,865
Current liabilities			
Borrowings	14	**939**	3,911
Trade and other payables	13	**5,960**	6,277
Current income tax liabilities		**212**	215
		7,111	10,403
Total liabilities		**12,086**	16,268
Total equity and liabilities		**49,285**	51,667

Consolidated statement of changes in equity

For the financial year ended 31 December 2016

	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 2015	128	26,909	(981)	2,249	7,126	35,431
Profit for the financial year	—	—	—	—	426	426
Other comprehensive income	—	—	(589)	—	—	(589)
Total comprehensive income for the financial year	—	—	(589)	—	426	(163)
Share based payments	—	—	—	131	—	131
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 31 December 2016	**128**	**26,909**	**(1,918)**	**2,661**	**9,419**	**37,199**

Consolidated statement of cash flows

For the financial year ended 31 December 2016

	Notes	**2016 US$'000**	2015 US$'000
Cash flows from operating activities			
Cash generated from operations	15	**4,827**	5,719
Interest received		**2**	2
Interest paid		**(348)**	(487)
Income tax paid		**(289)**	(1,069)
Net cash generated from operating activities		**4,192**	4,165
Cash flows from investing activities			
Purchases of property, plant and equipment	7	**(117)**	(57)
Additions to intangible assets	8	**(1,346)**	(1,310)
Purchase of loan notes	12	**(251)**	—
Government grant received		**254**	136
Net cash used in investing activities		**(1,460)**	(1,231)
Cash flows from financing activities			
Repayment of borrowings	14	**(4,000)**	(4,000)
Proceeds from borrowings	14	—	3,000
Borrowing costs		**(6)**	(40)
Net cash used in financing activities		**(4,006)**	(1,040)
Net (decrease)/increase in cash and cash equivalents		**(1,274)**	1,894
Cash and cash equivalents at beginning of financial year		**7,346**	5,720
Foreign exchange adjustments		**(17)**	(268)
Net (decrease)/increase in cash and cash equivalents		**(1,274)**	1,894
Cash and cash equivalents at end of financial year	11	**6,055**	7,346

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 2016 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 2016 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 6 March 2017. The accounting policies used in preparing the group financial statements for 31 December 2016 are consistent with those applied in the prior year. The 2016 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 2016 and their report was unqualified.

Notes to the consolidated 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	**2016 US$'000**	2015 US$'000
Software licences	**4,613**	4,138
Software development and consulting services	**6,209**	7,873
Maintenance	**8,222**	7,606
Support	**3,367**	2,393
	22,411	22,010

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

	2016 US$'000	2015 US$'000
Ireland	**1,508**	1,546
UK	**609**	645
Other Europe	**4,768**	5,331
North America	**7,769**	10,161
Asia-Pacific region	**4,570**	1,939
Africa and Middle East	**3,187**	2,388
	22,411	22,010

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:

	2016 %	2015 %
Customer A	**30%**	38%
Customer B	**13%**	0%
% of total reported revenues	**43%**	38%

The total of non-current assets other than deferred income tax assets located in the Republic of Ireland is US$8.9 million (2015: US$10.2 million), and the total of non-current assets located in other countries, primarily North America, is US$26.4 million (2015: US$26.2million).

2 Expenses by nature

	2016 US$'000	2015 US$'000
Employee benefit expense (note 4)	**10,043**	9,209
Directors' remuneration	**1,292**	1,222
Total employee benefit expense and directors' remuneration	**11,335**	10,431
Rental and utilities expense	**1,124**	1,056
Travel costs	**673**	799
Consulting and contractors expense	**1,226**	1,963
Insurance	**640**	586
(Gain)/loss on foreign exchange	**(11)**	623
Legal fees	**315**	211
Selling and marketing costs	**407**	538
Depreciation (note 7)	**282**	372
Amortisation of intangible assets (note 8)	**1,941**	1,845
Data communications	**305**	357
Professional fees	**679**	759
Provision for impaired receivables	**24**	297
Other expenses	**605**	519
Total	**19,545**	20,356
Analysed as:		
Cost of sales	**7,436**	8,361
Research and development	**3,830**	3,770
Sales and marketing	**3,520**	3,612
Administrative expenses	**4,472**	4,613
Operating costs before exceptional items	**11,822**	11,995
Exceptional items (Note 3)	**287**	—
Operating costs	**12,109**	11,995
Total	**19,545**	20,356

3 Exceptional Items

	2016 US$'000	2015 US$'000
Employee Termination Benefits	**287**	—

During 2016, Escher reorganised its service operations, resulting in head count reduction. All termination benefits related to the restructuring from the date of notification have been included in calculation of the exceptional item. The total termination benefits that were incurred was US$287,000 (2015: US$ Nil). The program of restructuring is fully concluded and all termination benefits have been paid in the current reporting period.

