IndigoVision Group plc (“IndigoVision” or “The Group”)

Final results for the year ended 31 December 2017

IndigoVision (AIM: IND.L), a leader in intelligent networked video security systems for government, critical infrastructure, transport, city monitoring and casinos, announces its results for the year ended 31 December 2017.

Financial Highlights

- Revenues of $42.3m (2016: $45.9m)
- Operating loss $2.8m (2016 profit: $0.1m)
- Underlying operating loss[1] $2.4m (2016 Operating profit: $0.4m)
- North American expansion costs of $2.0m
- Net cash balance of $2.6m (2016: $6.2m)
- Basic and diluted loss per share 34.9 cents (2016: 37.3 cents)
- Adjusted loss per share[2] 29.6 cents (2016 adjusted earnings per share: 9.0 cents) before deferred tax
- No final dividend proposed (2016: 3.0 pence per share)

Operating Highlights

- New Chief Executive appointed to lead the business into a growth phase
- Expansion of the North American sales and support team by 60%, under a new leadership team
- Launch of CyberVigilant®, cyber security protection designed specifically for CCTV networks
- Introduction of analytics incorporating artificial intelligence
- Replacement ERP system successfully implemented January 2018

George Elliott, Chairman

“The Group’s financial performance in 2017 and indeed, prior years, has not been acceptable and IndigoVision is not achieving its full potential. This has resulted in significant changes in the Board and senior management. The leadership team are committed to improving standards and performance at all levels in the Group, and under this new leadership, the Group’s strategic direction has been set to better serve our shareholders, customers, employees, partners and other stakeholders.

It is expected that considerable progress in delivering the Group’s strategy will be made in 2018 but this will not be reflected fully in it’s operating results until 2019, consequently management is targeting to at least break even in the current year.”

Pedro Simoes, Chief Executive

“Since joining the Group in late 2017, I have been excited to meet my new colleagues and explore the potential within our product development teams. I recently met with the Group’s leadership team to outline my vision for growth, making sure we have the right products and approach to address all parts of the market. While our markets remain competitive, I am confident that after a period of stabilisation, during which new people and new systems bed in, IndigoVision is well positioned for growth.”

[1] Underlying operating loss represents operating loss of $2.82m prior to the exceptional compensation and settlement costs of $0.40m

[2] Adjusted loss per share is based on the 2017 loss after tax of $2.60m prior to the exceptional compensation and settlement costs of $0.40m

Notes to editors

About IndigoVision

IndigoVision designs and manufactures high performance, video security systems for a wide range of users from large scale and complex security installations to small, eight camera systems. From video capture and transmission to analysis and storage, IndigoVision networked video security systems provide the best quality and most secure video evidence, using market leading compression technology to minimise network bandwidth usage and reduce storage costs.

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Shareholder information

Our website can be accessed at www.indigovision.com and contains substantial information about our business. The website also carries copies of prior year accounts and stock exchange announcements.

Shareholder calendar

17 May 2018	Annual General Meeting

Chairman's Statement

Overview

The Group made an operating loss of $2.8m in the year ended 31 December 2017 compared to a small operating profit of $0.1m the previous year.

The Group's financial performance in 2017 and indeed, prior years, has not been acceptable and IndigoVision is not achieving its full potential. This has resulted in significant changes in the Board and senior management. The leadership team are committed to improving standards and performance at all levels in the Group, and under this new leadership, the Group's strategic direction has been set to better serve our shareholders, customers, employees, partners and other stakeholders.

Strategy

As reported previously the Group's strategy to grow its market share and profitability is to increase and improve the quality of its sales presence in key geographies, develop differentiated products in collaboration with other software developers to meet the growing demand for cyber security and intelligent video security systems, work closely with our OEM partners, improve productivity and efficiency and control costs.

Sales

During the year significant investment has been made in strengthening the Group's sales presence in North America, in particular the United States, which is beginning to show positive results.

In addition, in the last three months there has been a determined effort to strengthen links with existing and prospective customers by improving service and support levels. This initiative is being led by the Group's Chief Executive Officer and is recognised as an essential element in building the Group's customer base.

