

7 June 2017

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

Preliminary Results for the Year Ended 31 March 2017

Intercede, the leading specialist in digital identity, credential management and secure mobility, today announces its preliminary results for the year ended 31 March 2017.

Highlights

- Revenues of £8.3m (2016: £11.0m), reflecting a stronger second half, in line with the same period last year.
- Operating expenses increased to £12.9m (2016: £12.5m) reflecting continued high levels of investment in technology development totalling £4.0m (2016: £3.9m).
- Average number of employees and contractors unchanged year on year at 125.
- Loss for the year of £3.9m (2016: loss of £1.0m).
- Successful fundraising totalling £4.9m during the year (£4.6m net of expenses) in support of new market opportunities.
- Cash balances of £6.9m at 31 March 2017 (2016: £5.3m).
- Launch of RapID, RapID-SL and MyID as a Service (MyIDaaS) cloud-based services.
- Significant recent contract wins include a major US Government Agency, a US Healthcare group and a major US Aerospace & Defence contractor.
- Appointments of Helen Adams as Chief Sales Officer (formerly ARM VP Sales, Europe & Asia Pacific) and Chuck Pol as Non-Executive Director (formerly Chairperson, Vodafone Americas).

Richard Parris, Chairman & Chief Executive of Intercede, said:

“I am pleased to report Intercede’s considerable progress during a challenging year. We have recovered successfully from a difficult first half, returning to the record revenue levels of the previous year in the second half. We have completed a significant fund raising, positioning the Group well to capture the potential growth in our addressable markets. We have strengthened the management team with key personnel who bring directly relevant experience to our strategic aims. Finally, we have continued to develop new, market-leading applications for our software which, I believe, will find sizeable and profitable markets in the medium term. Notwithstanding our reported results, Intercede is in excellent shape and I view the future with a high degree of confidence.”

Contact

Intercede Group plc

Richard Parris
Andrew Walker

Tel. +44 (0)1455 558111

Chairman & Chief Executive
Finance Director

FinnCap

Stuart Andrews
Simon Hicks
Steven Norcross

Tel. + 44 (0)20 7220 0500

Corporate Finance
Corporate Finance
Corporate Broking

Capital Access Group

Scott Fulton
Ed Welsby

Tel. +44 (0)20 3763 3400

Media
Investors

About Intercede

Intercede is a software and service company specializing in identity, credential management and secure mobility. Its solutions create a foundation of trust between connected people, devices and apps and combine expertise with innovation to provide world-class cybersecurity. Intercede has been delivering solutions to high profile customers, from the US and UK governments to some of the world's largest corporations, telecommunications providers and information technology firms, for over 20 years. Intercede's product portfolio includes MyID, an identity and credential management system that assigns trusted digital identities to employees citizens and machines. In 2015, Intercede launched MyTAM, enabling trusted applications to be loaded into a mobile device's Trusted Execution Environment (TEE), providing hardware-level security for Android apps. In 2016, Intercede launched RapID, a secure, easy to implement authentication service for mobile apps and cloud services to completely eliminate the need for passwords.

For more information visit: www.intercede.com

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

INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2017

CHAIRMAN'S STATEMENT

Introduction

It has always been my view that success in business is best gauged by how well management copes with adversity. The year to 31 March 2017 was a challenging period for Intercede; however, I am pleased to report that the management team has responded admirably. Revenue for the year was £8.3m (2016: £11.0m) which, given our reporting a 49.0% fall during the first half, highlights a return in the second half to the record levels of business recorded by the Group in 2015/16. The improvement is both a testament to the on-going attractions of MyID and a reminder that its addressable market is dominated by a small number of large, highly secure organisations.

Mindful of this, the Intercede team has been focused on developing further applications for its market leading cybersecurity software. We have been at the forefront of mobile usage in evolving MyID for this important segment of our original market. RapID provides a compelling answer to the questions posed by the growth of mobile transactions, particularly in banking, while MyTAM is an innovative security solution for developers within the Internet of Things (IoT). We have also recently launched MyID as a Service (MyIDaaS) which takes the core functionality of MyID and offers it as a cloud-based service that is easy to operate. We believe MyIDaaS provides a proven, cost effective solution for enterprises of all sizes that need to comply with new regulations for protecting customer information.

These developments, and the associated investment in skilled people and marketing, are reflected in our results for the year. I am convinced that we have positioned Intercede well for the demands of these new markets.

