

14 March 2018

Petards Group plc
("Petards", "the Group" or "the Company")

Final results for the year ended 31 December 2017

Petards Group plc (AIM: PEG), the AIM quoted developer of advanced security and surveillance systems, is pleased to report its final results for the year ended 31 December 2017.

Key Highlights:

• **Operational**

- Order book at 31 December 2017 over £18 million (31 Dec 2016: £20 million)
- Order coverage for 2018 in excess of £12 million and over £5 million scheduled for 2019
- With addition of Stadler customer list now includes six of the world's top ten train builders
- Exports comprise over one third of revenues for second consecutive year
- Significant investment in new *eyeTrain* hardware with greater software functionality
- £0.7 million settlement in respect of historic claim

• **Financial**

- Total revenues increased 2% to £15.6 million (2016: £15.3 million)
- Gross margins up to 38.6% (2016: 36.3%)
- Adjusted EBITDA* £1,619,000 (2016: £1,621,000)
- Operating profit £1,245,000 (2016: £1,095,000)
- Pre-tax profit up 30% to £1,205,000 (2016: £925,000)
- Net cash £1,286,000 (31 Dec 2016: £775,000)
- Basic EPS increased 28% to 3.31p (2016: 2.59p)
- Diluted EPS increased 25% to 2.32p (2016: 1.86p)
- Significantly strengthened balance sheet with shareholders' funds up over 70%

*Adjusted EBITDA comprises operating profit adjusted to remove the impact of depreciation, amortisation, exceptional items, acquisition costs and share based payments. A reconciliation of Adjusted EBITDA to operating profit is included on the face of the consolidated income statement.

Commenting on the current outlook, Raschid Abdullah, Chairman, said:

"The Group's order book at 31 December 2017 was over £18 million, of which £12 million is expected to be taken to revenue during 2018. We are also engaged in on-going discussions for new projects across all areas of our business, many of which our customers have themselves already been awarded. This coupled with a strong balance sheet provides the board with confidence for the Group's prospects in 2018 and beyond."

This announcement includes inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

Contacts:

Petards Group plc

www.petards.com

Raschid Abdullah, Chairman

Mb: 07768 905004

WH Ireland Limited, Nomad and Joint Broker

www.whirelandcb.com

Mike Coe, Ed Allsopp

Tel: 0117 945 3470

Hybridan LLP, Joint Broker

www.hybridan.com

Claire Louise Noyce

Tel: 020 3764 2341

claire.noyce@hybridan.com

Chairman's statement

I am pleased to report that Petards had another good year in 2017 during which the Group made a substantial investment in its *eyeTrain* hardware and software and achieved record pre-tax profits. Year on year Total Equity was up over 70% leaving Petards well positioned for its future growth ambitions.

Group revenues increased for the fourth successive year to £15.6 million (2016: £15.3 million) after including a full year contribution from QRO Solutions (QRO). The increase in gross margins achieved in the first half year was also maintained. Gross margins were up from 36% in 2016 to over 38% and the Group posted pre-tax profits of £1,205,000 up 30% on the £925,000 reported for 2016. Basic earnings per share increased by 28% to 3.3p and fully diluted earnings per share by 25% to 2.3p.

As I reported in September, the first half of 2017 provided a strong platform for the full year with the Group securing strategically significant *eyeTrain* orders totalling £7.3 million from Stadler Bussnang AG ("Stadler") for its FLIRT UK vehicles and Bombardier Transportation (Bombardier") for its new Aventra trains. We are proud of the fact that our customer list now includes six of the world's top ten rolling stock manufacturers. The global rail market continues to offer excellent opportunities and investment in UK rolling stock remains substantial. Having such blue chip companies within Petards customer base positions the Group well to continue to win new orders on the back of their success.