Product roadmap

The Group's current product range has been reviewed and repositioned to be more competitive. New products in the pipeline have also been reviewed to ensure that priority in the development process is given to those products with the benefits and features that our customers need and differentiate our products, with the focus on cyber security and artificial intelligence. Relationships with third party software developers have also been strengthened during the year.

Relationship with equipment suppliers

We are working closely with our hardware equipment suppliers to provide our customers with the best integrated end-to-end solution for their security needs, allowing them to take maximum advantage of IndigoVision's software.

Results

Revenue in the year ended 31 December 2017 was $42.3m which was in line with revenue expectations ranging from $41m to $43m outlined in the Group's November 2017 trading update. Overall revenues of $42.3m were, however, $3.7m (8%) lower than 2016 ($45.9m), principally because of more challenging market conditions in the enterprise project sector of the Middle East region, where revenues were 53% lower than 2016. The lower level of trading in this region more than accounted for the entire sales shortfall against last year.

With the exception of the Middle East and Latin America, mid to high single digit sales growth was seen in all other regions of the world.

Encouragingly, gross margin improved substantially in the year to 53.8% from 50.9% in 2016, continuing the trend seen in the latter half of 2016. This was achieved, primarily, by improved warranty cost management, a shift towards more profitable geographic markets and a continuing switch into the Group's lower cost GX and BX camera ranges.

In line with the strategy to drive significant revenue growth in North America, the Board elected to increase the sales team by more than 60% during the year, investing to build a national sales team structure covering the entire region. The overall cost of this investment was in excess of $2.0m with the expanded team expected to drive revenue growth in 2018.

The overall result for the year was an operating loss of $2.8m (2016: operating profit $0.1m). The operating loss before exceptional items was $2.4m (2016: operating profit before exceptional items of $0.4m).

Board Changes

After 20 years with the Group, Hamish Grossart stepped down as chairman on 1 July 2017 and from the Board on 31 July 2017. I was appointed to the Board as a Non-Executive Director on 1 June 2017 and succeeded Hamish as chairman on 1 July 2017.

Max Thowless-Reeves was appointed as a Non-Executive Director on 1 June 2017.

Andrew Fulton retired from the Board on 31 December 2017.

Marcus Kneen resigned from the Board and ceased to be Chief Executive Officer on 23 November 2017 and was replaced, initially on an interim basis, by Pedro Simoes, who was subsequently appointed to the Board and to the role of Chief Executive Officer on 8 January 2018.

Prior to his appointment as Chief Executive Officer, Pedro was appointed Senior Vice President – Global Sales in October 2017, following a search for an experienced global sales leader in the security industry. Pedro brings to the Group over 13 years' experience in the sector and nearly six years with Avigilon Corporation where he was ultimately responsible for leading its global salesforce and driving revenue worldwide.

Cash and Dividends

The net cash balance at 31 December 2017 was $2.6m (2016: $6.2m). In addition, the Group has unutilised overdraft facilities of $4.0m.

Given the results for the year, the Company will not pay a dividend this year (2016: 3.0p).

During 2017, the Company purchased 95,000 IndigoVision shares, which are currently held in Treasury. The Board retains the ability to purchase further shares up to a maximum aggregate of 375,000, in line with the announcement on 23 May 2017.

Outlook

Although only two months into the Group's first quarter, both actual sales to date and the increase in the sales pipeline have been encouraging. The investments made in 2017 in North America and the launch of new products targeted at the different market segments, together with innovative new products planned for the second quarter are expected to drive revenue growth in 2018.

It is anticipated that the Board and senior management will make significant progress in delivering the Group's strategy in 2018 but this will not be reflected fully in its operating results until 2019 and consequently management is targeting to at least break even in the current year.

George Elliott

Chairman

28 February 2018

Operating and Financial Review

Operational Review

2017 was a year of change. As well as the Board and senior management changes already highlighted in the Chairman's Statement, IndigoVision set a new strategic direction, focussing on delivering greater value to customers through innovation in its proprietary video management software.