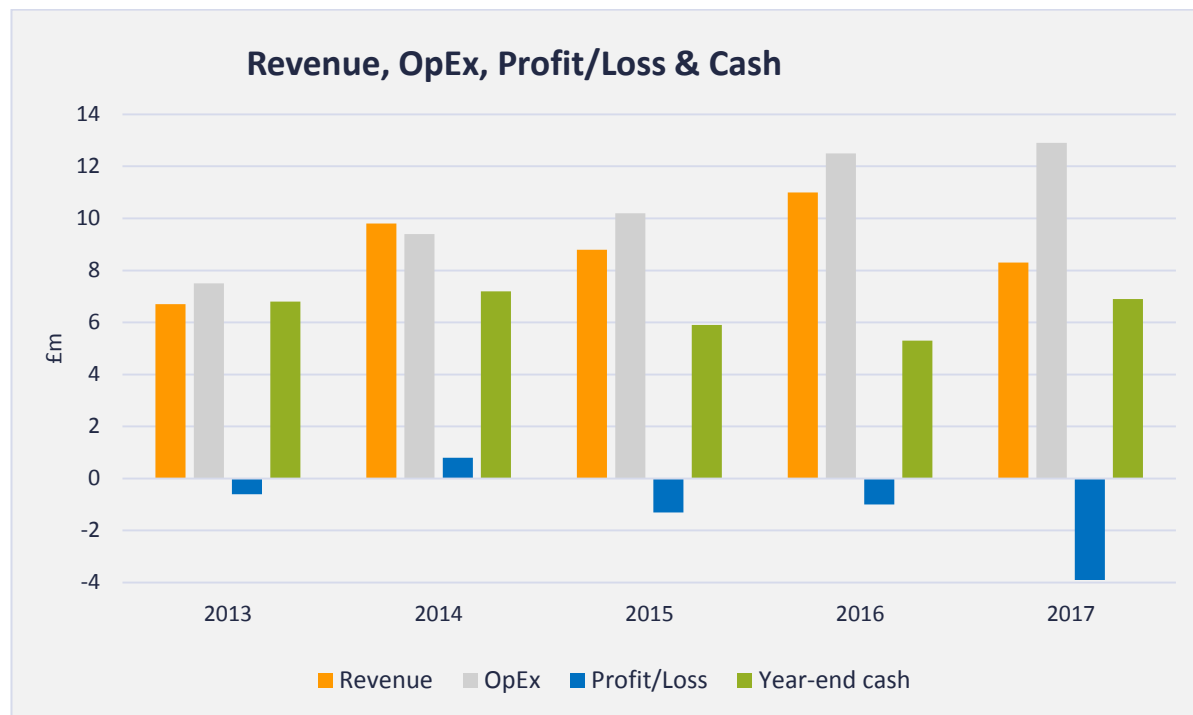
The Group has continued to expand its customer base and interaction with partners. During the year, Intercede has won orders from within its traditional markets of the US Federal Government, with an order from the Department of State, and Aerospace & Defence, namely CDG (part of Boeing), MBDA and Hanscom Air Force Base. There was also growth in the banking sector, with new wins from LGT Vestra and the Swiss National Bank, and the newer market of healthcare, with orders from Alexion Pharmaceuticals and Mayo Clinic. In addition, there has been significant repeat business from existing customers including ANZ, Boeing, the US Department of Homeland Security Transportation Security Administration, Deutsche Telekom, Telus, the US Federal Aviation Administration, the US Federal Reserve Bank, Northrop Grumman, RDW, the United Health Group and Wells Fargo.

Following the year end, Intercede has won orders from BAE Systems, M.C. Dean and Verizon. Intercede is proud to note that MyID is now used by five of the seven largest Aerospace & Defence companies.

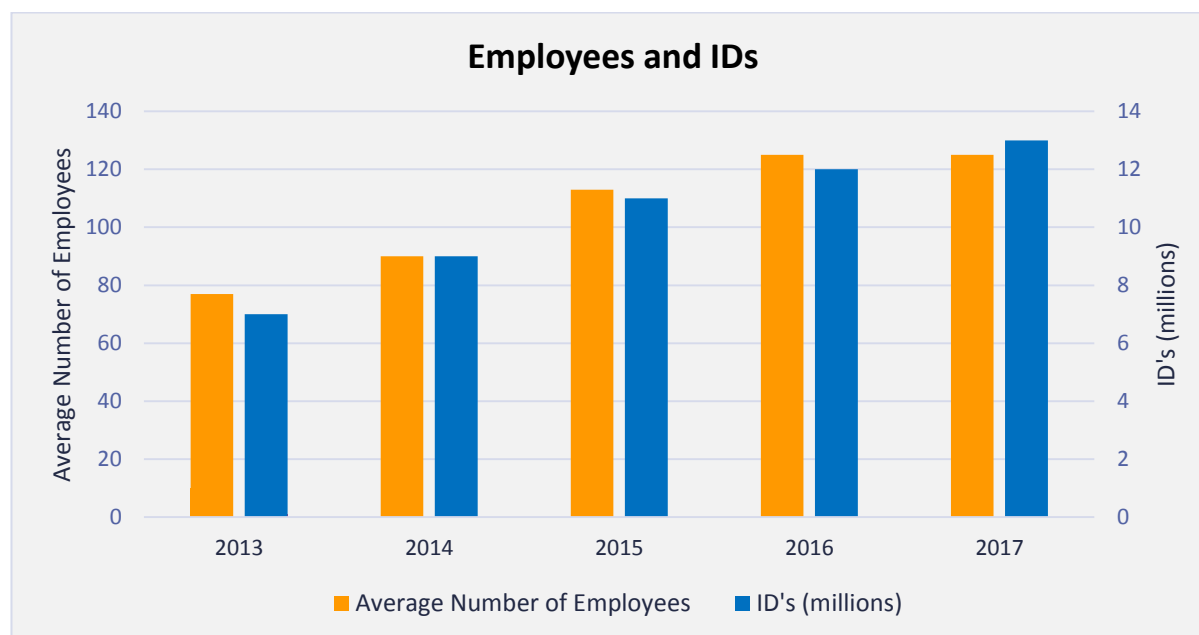
Establishing Intercede at the heart of the critical eco-systems in place or being developed in our space is central to the Group's strategy. I am pleased to report that we are working with a number of partners including ARM, Centrifry, Citrix, Intel, LG Electronics, Microsoft, MobileIron, Symantec and VMWare (Airwatch) to further this aim.