The contract awards referred to above, together with those secured in the final quarter of 2016, required the Group to develop additional hardware and software functionality for its *eyeTrain* systems. Therefore, during 2017 the Group invested over £1 million developing its *eyeTrain* solutions for the future. The scale of this development was significant and some delays in the programme were experienced that resulted in approximately £1 million of revenues being deferred into 2018. These related to scheduled deliveries of both software and equipment and accordingly profit before tax from trading operations for 2017 was below that previously expected and consequently adjusted EBITDA for the year was £1,619,000 (2016: £1,621,000)

However, offsetting this, the 2017 results did benefit from the net effect of two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, in January 2018 the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000. The Board considers this to be a very satisfactory outcome. The second exceptional item concerned the reclassification of the £211,000 deficit on the Group's currency translation reserve from equity to income and shown as a financial expense. This follows the Board's decision that any future activities that the Group may undertake in the US will not be conducted through its existing dormant US subsidiary. The reclassification has no impact on the Group's net assets or cash.

The nature of the Group's revenue mix has continued the trend of recent years with its rail related products now accounting for approximately two thirds of Group revenues. As a result of its success in securing a flow of orders from major train manufacturers and operators, revenues from Rail products increased by 15% compared to 2016. The majority of the Group's overseas sales also derive from the rail sector with overall Group exports representing 34% of 2017 revenues.

On the recent launch of its new website, the Group has re-named the product group under which its *ProVida* and QRO solutions fall, from 'Emergency Services' to 'Traffic Technology'. This better reflects the nature of this element of the Group's business and the broadening of its customer base following the acquisition of QRO in 2016. Both the *ProVida* and QRO names will continue to be marketed. Traffic product revenues increased 13% over the prior year and it is pleasing that QRO has succeeded in expanding the use of its Automatic Number Plate Recognition (ANPR) solutions within commercial applications. It has also recently been awarded two multi-year framework contracts, the first with Thames Valley Police and Hampshire Constabulary and the second with the Cheshire Police. Both contracts are expected to contribute to revenues in 2018.

Chairman's statement *(continued)*

While both Rail and Traffic products showed revenue growth in 2017, as I indicated at the half year stage, revenues from Defence reduced being almost 30% lower than in 2016. The reduction arose as 2016 benefitted from the final deliveries on a large MOD electronic countermeasures software upgrade ordered in 2014 and from a £0.8 million MOD order for radio equipment. While the Group entered 2018 with a similar overall order book for Defence products to that of the prior year, orders scheduled for delivery in 2018 are almost 40% higher than at the same stage last year. This position has been further bolstered since the year end with the recently announced receipt of a £1.5 million order from the MOD for radio equipment and related engineering services. The board is therefore optimistic that the actions taken over the past twelve months will result in higher revenues from this sector in the current financial year.

It was pleasing that in December loan note holders voted overwhelming to the full conversion of the Group's £1,480,000 outstanding 7% convertible loan notes into Petards ordinary shares. The Group's balance sheet has been substantially strengthened with the removal of the loan note liability that was due for redemption in September 2018 and will benefit from the related interest savings. With the conversion of loan notes and comprehensive income for the year of £1,448,000 shareholders' funds increased by over 70% to £7.2 million.

While the significant investment in product development had an impact on the Group's cash resources, the Group closed the year with net cash of £1,286,000 (2016: £775,000). This was further enhanced on receipt of the £702,000 settlement in January 2018 I referred to above.

2017 proved to be both an exciting and challenging year and the board is appreciative of the significant contribution made by the Group's employees. On behalf of the board I would like to express my sincere thanks to them all for their contribution in delivering success for our customers and shareholders alike. I look forward their continued efforts on which the future success of the Group depends.

The board believes that a broader portfolio of products, including software, data analytics and services would provide greater opportunities for Petards to expand its earnings and enhance shareholder value. We continue to review a number of potential acquisitions and will keep shareholders informed as to progress.

The Group's order book at 31 December 2017 was over £18 million, of which £12 million is expected to be taken to revenue during 2018. We are also engaged in on-going discussions for new projects across all areas of our business, many of which our customers have themselves already been awarded. This coupled with a strong balance sheet provides the board with confidence for the Group's prospects in 2018 and beyond.

Raschid Abdullah
Chairman

14 March 2018

Strategic Report

Business review

Petards' operations continue to be focused upon the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedized electronic applications, the main markets for which are:

- Rail – software driven video and other sensing systems for on-train applications sold under the eyeTrain brand to global train builders, integrators and rail operators;
- Traffic – in-car speed enforcement and end-to-end ANPR systems sold under the ProVida and QRO brands to UK and overseas law enforcement agencies and UK based commercial customers; and
- Defence – electronic countermeasure protection systems, mobile radio systems and related engineering services sold predominantly to the UK Ministry of Defence (“MOD”).