During the year, the Company developed its CyberVigilant® technology, using software to identify and report on anomalies within a customer's CCTV network. This new technology is protected by IndigoVision's first ever patent (pending), filed earlier in the year. This retro-fit device, launched in September, allows customers to add an extra layer of cyber protection to their existing network at a reasonable cost, without the need to replace most of the hardware. The next generation of IndigoVision's cyber technology is to embed its cyber protection software within the camera, allowing for real time protection at the edge of the network and differentiating the Company's products from the competition. This new technology will be officially launched at the ISC West trade show in Las Vegas, in April 2018.

The tiered software offering launched in late 2016 has not delivered the revenue growth anticipated from the SME market. As a result, the software tiers have been reviewed and many more valuable features have recently been made available in the IndigoLite and IndigoPro software tiers, providing greater value for our customers with systems of less than 50 cameras.

One year ago, the Board highlighted North America as an area for major investment and growth. Our investment began in April 2017, with a relaunch of the IndigoVision brand at the industry's most important trade show, ISC West. This was followed by a period of intense recruitment of a number of experienced sales professionals, starting with the restructuring of the USA into three regions and the appointment of senior sales directors for each of USA North East, USA South East, USA West and Canada. Thereafter, the regional sales teams were expanded to provide coverage for all states/provinces, supported by the technical expertise of a locally-focused sales engineering team. Overall, the North American sales and sales engineering team has increased by more than 60% since the end of 2016, putting in place improved capability to take the Company's products to this important market.

Markets and Products

IndigoVision products are deployed in many market sectors for a variety of customers from small and medium sized enterprises to large and multinational corporations. The Group is particularly well known in the enterprise markets of airports, safe cities, banks, casinos and law enforcement. End users value the quality, reliability and scalability of the IndigoVision system, together with the end-to-end customised solutions achieved through an extensive suite of integration modules with operational and other security software. 2017 saw major project wins in safe city projects, airports, shopping malls and a number of casinos.

IndigoVision's product strategy continues to be the design and sale of a complete end-to-end video security solution, inclusive of video management software, cameras, encoders, storage devices and integration to security and operational systems. There are few competitors that provide a full end-to-end solution, and buyers value the system reliability produced by designing the complete solution, as well as the ease of one-stop sourcing.

Business Model

IndigoVision designs and manufactures high performance, video security systems for a wide range of users from large scale and complex security installations to small, eight camera systems. From video capture and transmission to analysis and storage, IndigoVision networked video security systems provide the best quality and most secure video evidence, using market leading compression technology to minimise network bandwidth usage and reduce storage costs.

The Group develops its end-to-end networked video systems through in-house design, use of OEM manufacturers and working with technology partners. Product is manufactured in Asia and Europe and brought into inventory based on forecast sales.

The Group utilises both in-house and third party warehouses in Europe, North America, South America and Asia to store product, enable timely order despatch to its global customer base and offer local product repair services.

The Group sells its products and services through a global network of authorised partners who install the Group's systems at end user sites. The Group's partners vary in size from large international security companies to local systems integrators; value added resellers; and distributors in limited geographies. These companies offer first line technical support to the end users and can maintain the system post sale. The Group provides second line technical support to authorised partners.

The Group is structured into four regional sales and support teams, with people in 24 countries, generating sales across many more countries.

Strategy

Key areas of strategic development for the business include:

Technology innovation

New products are brought to market regularly to compete as technology advances. The Group operates a dual development strategy of in house software development and OEM product sourcing and qualification. The in-house engineering team ensures all products supplied within the end-to-end offering are tested robustly and fully optimised as a complete solution to deliver market leading performance and reliability. Hardware life-cycles in the security market are reducing and, by sourcing products from a number of suppliers, the Group can offer a broader product range and increase speed to market for new technology. The Group's in-house development resource is strategically weighted towards software development, to meet increased market demand for intelligent video systems for both security and operational needs.