Since its foundation, Intercede has developed largely through the use of its own funds. However, recognising the need to accelerate our progress in key areas, the Group raised a total of £4.6m (net of costs) via the issue of Convertible Loan Notes (CLNs) and new equity in January 2017. These funds are already being deployed successfully and will provide the Group with considerable resources with which to address our expanding market place. Notwithstanding this investment, at the financial year end on 31 March 2017, Intercede had cash and short term deposits totalling £6.9m (31 March 2016: £5.3m).

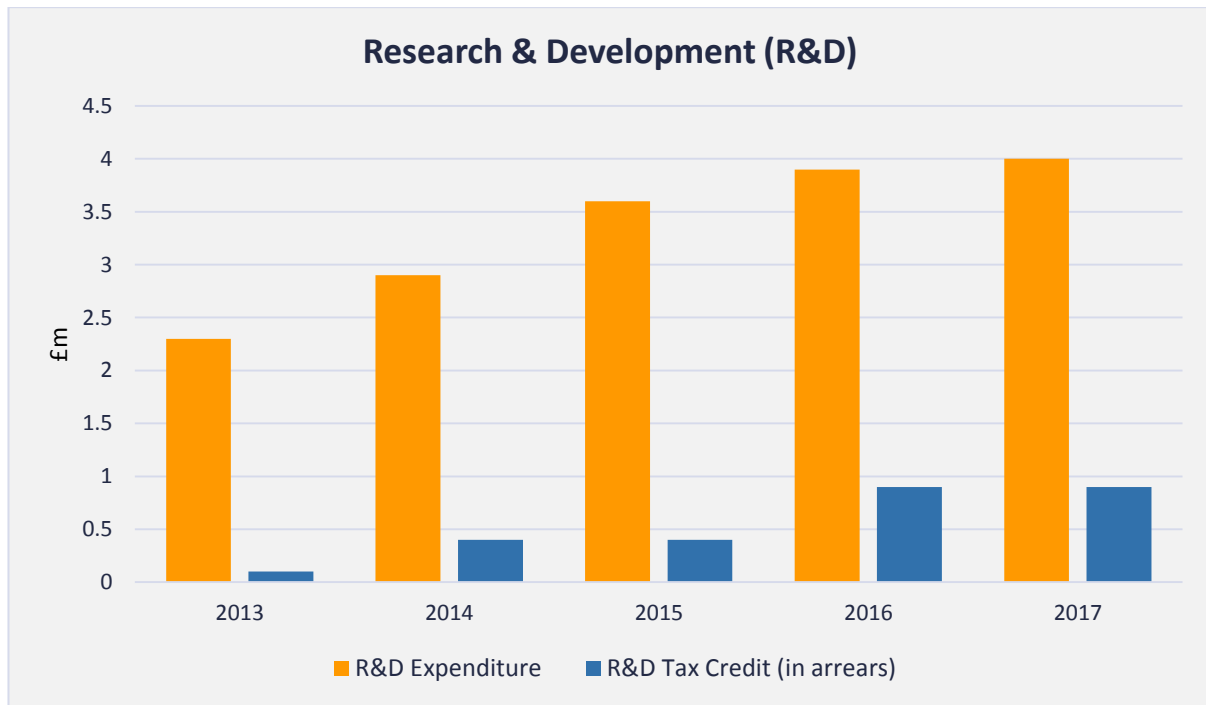
Financial Results



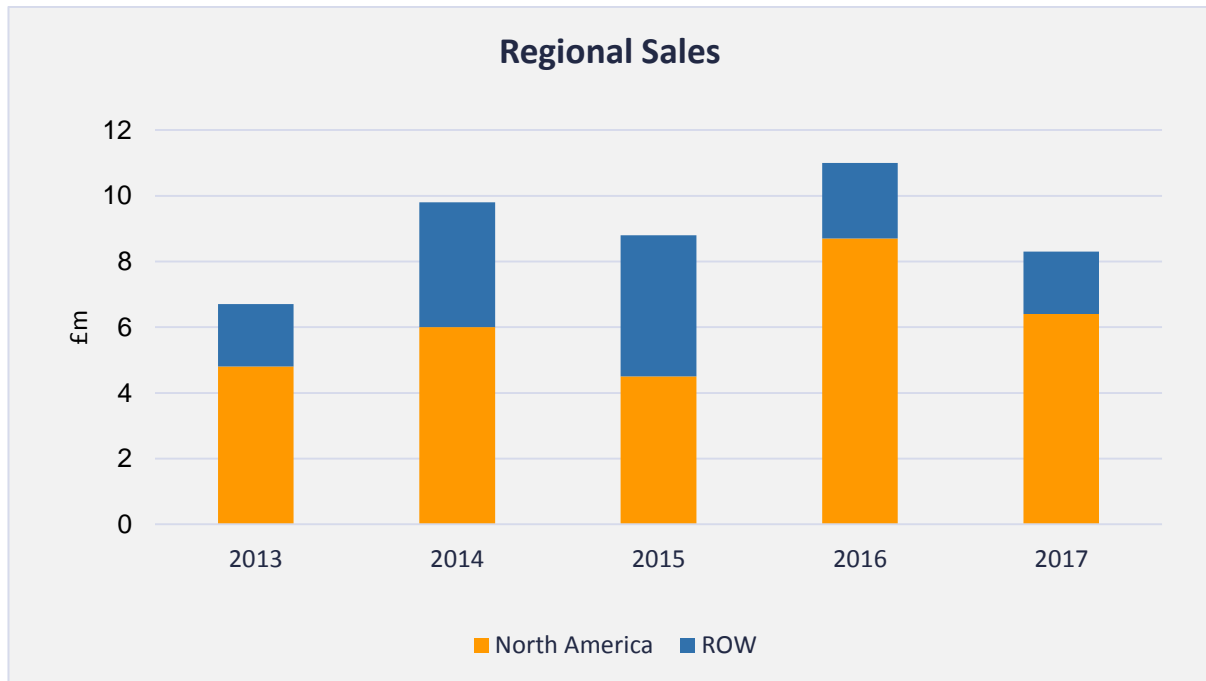