Operating review

The largest order secured by the Group in 2017 was one for £4.3 million placed by Stadler in the first quarter of the year. Its addition to the list of global train builders that have selected eyeTrain systems was a significant milestone for the Group. Swiss-headquartered Stadler is the world's sixth largest manufacturer of rolling stock but until recently had not supplied into the UK. The order placed related to Stadler's entry into the UK mainline rolling stock market. As well as long established products such as saloon CCTV, pantograph monitoring, forward facing and track debris cameras and video management software, it included systems such as Automatic Selective Door Opening (“ASDO”). This technology enables train operators to operate longer trains that can be immediately and, crucially, safely deployed onto services where stations have short passenger platforms. ASDO systems automatically combine multiple data sources to identify which carriage doors should not open at each stopping station.

During the year the Group also had a number of significant projects underway with Siemens Mobility (“Siemens”), Bombardier, Hitachi Rail Europe and First Greater Western. Revenues from these accounted for over 85% of the total for eyeTrain systems for the year, amongst which was the Siemens Thameslink project. Awarded back in 2012, the majority of equipment had been delivered by the end of 2017 with the final shipments being made in the first quarter of 2018. In addition, the first deliveries were also made in the year in respect of the £3 million order placed by Bombardier for fitment to its new Aventra trains.

The scale of investment in the development of new eyeTrain software and hardware products during the year presented the Group with a number of challenges. Not least of these was the need to scale up our software development team. In doing so we set out to ensure that we retained the core software skills in-house while having the flexibility to supplement this with subcontractors as required.

The 2017 edition of the Long Term Rolling Stock Strategy published by leading players in the UK rail industry forecast that the number of vehicles in service will increase by 20-25% in the period to 2024. Its view of the longer term outlook was for an increase of between 41% and 89% over the next 30 years in the UK rolling stock fleet.

The Group has developed a good position and close relationship with the major train builders within the niche of the rail sector in which it operates. Investment in rolling stock both in the UK and overseas continues to grow. Therefore, we are confident that the Group is well positioned to benefit from such growth.

Elsewhere in the Group, while revenues from our defence products remained under pressure, actions taken during 2017 give rise to cautious optimism for prospects in 2018. A strong order intake in the first half of 2017 was followed by a quieter second half, while revenues were at similar levels in both periods. The main Defence Services revenue streams continued to relate to the fields of electronic countermeasures and radio systems.

The Group provides services to the MOD in support of ALE 47 and M147 Threat Adaptive Countermeasures Dispensing Systems fitted to Puma, Chinook, Merlin, and C130J aircraft. 2017 was the first year of the renewed

Strategic report *(continued)*

Business review *(continued)*

three year contract under which these services are supplied. Petards receive a core engineering fee for the performance of post design services (“PDS”), with additional orders being placed as required for engineering, repair, refurbishment and manufacturing activities. Such additional orders were placed in the year, an example being the £1 million order to supply an emulator system to the RAF and on which some deliveries were completed. As the MOD has the option to extend the contract by up to a further two years, the PDS contract provides a confirmed level of work for the foreseeable future. In addition to being a Tier 1 supplier to the UK MOD, Petards also supplies countermeasure systems to prime defence contractors such as Leonardo MV and revenues during 2017 included equipment deliveries in respect of their upgrade of The Royal Navy’s Merlin Mk 3 helicopters.

Petards also has longstanding specialist engineering expertise in the field of radio communications. Orders and revenues for personal mobile radios supplied to the MOD under the framework contract held by Petards were lower than 2016. Unlike the prior year there were no single large orders in 2017. However, as recently announced, this disappointment has been tempered by the receipt of a series of radio orders totalling £1.5 million after the year end.