Sales and marketing

New and repeat business is being won continually; new markets have been developed in line with the Group's strategy; key customer relationships are monitored on a regular basis and the performance of the regional sales teams is continually reviewed to ensure appropriate development is provided and teams resourced accordingly. The sales and marketing team structure is evolving to manage the targeted growth.

Supply chain and logistics

The Group sources products from multiple suppliers in Asia and Europe, and consolidates these in three main logistics centres in Malaysia, the USA and the UK, operated by third parties. The Group also operates service centres in Colombia and Brazil. The Group continually strives to improve efficiency in the supply chain and logistics functions, to provide market leading service to our global customer base.

Employees

The continuing success of the Group primarily depends on its employees across the world, who contribute daily to the achievement of the organisational goals. The Group respects its staff and recognises that they are its most valuable asset. The Group recruits and retains staff globally by offering challenging opportunities, competitive compensation packages and a good working environment.

The Group strives to provide a working environment which encourages continuous learning and development for all employees and is committed to effective investment in training and development to achieve the business goals. The Group conducts an annual staff engagement survey to gauge employees' professional and emotional commitment to the Group and to seek feedback to drive continuous improvement.

The Group is committed to employee involvement throughout the business and operates a number of share option, share incentive and long term incentive plans along with a variety of cash bonus schemes. The Group has established an employee benefit trust in connection with these share option plans.

Financial Review

Results

In the year to 31 December 2017 revenue was $42.3m (2016: $45.9m), a fall of 8%. The headline revenue fall masks significantly different performances across the regions. The Middle East region, where revenues were 53% lower than 2016, was responsible for over 100% of the revenue shortfall. All other regions except Latin America showed single digit revenue growth over 2016.

The volume of cameras sold in the period decreased by 2%, but encouragingly, average prices were in line with last year, a period of relative stability after significant price falls throughout 2016. The number of software licences sold increased marginally, however the trend of lower average selling prices continued. The Company's premium "Ultra" software still accounts for the majority of licence sales.

In line with the Group's strategic focus on the North American market, the Group implemented a major change in its North American operations in mid-2017, with a number of changes in personnel, strengthened management, expanded sales and sales support team and a re-positioning of the IndigoVision brand. North American revenues grew 6% in 2017.

Within EMEA itself, performance was mixed, with a 6% improvement in UK/Northern Europe more than offset by a 53% fall in Middle East sales.

Within Latin America, the Group started 2017 strongly and delivered a number of successful safe city projects across the region, however difficult market conditions in the second half of the year led to an overall fall in revenues of 8%.

APAC revenues grew 5% in 2017, as the Group continues to focus on the key markets of Australia and South East Asia.

The gross margin improved substantially in the year to 53.8% from 50.9% in 2016, continuing the trend seen in the latter half of 2016. This was achieved, primarily, by improved warranty cost management as the increasing proportion of OEM hardware passes more of th risk back to the supplier, a shift towards more profitable geographic markets and a continuing switch into the Group's lower cost GX and BX camera ranges.

Overheads, at $25.4m, were 8% higher than last year (2016: $23.5m), following the decision to expand the North American sales team and a strengthening of sterling against the US dollar adversely impacting UK head office costs. The overall investment in North America in 2017 exceeded $2.0m, with customer-facing sales and sales support teams expanded, positioning the Group for growth in this key market.

Research and development spend has been broadly maintained at a consistent level to enable the Group to continue to differentiate its offering through innovation, with research and development now focused on software-led end-to-end video security.

The operating loss for the year was $2.8m (2016: operating profit of $0.1m). The operating loss before exceptional costs for the year ended 31 December 2017 was $2.4m (2016: operating profit before exceptional costs of $0.4m). The loss after tax was $2.3m (2016: $2.8m), representing a loss per share of 30.9 cents (2016: 37.3 cents).

Cash

The net cash balance at 31 December 2017 was $2.6m (2016: $6.2m). Cash balances are mainly held in US dollars, sterling, euros and Canadian dollars. Cash reserves in excess of current requirements are placed on a variety of term deposits. Term deposits are placed with banks from the list of the Group's approved institutions. Cash on term deposits is included within cash and cash equivalents on the balance sheet.