The substantial increase in operating expenses (OpEx) over the last five years primarily reflects continued high levels of strategic investment to exploit new market opportunities. This investment is expected to result in increased revenue and cash flow generation in future periods. The 2017 year-end cash includes net funds raised of £4.6m during the year.



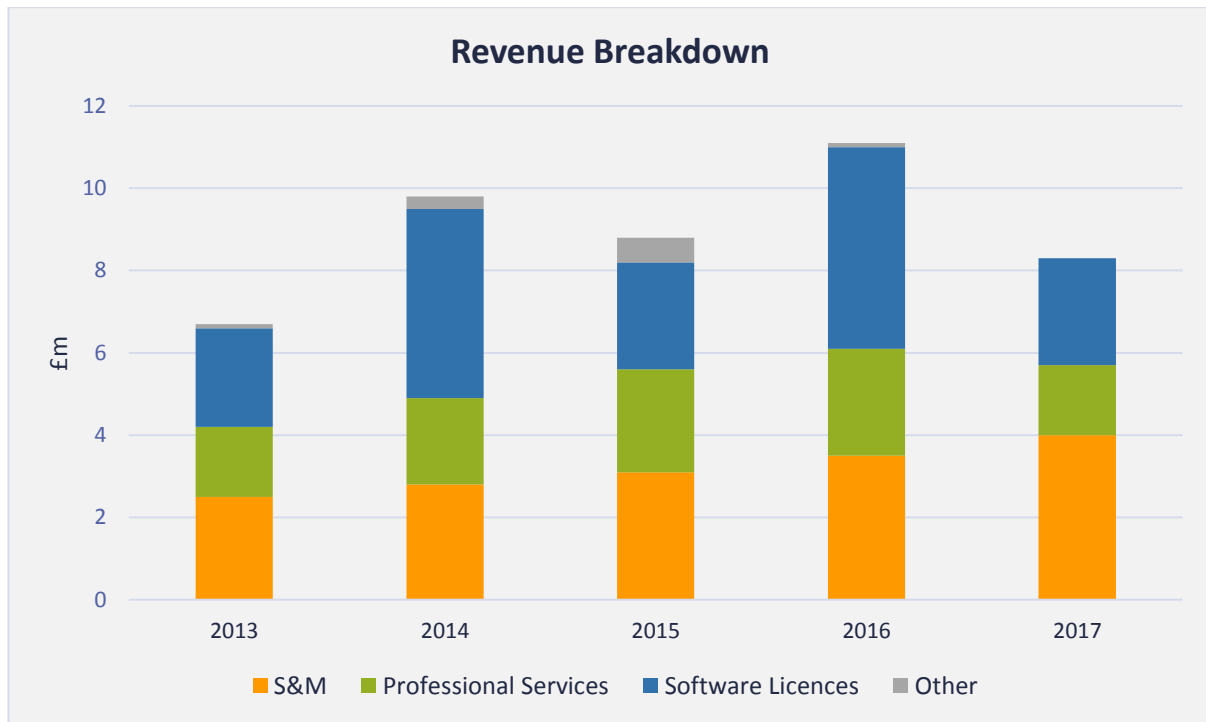
Intercede's strategic investment plan has resulted in a progressive increase in employees, resulting in one of the largest teams with cryptographic key management experience and expertise anywhere in the world. The introduction of RapID, MyIDaaS and MyTAM is expected to result in exponential growth of apps and devices under the management of Intercede's software.