Following its acquisition in 2016, 2017 was QRO’s first full year as a member of the Petards Group and it contributed to the 13% increase in revenues from the Traffic market. It invested in its software team both to explore opportunities for its products outside of the law enforcement market and to develop its CSGS ANPR Management Server software. QRO is working closely with the Home Office and Cheshire Police to test CSGS ANPR Management Server’s performance feeding ANPR data to the UK’s new National ANPR Service (NAS). Once in operation all ANPR reads from cameras operated by UK police forces will be fed into NAS which requires individual forces to have software that integrates with its systems. Cheshire Police has the largest throughput of ANPR data of any force in the UK and it is therefore pleasing that in the ongoing tests QRO’s software is performing well in this challenging environment.

During the year QRO also submitted bids to secure two non-exclusive framework agreements to provide ANPR equipment and services. Shortly after the year end it learned that it had secured a four year framework contract with Thames Valley Police and Hampshire Constabulary which can be extended at their option by a further three years. It also secured a three year framework contract with Cheshire Police which again may be extended by up to a further three years. Other UK forces may utilise these framework agreements to procure their own ANPR equipment and services and so they represent a good opportunity for QRO to make sales to both existing and new customers.

The Traffic market is also served by Petards’ ProVida speed enforcement and ANPR products and these again provided a useful contribution to revenues and profits, the majority of which was derived from UK customers.

The Group closed 2017 with an order book of over £18 million (2016: £20 million). This order book provides very good visibility of revenues with over £12 million scheduled for delivery before the end of 2018. This position has been further strengthened by orders placed to date in 2018 that include the recent £1.5 million MOD radio orders.

Brexit

While over 30% of the Group’s revenues for the past two years were exported to the EU the majority of these have related to UK based projects such as Thameslink. The market sectors to which Petards supplies tend to be highly regulated and the Group does not anticipate Brexit to change existing regulations significantly. Like most businesses it is affected by any inflationary pressures in the supply chain but again these are not considered to be specific to the sectors in which the Group operates.

Within the rail industry the 2017 Long Term Rolling Stock Strategy expressed the view that while Brexit impacts remain unknown, the scenarios covered by the “worst case” industry modelling already cater for impacts much worse than the Office of Budgetary Responsibility predictions for Brexit. The proportion of electric rolling stock is forecast to rise to over 85% by 2034, and the analysis indicates that overall between 11,000 and 16,000 new

Strategic report (continued)

Business review (continued)

electric vehicles alone will be required over the 30 years to 2046. These expectations are driven by the benefits they will provide to passengers and the wider community, such as improvements to capacity, punctuality, reliability, passenger facilities and the environment.

At present the outlook for Petards' defence products is considered to be positive in the medium to long term as the MOD, encouraged by Brexit, turns to cheaper UK suppliers and is released from EU competition rules. Major programmes such as the Challenger II Life Extension, the Mechanised Infantry Vehicle and Type 31e Frigate programmes appear to be moving in this direction.

Financial review

Operating performance

Revenues for the year increased to £15.6 million (2016: £15.3 million) with exports of £5.3 million again comprising over a third of the total (2016: £5.3 million). The majority of exports in both years related to shipments of eyeTrain system to Siemens in Germany.

The increase in gross margins over the prior year experienced in the first half of 2017 was maintained for the year as a whole, increasing to 38.6% (2016: 36.3%). Margins for both eyeTrain and Traffic products were up on those achieved in 2016 whereas these on Defence products were down 5-10% year on year.

Reported administrative expenses increased by £302,000 over the prior year from £4,468,000 to £4,770,000. This was predominantly due to higher indirect staff costs arising from recruitment during the year, higher depreciation and amortisation costs related to investments in facilities and product development made in 2016 and 2017, offset by the £362,000 exceptional settlement income.

Earnings before interest, tax, depreciation, amortisation, exceptional items and share based payment charges ("adjusted EBITDA") totalled £1,619,000 (2016: £1,621,000) and operating profit increased by 14% to £1,245,000 (2016: £1,095,000).

The net financial expense excluding exceptional financial income of £129,000 was £169,000 (2016: £170,000). The two exceptional items within net financial expense were the interest income of £340,000 relating to the settlement of the historic matter and a £211,000 charge arising from the reclassification of the deficit on the Group's currency translation reserve from equity to income. While taken as a charge to profit in 2017, the corresponding credit is shown within the Consolidated Statement of Comprehensive Income and it therefore has no overall impact on the Group's net assets or cash.