4 Employee benefit expense

	2016 US$'000	2015 US$'000
Wages and salaries	**10,002**	9,618
Social insurance costs	**674**	502
Pension costs – defined contribution scheme	**281**	278
	10,957	10,398
Capitalised labour (note 8)	**(1,346)**	(1,310)
	9,611	9,088
Employee share based payments (see note 17)	**145**	121
Exceptional costs	**287**	—
	10,043	9,209

4 Employee benefit expense (continued)

Total share based payments for the period amounted to US$281,000 (2015: US$131,000), of which US$145,000 (2015: US$121,000), disclosed above, related to employees excluding Directors. The remaining US$137,000 (2015: US$10,000) related to Directors' remuneration.

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

	2016 Number	2015 Number
Development	**93**	100
Selling and distribution	**21**	17
Administration	**25**	22
	139	139

The number of persons employed by the Group (including Executive Directors) at 31 December 2016 was 126 (2015: 140).

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$276,000 for employees excluding Directors in respect of 2016 (2015: US$278,000), of which US$89,000 was accrued at the year-end (2015: US$79,000).

5 Finance income and costs

	2016 US$'000	2015 US$'000
Finance income		
Interest income	**2**	2
Finance costs		
Interest on bank borrowings	**(346)**	(463)
Amortisation of deferred financing costs	**(138)**	(135)
Finance charges	**(6)**	—
	(490)	(598)
Net finance costs	**(488)**	(596)

6 Income tax expense

(a) Recognised in the income statement

	2016 US$'000	2015 US$'000
Current income tax		
Irish corporation tax at 12.5%	**107**	151
Foreign corporation tax	**255**	334
Adjustments in respect of current income tax of previous years	**(40)**	189
Total current tax	**322**	674
Deferred tax		
Origination and reversal of temporary differences	**189**	(42)
Total deferred tax	**189**	(42)
Total income tax charge recognised in the income statement	**511**	632

6 Income tax expense (continued)

(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:

	2016 US$'000	2015 US$'000
Profit before taxation	**2,378**	1,058
Tax calculated at the Irish standard rate of corporation tax of 12.5%	**297**	132
Effects of:		
Income taxable at higher rates in other jurisdictions	**173**	127
Expenses not deductible for tax purposes	**17**	94
R&D tax credit – non-taxable	**(38)**	(66)
Other adjustments	**19**	10
Foreign withholding tax suffered	**83**	146
Adjustment in respect of current income tax of previous years	**(40)**	189
Total income tax charge	**511**	632

(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 2015 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2015 US$'000
Deferred tax assets			
Trade losses carried forward	226	(226)	—
Unrealised foreign exchange transactions	—	8	8
Foreign R&D tax credits	181	(1)	180
Intangible assets	—	231	231
Share options	227	(7)	220
Other	96	(12)	84
	730	(7)	723

	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**

	1 January 2015 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2015 US$'000
Deferred tax liabilities			
Unrealised foreign exchange transactions	(49)	49	—
	(49)	49	—

6 Income tax expense (continued)

(c) Deferred tax (continued)

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

	2016 US$'000	2015 US$'000
Deferred tax assets		
Non-current	439	400
Current	95	323
	534	723

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 2014	1,492	495	264	223	2,474
Additions	48	1	7	1	57
Exchange differences	(50)	(28)	(23)	(7)	(108)
At 31 December 2015	1,490	468	248	217	2,423
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**
Accumulated depreciation					
At 31 December 2014	(1,231)	(213)	(137)	(171)	(1,752)
Charge for the financial year	(190)	(92)	(59)	(31)	(372)
Exchange differences	63	8	6	7	84
At 31 December 2015	(1,358)	(297)	(190)	(195)	(2,040)
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)**
Net book value					
At 31 December 2014	261	282	127	52	722
At 31 December 2015	132	171	58	22	383
At 31 December 2016	**110**	**94**	**6**	**8**	**218**

Depreciation of US$160,000 (2015: US$182,000) has been charged in administrative expenses and US$122,000 (2015: US$190,000) 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 2014	30,399	4,991	5,211	40,601
Additions	—	528	782	1,310
Government grants	—	(25)	(110)	(135)
Exchange differences	(546)	—	—	(546)
At 31 December 2015	29,853	5,494	5,883	41,230
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**
Accumulated amortisation				
At 31 December 2014	—	(2,711)	(623)	(3,334)
Charge for the financial year	—	(900)	(945)	(1,845)
At 31 December 2015	—	(3,611)	(1,568)	(5,179)
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)**
Net book value				
At 31 December 2014	30,399	2,280	4,588	37,267
At 31 December 2015	29,853	1,883	4,315	36,051
At 31 December 2016	**29,671**	**1,646**	**3,703**	**35,020**

The additions of US$1,346,000 (2015: US$1,310,000), gross of government grants, all relate to capitalised labour (see note 8).