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



The US represents Intercede’s largest market with sales to North America again approaching 80% of total sales during FY 2017.



The last five years has seen progressive growth in recurring Support & Maintenance (S&M) revenues due to a cumulative increase in customers which has also resulted in a substantial level of ongoing Professional Services activity. Software license revenues from the traditional MyID business tend to be lumpy but the introduction of the RapID, MyIDaaS and MyTAM cloud-based services (which currently represent less than 5% of total annual revenues) is expected to both increase growth and smooth future volatility.

Review of Operations

Intercede's heritage is in securing sensitive data assets in the most data critical industries but today few companies, in any market sector, can afford to ignore the requirement to more effectively establish digital identity and create the trust relationships that enable 21st Century commerce. The volume of data held has increased dramatically, the regulatory requirements are much more onerous, cybercrime is sophisticated and widespread, consumers are demanding answers and yet much of the world's data is still protected by little more than a username and password combination. That situation cannot continue and it represents a significant market opportunity that Intercede is ideally placed to address.

I believe that Intercede's products will be integral to the way we all conduct a wide range of activities; from work through transactions to managing every day activities. It is a developing market but I am encouraged by the new enquiries we are now receiving, from companies large and small, that recognise the need for change.

Our goal has been to evolve the business in order that it can provide support to this broader range of customers. We have developed cloud-based delivery and applications. We have adapted our products to enable mobile usage. We have produced one of the few applications which allow the secure deployment of apps within the Internet of Things.

Over the last few years, the Directors' believe that Intercede has built one of the most talented teams in the world to address this evolution while maintaining its core principles. We have demonstrated our ability to bring products and, increasingly, services to the market. Indeed, I am pleased to report that Intercede:

- (1) was the first company to receive an authority to operate (ATO) a mobile derived credential service within the US Government;
- (2) was selected to provide a proof-of-concept implementation of RapID within the Italian banking industry for PSD2 authentication; and
- (3) has begun operations of a production MyTAM service for retail banking consumers in Korea.

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

Intercede's Customer Base



Intercede's Interoperability Partners



We are continuing to strengthen our team and, therefore, our ability to address our widening market. Since the end of our financial year, I am pleased to report that we have recruited two high profile and competent team members who will add materially to Intercede's efforts.

Charles ("Chuck") Pol has recently served as Chairperson of Vodafone Americas, a role he has held since 2013 and in which he has led the development of applications for the Internet of Things. Chuck joined Vodafone Americas as President of its Global Enterprise division where he built a US-wide mobile business focused exclusively on Enterprises. Prior to Vodafone Americas, Chuck held senior roles at BT Americas including Chief Operating Officer and President. On leaving BT in 2008, Chuck was President of BT Global Financial Services where he was responsible for BT's relationships with the top 40 global investment banks.

Chuck, who was appointed on with effect from 1 June 2017, is now Intercede's Senior Independent Director, reflecting his considerable experience within the North American technology and telecoms industries.

Helen Adams joined the Group on 5 June 2017 from ARM Holdings plc, the world's leading semiconductor intellectual property supplier, where she was Vice President of Regional Sales for both Europe and Asia/Pacific, leading a global team which, under her leadership, delivered more than half of ARM's total revenue which was last reported as £1.3bn. Her mandate will be to manage the growing sales, marketing

and business development activity at the Group across all principal product lines and services. Helen is specifically tasked with increasing the Group's engagement with its growing partner base. In addition, given her silicon industry background, Helen will also be responsible for leading the development and growth of its emerging Internet of Things business.

Chuck and Helen join a talented team which is focused clearly on our vision, mission and goals. I would like to take this opportunity to thank that team for its efforts during the last year and to congratulate them on their successes. I believe that the Group is ideally placed to benefit from the likely evolution of the interconnected world in which we live. This position is a reflection of our enthusiasm and skills; values which will be, I am sure, a factor in the success of Intercede.