The Group again benefitted from the receipt of research and development tax credits. A tax credit of £32,000 arose in 2017 (2016: £15,000 tax charge). Profit after tax increased by 36% to £1,237,000 (2016: £910,000) giving rise to an increase of 28% in basic earnings per share which rose to 3.31p (2016: 2.59p). Fully diluted earnings per share increased 25% to 2.32p (2016: 1.86p).

Following the approval by the holders of the 7% convertible loan notes issued in 2013, the outstanding balance of £1,480,000 was converted into new Petards ordinary shares on 15 December 2017. These loan notes were due to mature in September 2018 and their conversion will save approximately £75,000 in interest payments in 2018.

The conversion of the loan notes and retention of total comprehensive income for the year of £1,448,000 significantly strengthened the balance sheet. Total equity at 31 December 2017 totalled £7.2 million (2016: 4.2 million).

Research and development

During 2017 the Group made a significant investment in product development. This investment totalled £1,290,000 (2016: £785,000) of which £1,043,000 was capitalised (2016: £645,000). The capitalised costs relate to the Group's new eyeTrain products. The Group remains committed to developing its products and services to maintain and grow its market position and service its customers. In order to achieve this goal it is anticipated that the level of expenditure required in 2018 will be lower than for 2017.

Strategic report *(continued)*

Financial review *(continued)*

Operating performance *(continued)*

Cash and cash flow

Having completed the full conversion of the loan notes, at 31 December 2017 the Group's net cash totaled £1,286,000 (2016: £775,000). Post year-end its cash balances increased on receipt of the £702,000 settlement of the historic claim.

Net cash flows from operating activities for the year were £539,000 (2016: £998,000). These were reflective of a good operating performance, offset by an increase of £1,396,000 in working capital that mainly related to the major rail projects in progress at the year end.

Osman Abdullah
Chief Executive

Condensed Consolidated Income Statement for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Revenue	2	15,581	15,311
Cost of sales		(9,566)	(9,748)
Gross profit		6,015	5,563
Administrative expenses	3	(4,770)	(4,468)
Adjusted EBITDA*		1,619	1,621
Amortisation of intangibles		(547)	(335)
Depreciation		(162)	(107)
Exceptional income	3	362	-
Exceptional acquisition costs		-	(57)
Share based payment charges		(27)	(27)
Operating profit		1,245	1,095
Financial income (including exceptional financial income of £340,000, 2016: £nil)	3	340	4
Financial expenses (including exceptional financial expense of £211,000, 2016: £nil)	3,4	(380)	(174)
Profit before tax		1,205	925
Income tax	5	32	(15)
Profit for the year attributable to equity shareholders of the company		1,237	910
Basic earnings per share (pence)	8	3.31	2.59
Diluted earnings per share (pence)	8	2.32	1.86

* Earnings before financial income and expense, tax, depreciation, amortisation, exceptional items and share based payment charges

Condensed Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Profit for period		1,237	910
Release of foreign currency reserve on abandonment of US subsidiary (included in financial expenses)	3,4	211	-
Total comprehensive income for the year		1,448	910

Condensed Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £000	Share premium £000	Equity reserve £000	Special reserve £000	Retained earnings £000	Currency translation reserve £000	Total equity £000
Balance at 1 January 2016	349	14	203	8	2,823	(211)	3,186
Profit for the year	-	-	-	-	910	-	910
Total comprehensive income for the year	-	-	-	-	910	-	910
Conversion of convertible loan notes	8	54	(3)	-	-	-	59
Equity-settled share based payments	-	-	-	-	27	-	27
Settlement of non-consenting creditors	-	-	-	(8)	8	-	-
Balance at 31 December 2016	357	68	200	-	3,768	(211)	4,182
Balance at 1 January 2017	357	68	200	-	3,768	(211)	4,182
Profit for the year	-	-	-	-	1,237	-	1,237
Other comprehensive income	-	-	-	-	-	211	211
Total comprehensive income for the year	-	-	-	-	1,237	211	1,448
Conversion of convertible loan notes	198	1,383	(169)	-	142	-	1,554
Exercise of share options	3	22	(6)	-	-	-	19
Equity-settled share based payments	-	-	-	-	27	-	27
Balance at 31 December 2017	558	1,473	25	-	5,174	-	7,230