The Group's currently has an unutilised overdraft facility of $4.0m, secured by a bond and floating charge. In addition, the Group has finance leases of $0.1m (2016: $0.1m) in relation to computer hardware.

Dividends

It is also the Board's policy that dividends should reflect earnings and, given the full year loss, the Company will not pay a dividend this year.

Systems

In January 2018, the Group successfully implemented a new ERP system, facilitating an improvement in operational processes, internal controls and management information. The new system is integral to driving operational efficiencies within the business.

Pedro Simoes

Chief Executive Officer

Chris Lea

Chief Financial Officer

Edinburgh

28 February 2018

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 $'000	2016 $'000
Revenue	**42,331**	45,923
Cost of sales	**(19,558)**	(22,558)
Gross profit	**22,773**	23,365
Research and development expenses	**(3,090)**	(3,358)
Selling and distribution expenses	**(17,081)**	(15,574)
Administrative expenses	**(5,699)**	(4,605)
Foreign exchange gain	**281**	231
Operating profit /(loss)	**(2,861)**	59
Analysed as:		
Underlying operating profit/(loss)	**(2,420)**	359
Exceptional salary costs	**(396)**	-
Exceptional bad debt expense	**-**	(300)
Financial income	**12**	-
(Loss)/profit before tax	**(2,804)**	59
Income tax credit/(charge)	**204**	(2,851)
Loss for the period attributable to equity holders of the parent	**(2,600)**	(2,792)
Analysed as:		
Underlying (loss)/profit for the period attributable to equity holders of the parent	**(2,204)**	672
Exceptional salary costs	**(396)**	-
Exceptional bad debt expense	**-**	(300)
Deferred tax adjustment	**-**	(3,164)
Other comprehensive income		
Foreign exchange translation differences on foreign operations	**(255)**	(510)
Total comprehensive loss for the year attributable to equity holders of the parent	**(2,855)**	(3,302)
Basic loss per share (cents)	**(34.9)**	(37.3)
Diluted loss per share (cents)	**(34.9)**	(37.3)
Adjusted (loss)/profit per share (cents)	**(29.6)**	9.0

Consolidated balance sheet

As at 31 December 2017

	2017 $'000	2016 $'000
Non-current assets		
Property, plant and equipment	**1,504**	1,236
Intangible assets	**352**	22
Deferred tax	**1,846**	1,687
Total non-current assets	**3,702**	2,945
Current assets		
Inventories	**8,936**	8,072
Trade and other receivables	**12,869**	12,772
Cash and cash equivalents	**2,574**	6,203
Total current assets	**24,379**	27,047
Total assets	**28,081**	29,992
Current liabilities		
Trade and other payables	**10,950**	9,990
Provisions	**138**	138
Total current liabilities	**11,088**	10,128
Non-current liabilities		
Provisions	**45**	45
Other non-current liabilities	**17**	33
Total non-current liabilities	**62**	78
Total liabilities	**11,150**	10,206
Net assets	**16,931**	19,786
Equity		
Called up share capital	**120**	120
Share premium account	**2,684**	2,684
Other reserve	**8,080**	8,080
Translation reserve	**(596)**	(341)
Treasury/own share reserve	**(268)**	-
Profit and loss account	**6,911**	9,243
Total equity attributable to equity holders of the parent	**16,931**	19,786