Outlook

Intercede is now ready to address the demands of a significantly wider customer base. Our team has developed a range of applications for our digital trust software and services which lead the evolution of security across most of the eco-systems in place or likely to form part of interconnectivity for a generation to come.

We face the future with increased confidence and our growth prospects appear significant. We must be mindful of the challenges ahead, but I am convinced that these are surmountable and that the Group is on the cusp of a period of sustained growth and shareholder value creation.

Richard Parris
Chairman & Chief Executive

INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2017

STRATEGIC REPORT

Introduction

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

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

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

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

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

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

Strategic Investment

Intercede has embarked upon a period of substantial investment in order to take advantage of the opportunities outlined above. The costs associated with this strategy are being incurred now but the benefits, in terms of increased revenues and cash flow generation, are anticipated to arise in future periods.

The main areas of selective investment are:

- The development of mobile security applications involving interoperability with technologies such as iOS, Android, Windows and BlackBerry.
- The establishment and launch of RapID, a cloud-based service that enables service providers to simply replace passwords with a digital identity, protecting themselves against identity fraud and the resultant data breach.
- Increased collaboration with major industry players such as Intel, Microsoft, ARM and Google.
- Strengthening of the dedicated Intercede Services team focused on delivering Intercede solutions into the consumer and IoT markets.

- Enhancing the core MyID platform to support US Standard FIPS 201-2 compliant derived PIV credentials, thereby extending Intercede's strong position in the US federal government market to incorporate the growing demand for digital identity on mobile devices.
- Re-engineering and expansion of the MyID platform as a cloud-based service to improve scalability to consumer levels and to ensure all of the new areas of opportunity are supported.
- Sales and marketing to promote and protect the MyID, MyTAM and RapID names and technology and to build industry relationships.

To support this investment Intercede raised £4,945,000 in new funding during the year (£4,624,000 net of costs) via the issue of convertible loan notes and equity. The funding has come from new and existing institutional and other investors, as well as experienced technology entrepreneurs. This demonstrates the confidence of our long term backers as well as illustrating that our strategic story resonates strongly with a new generation of technology and security savvy investors.

Trading Results

Revenues for the year ended 31 March 2017 totalled £8,286,000, a 25% reduction on the previous year's record revenues of £11,004,000. The US presidential race resulted in delays from government agencies making investment decisions but we have seen the resumption of business for the MyID platform. We are pleased to see that revenues generated in the second half of the year matched the record revenues achieved in both halves of the previous year.

The rate of investment in the Company's newer products, RapID and MyTAM, continues and business development has resulted in the identification of target markets and talks with reference customers in each of those markets. Work continues on pilot RapID solutions for customers in the wealth management and banking sectors and revenues are expected to be generated in the coming months. While MyTAM continues to be sold as a standalone product it will also become a core component in an Internet of Things product that will address a number of challenges in the IoT market, namely security, interoperability and control via a single interface. The Directors' believe that this development work is expected to result in significant revenues in the coming years.

In the second half of the year, a cost-cutting review removed £600,000 of annualised costs from the business without impacting our development of new products. This partly offset the strategic investment as outlined and resulted in a lower than initially planned increase of 3% in operating expenses from £12,511,000 to £12,891,000. The drop in revenues has primarily lead to a £4,721,000 operating loss (2016: £1,917,000 operating loss).

Staff costs continue to represent the main area of expense, representing 78% of total operating expenses (2016: 79%). Intercede had 121 employees and contractors as at 31 March 2017 (2016: 123). The average number of employees and contractors was unchanged from the previous year at 125.

Expenditure on research and development (R&D) activities totaled £3,994,000 (2016: £3,905,000), approximately 62% of which related to the areas of strategic investment outlined above (2016: 71%). In accordance with the IFRS recognition criteria, the Board has continued to determine that all internal R&D costs incurred in the year are expensed. No development expenditure has been capitalised as at 31 March 2017 (2016: £nil).

The net finance cost for the year was £57,000 (2016: £32,000 income) as a result of the interest payable on the convertible loan notes issued during the year.

An £888,000 taxation credit for the period (2016: £892,000 taxation credit) primarily reflects cash received following the 2016 R&D claim as a result of the investment activities outlined above. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits.

A loss for the year of £3,890,000 (2016: loss of £993,000) resulted in a basic and fully diluted loss per share of 8.0p (2016: loss per share 2.1p).

Financial Position

The Group's cash position remains strong with cash and short term deposits totaling £6,891,000 as at 31 March 2017 (2016: £5,289,000). The increase reflects the fundraising that was announced on 28 December 2016 but, it is also worth noting that, following a difficult first half of the year, the Group generated cash from its operating activities in the second half.

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

Treasury

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

Key Performance Indicators (KPIs)

The following KPIs are some of the tools used by management to monitor performance in addition to the more traditional financial statement and sales pipeline information that is provided to the Board each month.