Amortisation of US$0.7 million (2015: US$0.85 million) on RiposteTrEx and amortisation of US$1.2 million (2015: US$1 million) on Riposte is included in operating costs in the income statement. Some elements of these products are still in the development phase and no amortisation has therefore occurred. The average remaining amortisation period of the RiposteTrEx development is 25 months (2015: 35 months). In the year there was US$1.9 million (2015: US$1.9 million) of research and development expenditure (excluding amortisation) recognised as an expense in the income statement as the state of completion was not viewed as being sufficiently developed to warrant capitalisation.

9 Government grants

Government grants of US$254,000 (2015: US$135,000) 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

	2016 US$'000	2015 US$'000
Current		
Trade receivables	**4,399**	4,712
Less provision for impaired receivables	**(775)**	(370)
Trade receivable – net	**3,624**	4,342
Accrued income	**1,953**	1,457
Amounts owed by subsidiaries	—	—
Prepayments	**265**	344
Other receivables	**150**	187
Recoverable taxes	**720**	834
	6,712	7,164

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

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

10 Trade and other receivables (continued)

(a) Ageing of trade receivables

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

	2016 US$'000	2015 US$'000
Neither impaired nor past due	**1,872**	1,859
Less than 30 days past due	**812**	880
Between 31–90 days past due	**535**	269
More than 90 days past due	**405**	1,334
Impaired	**775**	370
	4,399	4,712

As of 31 December 2016, trade receivables of US$1,872,000 (2015: US$1,859,000) were fully performing.

As of 31 December 2016, trade receivables of US$1,752,000 (2015: US$2,483,000) 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 2016, trade receivables of US$775,000 (2015: US$370,000) were impaired. The individually impaired receivables mainly relate to three customers (2015: 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 2016, a significant portion of the trade receivables of the Group related to four customers (2015: three customers) as follows:

	2016 %	2015 %
Customer A	**19%**	—%
Customer B	**17%**	7%
Customer C	**12%**	1%
Customer D	**12%**	—%
Customer E	**8%**	31%
Customer F	**1%**	16%
Customer G	**—%**	23%

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

	2016 US$'000	2015 US$'000
Cash at banks and in hand	**6,055**	7,346

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 2016 these exposures were as follows:

	2016 US$'000	2015 US$'000
Non-US Dollar denominated cash balances		
Euro	**2,228**	1,150
Sterling	**236**	231
Singapore Dollar	**100**	128
South African Rand	**9**	16
Total non-US Dollar	**2,573**	1,525

12 Investments in equity instruments and loan notes

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

	Book Value		Fair Value	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Non-current assets				
Investments carried at cost	**495**	—	—	—
Convertible loan notes	**251**	—	**251**	—
	746	—	**251**	—

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 12 months of the end of the reporting period.

In 2016, the Group made investments in the ordinary shares of two companies (Deposify Limited and Circit Limited) of US$459,000 in consideration for the provision of services and licence software. In addition to these investments, the Group invested in convertible loan notes in both these companies in amount of US$251,000. These loan notes will be convertible into Ordinary A shares when agreed conditions have been met.

To determine if an available-for-sale financial asset is impaired, the group evaluates the duration and extent to which the fair value of the asset 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 year end 31 December 2016.

13 Trade and other payables

	2016 US$'000	2015 US$'000
Current		
Trade payables	**243**	383
Amounts owed to subsidiaries	—	—
Accruals	**1,220**	1,262
Other creditors including tax and social insurance	**532**	387
Deferred revenue	**3,965**	4,245
	5,960	6,277

Amounts owed to subsidiary companies are unsecured and interest free.