Group statement of changes in equity

For the year ended 31 December 2017

Group	Share capital $'000	Share premium $'000	Other reserve $'000	Treasury / own share reserve $'000	Translation reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 31 December 2015	120	2,684	8,080	-	169	12,293	23,346
Total comprehensive income							
Loss for the year	-	-	-	-	-	(2,792)	(2,792)
Difference on translation	-	-	-	-	(510)	-	(510)
Total comprehensive income	-	-	-	-	(510)	(2,792)	(3,302)
Transactions with the owners of the Company							
Equity-settled transactions, including deferred tax effect	-	-	-	-	-	28	28
Dividends paid to equity holders	-	-	-	-	-	(286)	(286)
Total transactions with the owners of the Company	-	-	-	-	-	(258)	(258)
Balance at 31 December 2016	120	2,684	8,080	-	(341)	9,243	19,786
Total comprehensive income							
Loss for the year	-	-	-	-	-	(2,600)	(2,600)
Difference on translation	-	-	-	-	(255)	-	(255)
Total comprehensive income	-	-	-	-	(255)	(2,600)	(2,855)
Transactions with the owners of the Company							
Equity-settled transactions, including deferred tax effect	-	-	-	-	-	-	-
Purchase of own shares	-	-	-	(268)	-	268	-
Dividends paid to equity holders	-	-	-	-	-	-	-
Total transactions with the owners of the Company	-	-	-	(268)	-	268	-
Balance at 31 December 2017	**120**	**2,684**	**8,080**	**(268)**	**(596)**	**6,911**	**16,931**

Consolidated statement of cash flows

For the year ended 31 December 2017

	2017 $'000	2016 $'000
Cash flows from operating activities		
Loss for the year	**(2,600)**	(2,792)
Adjusted for:		
Depreciation and amortisation	**850**	906
Financial income	**(12)**	-
Share based payment expense	**36**	38
Foreign exchange gain	**(281)**	(231)
Loss on disposal of fixed assets	**133**	104
Income tax (credit)/charge	**(204)**	2,851
(Increase)/decrease in inventories	**(864)**	1,422
Decrease in trade and other receivables	**570**	491
Increase in trade and other payables	**927**	2,304
Increase in provisions	**-**	1
Cash (absorbed by)/generated from operations	**(1,445)**	5,094
Income taxes repaid	**179**	(708)
Net cash (outflow)/inflow from operating activities	**(1,266)**	4,386
Cash flows from investing activities		
Interest received	**12**	-
Acquisition of property, plant and equipment	**(1,139)**	(663)
Acquisition of intangible assets	**(414)**	(41)
Proceeds from the sale of fixed assets	**28**	4
Net cash outflow from investing activities	**(1,513)**	(700)
Cash flows from financing activities		
Purchase of own shares	**(268)**	-
Finance lease payments	**(18)**	-
Dividends paid	**(289)**	(286)
Net cash outflow from financing activities	**(575)**	(286)
Net (decrease)/increase in cash and cash equivalents	**(3,333)**	3,400
Cash and cash equivalents at 31 December	**6,203**	2,763
Effect of exchange rate fluctuations on cash held	**(297)**	40
Cash and cash equivalents at 31 December	**2,574**	6,203

Notes to the accounts:

1. Principal activities

The principal activity of the Group continues to be the design, development, manufacture and sale of networked video security systems. Cameras, encoders, network video recorders and software are designed both internally and with technology partners and manufactured in Asia and Europe. The Group's end to end IP video security systems allow full motion video to be transmitted worldwide, in real time, with digital quality and security, over local or wide area networks, wireless links or the internet, using market leading compression technology to minimize usage of network bandwidth

2. Basis of preparation and accounting policies

The financial statements are presented in US Dollars, rounded to the nearest thousand. They are preared on a historical cost basis.

The accounting policies used in preparing the financial statements are set out in note 1 of the IndigoVision Group plc Annual Report 2017.

3. Annual accounts

The financial information set out in this announcement does not constitute the Group's statutory accounts for the year ended 31 December 2017 but is derived from those accounts. The statutory accounts of IndigoVision Group plc for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Segment reporting

The Board reviews the Group's internal reporting in order to assess performance and to allocate resources. The Board assesses the performance of the following geographical sales regions: primarily Europe; Middle East and Africa; North America; Latin America; and Asia Pacific and has therefore determined these as the operating segments.