	2014	2015	2016	2017	Target
Trusted identities, devices and apps	9 million	11 million	12 million	13 million	250 million
Sales growth	45%	(10%)	25%	(25%)	30%+
Export sales	91%	85%	96%	95%	80%+
North American sales	61%	51%	79%	77%	50%+
New deployments with revenues over £20,000	10	6	6	8	10+

All of the above KPIs are geared towards the traditional MyID business. The introduction of RapID and MyTAM is expected to result in the growth of devices (IoT enabled equipment) and apps (online banking) under the management of Intercede's software. This suite of software supports the overall target of 250 million identities, devices and apps under management by 2020.

Principal Risks and Uncertainties

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

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

By order of the Board

Andrew Walker

Finance Director

INTERCEDE GROUP plc**Consolidated Statement of Comprehensive Income for the year ended 31 March 2017**

	2017 £'000	2016 £'000
Continuing operations		
Revenue	8,286	11,004
Cost of sales	<u>(116)</u>	<u>(410)</u>
Gross profit	8,170	10,594
Operating expenses	<u>(12,891)</u>	<u>(12,511)</u>
Operating loss	(4,721)	(1,917)
Finance income	13	32
Finance costs	<u>(70)</u>	<u>-</u>
Loss before tax	(4,778)	(1,885)
Taxation	<u>888</u>	<u>892</u>
Loss for the year	<u>(3,890)</u>	<u>(993)</u>
Total comprehensive expense attributable to owners of the parent company	<u>(3,890)</u>	<u>(993)</u>
Loss per share (pence)		
- basic	(8.0)p	(2.1)p
- diluted	<u>(8.0)p</u>	<u>(2.1)p</u>

INTERCEDE GROUP plc

Consolidated Balance Sheet as at 31 March 2017

	2017 £'000	2016 £'000
Non-current assets		
Property, plant and equipment	695	864
Current assets		
Trade and other receivables	1,280	1,146
Cash and cash equivalents	6,891	5,289
	8,171	6,435
Total assets	8,866	7,299
Equity		
Share capital	499	487
Share premium	673	232
Equity reserve	60	-
Merger reserve	1,508	1,508
(Losses)/retained earnings	(2,354)	1,131
Total equity	386	3,358
Non-current liabilities		
Convertible loan notes	4,124	-
Deferred revenue	141	122
	4,265	122
Current liabilities		
Trade and other payables	1,390	1,795
Deferred revenue	2,825	2,024
	4,215	3,819
Total liabilities	8,480	3,941
Total equity and liabilities	8,866	7,299

INTERCEDE GROUP plc

Consolidated Statement of Changes in Equity for the year ended 31 March 2017

	Share capital	Share premium	Equity reserve	Merger reserve	(Losses)/ retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2015	487	232	-	1,508	2,257	4,484
Purchase of own shares	-	-	-	-	(610)	(610)
Employee share option plan charge	-	-	-	-	115	115
Employee share incentive plan charge	-	-	-	-	334	334
Employee treasury share transfer	-	-	-	-	28	28
Loss for the year and total comprehensive expense	-	-	-	-	(993)	(993)
As at 31 March 2016	487	232	-	1,508	1,131	3,358
Purchase of own shares	-	-	-	-	(143)	(143)
Employee share option plan charge	-	-	-	-	60	60
Employee share incentive plan charge	-	-	-	-	488	488
Issue of new shares	12	441	-	-	-	453
Equity component of convertible loan notes	-	-	60	-	-	60
Loss for the year and total comprehensive expense	-	-	-	-	(3,890)	(3,890)
As at 31 March 2017	<u>499</u>	<u>673</u>	<u>60</u>	<u>1,508</u>	<u>(2,354)</u>	<u>386</u>

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

INTERCEDE GROUP plc

Consolidated Cash Flow Statement for the year ended 31 March 2017

	2017	2016
	£'000	£'000
Cash flows from operating activities		
Operating loss	(4,721)	(1,917)
Depreciation	194	186
Loss on disposal of property, plant and equipment	48	-
Employee share option plan charge	60	115
Employee share incentive plan charge	488	334
Employee unit incentive plan (credit)/charge	(20)	58
Employee unit incentive plan payment	(28)	-
Employee treasury share transfer	-	28
Increase in trade and other receivables	(364)	(100)
(Decrease)/increase in trade and other payables	(417)	611
Increase/(decrease) in deferred revenue	820	(66)
	(3,940)	(751)
Cash used in operations		
Finance income	14	36
Taxation	888	892
	(3,038)	177
Net cash (used in)/generated from operating activities		
 Investing activities		
Purchases of property, plant and equipment	(73)	(197)
	(73)	(197)
Cash used in investing activities		
 Financing activities		
Purchase of own shares	(143)	(610)
Proceeds from issue of ordinary share capital	453	-
Proceeds from issue of convertible loan notes	4,495	-
Convertible loan note issue costs	(321)	-
	4,484	(610)
Cash generated from/(used in) financing activities		
 Net increase/(decrease) in cash and cash equivalents	1,373	(630)
Cash and cash equivalents at the beginning of the year	5,289	5,895
Exchange gains on cash and cash equivalents	229	24
	6,891	5,289
Cash and cash equivalents at the end of the year		