	2016 US$'000	2015 US$'000
Other creditors including tax and social insurance comprise:		
Income tax deducted under PAYE	**303**	210
Pay related social insurance	**115**	57
Other creditors	**114**	120
	532	387

14 Borrowings

	Book value		Fair value	
	2016 US$'000	2015 US$'000	**2016 US$'000**	2015 US$'000
Non-current liabilities				
Bank loans	**5,000**	6,000	**4,730**	5,796
Deferred financing costs	**(46)**	(156)	**(46)**	(156)
Borrowings	**4,954**	5,844	**4,684**	5,640
Current liabilities				
Bank loans	**1,000**	4,000	**1,000**	4,000
Deferred financing costs	**(61)**	(89)	**(61)**	(89)
Borrowings	**939**	3,911	**939**	3,911
Total borrowings	**5,893**	9,755	**5,623**	9,551

On 9 October 2013, the Group agreed a revised 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 (2015: fully drawn). The amended term loan is amortising to October 2018.

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	4,000	1,000	5,000	—	10,000
Deferred financing	(89)	(89)	(67)	—	(245)
Borrowings at 31 December 2015	3,911	911	4,933	—	9,755
Bank loans	1,000	5,000	—	—	6,000
Deferred financing	(61)	(46)	—	—	(107)
Borrowings at 31 December 2016	**939**	**4,964**	—	—	**5,893**

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

	2016 US$'000	2015 US$'000
Profit before tax	**2,378**	1,058
Adjustments for:		
Depreciation	**282**	372
Amortisation of intangible assets	**1,941**	1,845
Amortisation of deferred financing	**138**	135
Finance income	**(2)**	(2)
Finance costs	**352**	463
Employee share based payments	**281**	131
Effect of foreign exchange	**(11)**	623
Management fee	—	—
Non-cash revenue transactions (Note 12)	**(495)**	—
Changes in working capital		
Decrease in trade and other receivables	**342**	3,054
Decrease in trade and other payables	**(379)**	(1,960)
Cash generated from operations	**4,827**	5,719

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 2015, 31 December 2015 and 31 December 2016			
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 2015	18,689,070	128	26,909	27,037
Shares issued during the financial year	17,501	—	—	—
At 31 December 2015	18,706,571	128	26,909	27,037
Shares issued during the financial year	24,269	—	—	—
At 31 December 2016	**18,730,840**	**128**	**26,909**	**27,037**

During 2016, 24,269 shares (2015: 17,501) 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 2016, 360,000 options were granted through the Company's share option scheme to selected employees (2015: 44,228). 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:

	2016		2015	
	Average exercise price in US$ per share option	**Options**	Average exercise price in US$ per share option	Options
At 1 January	**1.794**	**491,645**	1.956	485,095
Granted	**0.014**	**360,000**	0.005	44,228
Forfeited	**3,887**	**(28,685)**	3.310	(20,177)
Exercised	**0.007**	**(24,269)**	0.007	(17,501)
At 31 December	**0.965**	**798,691**	1.794	491,645

Out of the 798,691 outstanding options (2015: 491,645 options), 438,692 options (2015: 387,666) were exercisable at 31 December 2016.

17 Share based payments (continued)

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

Grant – vest	Vesting year	Exercise price in US$ per share options	Share options 2016	Share options 2015
2012	2013	0.007	**61,012**	66,737
	2014	0.007	**63,845**	69,570
	2015	0.007	**78,932**	84,657
2013–16	2014	3.887	**62,934**	74,663
	2015	3.887	**67,417**	71,645
	2016	3.887	**67,417**	80,145
2015–16	2015	0.006	**10,134**	17,228
	2016	0.005	**27,000**	27,000
2016–19	2017	0.014	**60,000**	—
	2018	0.014	**60,000**	—
	2019	0.014	**60,000**	—
2016–	subject to market conditions	0.014	**180,000**	—
			798,691	491,645

For the 180,000 options granted 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%. Where awards are granted with market conditions, the services received from an employee (who satisfies all other vesting conditions) are recognised, irrespective of whether the market conditions are satisfied. 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.

18 Earnings per share

Basic earnings per share amounts are calculated by dividing 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 earnings per share amounts are calculated by dividing the 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 earnings per share computations.

	2016 US$'000	2015 US$'000
Profit attributable to ordinary shareholders	**1,867**	426
	Number	Number
Weighted average number of shares used in basic EPS	**18,714,690**	18,699,923
Effects of:		
Employee share options	**300,875**	265,444
Weighted average number of shares used in diluted EPS	**19,015,565**	18,965,367
Basic earnings per share (in US$ cents per share)	**10.0**	2.3
Diluted earnings per share (in US$ cents per share)	**9.8**	2.2

19 Subsequent events

There were no significant subsequent events since 31 December 2016.