Condensed Consolidated Balance Sheet
at 31 December 2017

	2017	2016
	£000	£000
ASSETS		
Non-current assets		
Property, plant and equipment	825	456
Intangible assets	2,488	1,992
Deferred tax assets	344	364
	<hr/> 3,657	<hr/> 2,812
Current assets		
Inventories	3,403	1,953
Trade and other receivables	3,743	2,398
Cash and cash equivalents	1,324	2,322
	<hr/> 8,470	<hr/> 6,673
Total assets	<hr/> 12,127 <hr/>	<hr/> 9,485 <hr/>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	7	357
Share premium	1,473	68
Equity reserve	25	200
Currency translation reserve	-	(211)
Retained earnings	5,174	3,768
	<hr/> 7,230	<hr/> 4,182
Total equity	<hr/> 7,230 <hr/>	<hr/> 4,182 <hr/>
Non-current liabilities		
Interest-bearing loans and borrowings	6	1,540
	<hr/> 23	<hr/> 1,540
Current liabilities		
Interest-bearing loans and borrowings	15	7
Trade and other payables	4,859	3,756
	<hr/> 4,874	<hr/> 3,763
Total liabilities	<hr/> 4,897 <hr/>	<hr/> 5,303 <hr/>
Total equity and liabilities	<hr/> 12,127 <hr/>	<hr/> 9,485 <hr/>

Condensed Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit for the year	1,237	910
<i>Adjustments for:</i>		
Depreciation	162	107
Amortisation of intangible assets	547	335
Equity settled share-based payment expenses	27	27
Financial income	(340)	(4)
Financial expense	380	174
Income tax (credit)/charge	(32)	15
	<hr/>	<hr/>
Operating cash flows before movement in working capital	1,981	1,564
Change in trade and other receivables	(1,003)	(224)
Change in inventories	(1,450)	241
Change in trade and other payables	1,057	(660)
	<hr/>	<hr/>
Cash generated from operations	585	921
Interest received	-	4
Interest paid	(107)	(137)
Income tax received	61	210
	<hr/>	<hr/>
Net cash from operating activities	539	998
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	-	(239)
Acquisition of property, plant and equipment	(509)	(266)
Capitalised development expenditure	(1,043)	(645)
	<hr/>	<hr/>
Net cash outflow from investing activities	(1,552)	(1,150)
	<hr/>	<hr/>
Cash flows from financing activities		
Finance lease repayments	(10)	(4)
Proceeds from exercise of share options	25	-
	<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities	15	(4)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(998)	(156)
Cash and cash equivalents at start of period	2,322	2,478
	<hr/>	<hr/>
Cash and cash equivalents at end of period	1,324	2,322
	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise:		
Cash and cash equivalents per balance sheet	1,324	2,322

Notes

1 Basis of preparation

The financial information set out in this statement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 31 December 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies and those for 2017 will be delivered in due course. The auditor has reported on those accounts; his reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying his report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2 Segmental information

The analysis by geographic segment below is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions, to monitor performance and to allocate resources.

The Board of Directors regularly reviews the Group's performance and balance sheet position for its entire operations as a whole. The Board receives financial information, assesses performance and makes resource allocation decisions for its UK based business as a whole and therefore the directors consider the Group to have only one segment in terms of products and services, being the development, supply and maintenance of technologies used in advanced security, surveillance and ruggedised electronic applications.

As the Board receives revenue, Adjusted EBITDA and operating profit on the same basis as set out in the Consolidated Income Statement no further reconciliation is considered necessary.

Revenue by geographical destination can be analysed as follows:

	2017	2016
	£000	£000
United Kingdom	10,227	9,990
Continental Europe	4,930	4,929
Rest of World	424	392
	<hr/>	<hr/>
Total revenues	15,581	15,311
	<hr/> <hr/>	<hr/> <hr/>

Included in the above amounts are revenues of £9,660,000 (2016: £8,178,000) in respect of construction contracts. The balance comprises revenue from sales of goods and services.