INTERCEDE GROUP plc

Preliminary Results for the Year Ended 31 March 2017

NOTES

1. The financial information set out in this announcement does not constitute the Group's Statutory Accounts for the years ended 31 March 2017 or 2016, but is derived from those accounts. Statutory Accounts for 2016 have been delivered to the Registrar of Companies and those for 2017, which have been approved by the Board of Directors, will be delivered following the Group's Annual General Meeting. The Company's auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498 of the Companies Act 2006.

The Annual General Meeting will be held at 2.00 pm on Wednesday 13 September 2017 at the registered office of the Company. Copies of the full Statutory Accounts and the Notice of Annual General Meeting will be despatched to shareholders in due course. Copies will also be available on the website (www.intercede.com) and from the registered office of the Company: Lutterworth Hall, St. Mary's Road, Lutterworth, Leicestershire, LE17 4PS.

2. SEGMENTAL REPORTING

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

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

	2017 £'000	2016 £'000
UK	403	462
Rest of Europe	960	1,312
North America	6,367	8,699
Rest of World	556	531
	<u>8,286</u>	<u>11,004</u>

3. TAXATION

The tax credit comprises:	2017 £'000	2016 £'000
Current year – UK corporation tax	-	-
Current year – US corporation tax	(34)	(40)
Research and development tax credits relating to prior years	<u>922</u>	<u>932</u>
Taxation	<u>888</u>	<u>892</u>

The Group has unused tax losses of £11,773,000 (2016: £9,460,000) and unrecognised deferred tax assets of £2,001,000 (2016: £1,703,000) calculated at the UK corporation tax rate of 17% (2016: 18%).

4. LOSS PER SHARE

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

	2017 £'000	2016 £'000
Loss for the year	<u>(3,890)</u>	<u>(993)</u>
	Number	Number
Weighted average number of shares – basic	48,835,080	48,429,489
– diluted	<u>48,835,080</u>	<u>48,429,489</u>
	Pence	Pence
Loss per share – basic	(8.0)p	(2.1)p
– diluted	<u>(8.0)p</u>	<u>(2.1)p</u>

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

	2017 Number	2016 Number
Issued ordinary shares at start of year	48,735,005	48,735,005
Effect of purchase of own shares	(294,000)	(305,516)
Effect of issue of ordinary share capital	<u>394,075</u>	<u>-</u>
Weighted average number of shares – basic	<u>48,835,080</u>	<u>48,429,489</u>
Add back effect of purchase of own shares	N/A	N/A
Effect of share options in issue	N/A	N/A
Effect of convertible loan notes in issue	<u>N/A</u>	<u>N/A</u>
Weighted average number of shares – diluted	<u>48,835,080</u>	<u>48,429,489</u>

5. DIVIDEND

The Directors do not recommend the payment of a dividend.

6. SHARE CAPITAL

	2017	2016
	£'000	£'000
<i>Authorised</i>		
481,861,616 ordinary shares of 1p each (2016: 481,861,616)	<u>4,819</u>	<u>4,819</u>
<i>Issued and fully paid</i>		
49,903,143 ordinary shares of 1p each (2016: 48,735,005)	<u>499</u>	<u>487</u>

The increase in issued and fully paid ordinary shares of 1p each represents the issue of 379,542 shares on 29 July 2016 to facilitate the July 2016 Free Share award and the issue of 788,596 shares on 27 January 2017, at an issue price of 57.0p per ordinary share, in connection with the fundraising that was announced on 28 December 2016.

As at 31 March 2017, the Company had 294,000 ordinary shares held in treasury (2016: 294,000). There were no purchases or transfers of shares to or from treasury during the year. During the previous year, the Company purchased 32,500 ordinary shares for a consideration of £47,000; 32,500 options were exercised using treasury shares and 15,000 ordinary shares were transferred to an employee pursuant to an incentive arrangement.

7. Convertible loan notes

	2017	2016
	£'000	£'000
Non-current		
8% Convertible loan notes (29 December 2021)	<u>4,124</u>	<u>-</u>

Borrowings are repayable as follows:

	2017	2016
	£'000	£'000
Between two and five years	<u>4,124</u>	<u>-</u>

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

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

	2017	2016
	£'000	£'000
Nominal value of convertible loan note issue	4,495	-
Issue costs	(321)	-
Equity component at date of issue	<u>(60)</u>	<u>-</u>
Liability component at date of issue	4,114	-
Effective interest rate adjustment	<u>10</u>	<u>-</u>
Liability component at 31 March	<u>4,124</u>	<u>-</u>