The Board considers the performance of the operating segments based on regional sales and Group-wide gross margin before warranty costs. The operating segments derive their revenue from the sale of software, hardware products and services. Capital is not allocated to geographical regions and substantially all of the Group's income and expenditure is incurred by its UK trading subsidiary, IndigoVision Limited. The information currently provided to the Board is measured in a manner which is consistent with the financial statements.

Segment information is also presented in the respect of the Group's products and services which have different economic characteristics, including the sale of end-to-end video security solutions, consultancy services and multi-year software upgrade plans.

Operating segments

Regional Sales	**2017 $'000**	2016 $'000
Europe, Middle East and Africa	**18,468**	22,491
North America	**12,188**	11,470
Latin America	**6,250**	6,799
Asia Pacific	**5,425**	5,163
	42,331	45,923

All sales are to third parties and all segment results are from continuing activities. The gross margin earned in each region is comparable and the majority of overheads are incurred centrally and are therefore unallocated to each region.

Revenues derived from external customers based in the UK were $6,794,000 (2016: $6,675,000)

Analysis of revenue

	2017 $'000	2016 $'000
Revenues from:		
Products/solutions	**39,277**	43,107
Support services	**113**	220
Software Upgrade Contracts	**2,941**	2,596
	42,331	45,923

5. Operating (loss)/profit

	2017 $'000	2016 $'000
Operating (loss)/profit is stated after charging:		
Depreciation and amortisation	**850**	906
Exceptional salary costs[1]	**396**	-
Exceptional bad debt expense	**-**	300
Allowance for doubtful trade receivables	**385**	22
Net write down of inventories to realisable value	**379**	499
Research & development expenditure	**3,090**	3,358
Share based payment expense	**36**	38
Redundancy costs	**-**	122
Fees payable to the Group's auditor:		
Audit of these financial statements (Group and Company)	**17**	15
Audit of subsidiary companies	**33**	29
All other services	**12**	-

[1]The exceptional salary costs relate to compensation and settlement payments made to Marcus Kneen who resigned on 23 November 2017.

6. Income Taxes

	2017 $'000	2016 $'000
Current tax (credit)/expense		
UK tax	**(236)**	(373)
UK tax - prior year adjustment	**191**	40
Overseas tax	**12**	20
Overseas tax – prior year adjustment	**(9)**	-
	(42)	(313)
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(183)**	2,361
Reduction in tax rates	**21**	308
Adjustments relating to prior year trading losses	**-**	495
	(162)	3,164
Total income tax (credit)/expense in income statement	**(204)**	2,851

7. Earnings per share

	2017 $'000	2016 $'000
Earnings per share		
Loss for the year attributable to equity shareholders (basic and diluted)	**(2,600)**	(2,792)
Exceptional compensation and settlement costs	**396**	-
Exceptional bad debt expense	**-**	300
Deferred tax adjustment	**-**	3,164
Adjusted (loss)/profit for the year attributable to equity shareholders	**(2,204)**	672

	Cents	Cents
Basic earnings per share	**(34.9)**	(37.3)
Diluted earnings per share	**(34.9)**	(37.3)
Adjusted earnings per share	**(29.6)**	9.0

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

	2017 Number of shares	2016 Number of shares
Issued ordinary shares at start of year	**7,610,756**	7,610,756
Effect of purchase of own shares	**(170,763)**	(134,238)
Weighted average number of ordinary shares for the year – for earnings per share	**7,439,993**	7,476,518

The calculation of adjusted earnings per share for the year ended 31 December 2017 was based on the loss attributable to equity shareholders of $2,600,000 (2016 loss: $2,792,000), to which the exceptional compensation/settlement costs of $396,000 (2017: $0) have been added back. A weighted average number of ordinary shares during the year ending 31 December 2017 of 7,439,993 (2016: 7,476,518), calculated as shown above.

Adjusted earnings per share has been presented as the movements related to deferred tax are dependent on a series of assumptions with associated inherent uncertainties which introduce substantial volatility in the deferred tax income/expense from year to year. The Board believes an adjusted earnings per share measure is required to reflect its view of the underlying performance and to align more closely with management targets and rewards.