3 Exceptional Items

The 2017 results include two exceptional items. First, the Group accepted an offer to settle a historic matter, unrelated to the current trading activities of the Group, which arose over ten years ago. Under the settlement, on 9 January 2018 the Group received a total of £702,000 in cash comprising an amount of £362,000 plus compensatory interest of £340,000.

The second exceptional item is also unrelated to the current trading activities of the Group. During the year the Board decided that the US subsidiary that has been dormant for several years should be abandoned, and any future activities that the Group may undertake in the US will not be conducted through the subsidiary. The £211,000 deficit on the Group's currency translation reserve has been reclassified from equity to income and shown as an expense.

4 Financial income and expenses

	2017 £000	2016 £000
Recognised in profit or loss		
Exceptional interest income (note 3)	340	-
Interest on bank deposits	-	4
	<hr/>	<hr/>
Financial income	340	4
	<hr/> <hr/>	<hr/> <hr/>
Interest expense on financial liabilities at amortised cost	133	159
Exceptional foreign exchange loss (note 3)	211	-
Other exchange losses	36	15
	<hr/>	<hr/>
Financial expenses	380	174
	<hr/> <hr/>	<hr/> <hr/>

5 Taxation

Recognised in the income statement

	2017	2016
	£000	£000
<i>Current tax (credit)/expense</i>		
Current tax charge	5	-
Adjustments in respect of prior years	(57)	(41)
	<hr/>	<hr/>
Total current tax	(52)	(41)
<i>Deferred tax expense/(credit)</i>		
Origination and reversal of temporary differences	5	17
Recognition of previously unrecognised tax losses	(148)	(51)
Utilisation of recognised tax losses	303	192
Adjustment in respect of prior years	(162)	(102)
Tax rate change	22	-
	<hr/>	<hr/>
Total deferred tax	20	56
	<hr/>	<hr/>
Total tax (credit)/charge in income statement	(32)	15
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit before tax	1,205	925
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	232	185
Non-deductible expenses	81	54
Fixed asset differences	-	2
Utilisation of tax losses	-	(26)
Recognition of previously unrecognised tax losses	(148)	(38)
Change in unrecognised temporary differences	-	(2)
Adjustments in respect of prior years	(219)	(143)
Effect of rate change	22	(17)
Total tax (credit)/charge	(32)	15

6 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's non-current interest-bearing loans and borrowings measured at amortised cost.

	2017 £000	2016 £000
Non-current liabilities		
Convertible loan notes	-	1,521
Finance lease liabilities	23	19
	23	1,540

The convertible loan notes of £1 each, carried a fixed interest rate of 7% per annum and were convertible into ordinary shares of 1p each at any time prior to maturity on 10 September 2018. The conversion price was 8p. Following a general meeting of the loan note holders, all outstanding loan notes were converted on 15 December 2017.

Therefore, at 31 December 2017 there were no outstanding loan notes (2016: £1,579,909).

7 Share capital

	At 31 December 2017 No.	At 31 December 2016 No.
<i>Number of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	55,768,229	35,707,101
	£000	£000
<i>Value of shares in issue – allotted, called up and fully paid</i>		
Ordinary shares of 1p each	558	357

The Company's issued share capital comprises 55,768,229 ordinary shares of 1p each all of which have equal voting rights.

During the year the Company issued 19,748,628 ordinary 1p shares following conversion of £1,579,909 convertible loan notes at a conversion price of 8p each. A further 312,500 shares were issued at a price of 8p each on exercise of share options.

8 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to the shareholders by the weighted average number of shares in issue.

	2017	2016
Earnings		
Profit for the year (£000)	1,237	910
	<u> </u>	<u> </u>
Number of shares		
Weighted average number of ordinary shares ('000)	37,418	35,199
	<u> </u>	<u> </u>

Diluted earnings per share

Diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, which arise from both convertible loan notes and share options, and is calculated by dividing the adjusted profit for the year attributable to the shareholders by the assumed weighted average number of shares in issue. The adjusted profit for the year comprises the profit for the year attributable to the shareholders after adding back the interest on convertible loan notes for the year.

	2017	2016
Adjusted earnings		
Profit for the year (£000)	1,368	1,060
	<u> </u>	<u> </u>
Number of shares		
Weighted average number of ordinary shares ('000)	58,844	56,881
	<u> </u>	<u> </u>
