9 March 2015

# Escher Group Holdings plc

## Full year results

Escher Group Holdings plc (AIM: ESCH, 'Escher' or 'the Group'), a world leading provider of outsourced point-of-service software to the postal industry, has published its results for the year ended 31 December 2014.

**Highlights**

- Revenue of US$21.1 million (2013: US$24.7 million)
- Adjusted EBITDA* of US$2.1 million (2013: US$4.2 million)
- Supported a major customer in deployment of software in 2014 resulting in licence revenue of US$2.4m in Q1, 2015 and ongoing maintenance fees
- New contracts signed:
    - Key contract with DPDHL, the largest logistics company in the world, for Enterprise mobility
    - Emirates Post Group, the national postal operator in United Arab Emirates
    - The Royal Gibraltar Post Office
    - Insomnia Coffee Company
- Expanded product offering through investment in new complementary product areas:
    - Enterprise mobility product to access the fast growing logistics industry
    - eMoney product to facilitate benefit payments by postal customers
- Strong retention within existing customer base; renewals of maintenance and support contracts in line with previous years

* Adjusted EBITDA represents operating profit before depreciation, amortisation and share based payments.
% Movements are based on unrounded data, rather than the rounded information presented in this report.

**Liam Church,** Escher's Chief Executive, commented:

***"The underlying business had a solid year. However, the financial results have been affected by delays in certain contracts including the roll out of our software to a major North American customer into the current financial year. This has now been successfully completed and maintenance fees commensurate with the scale of the project will commence from March 2015."***

***"Throughout 2014, we have continued to focus on enhancing relationships with our customers, seeking new customer opportunities and investing in enhancing our product portfolio. Our overall strategic position remains robust as international postal and logistic operators seek to improve interaction with their customers using enhanced digital technologies and mobile capabilities."***

***"The current financial year has started in line with the Board's expectations. Given the quality of Escher's pipeline and current technology set, the Board remains confident about the prospects for 2015 and beyond."***

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**Forward looking statements**

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

## About Escher Group

Escher is a world leading developer and provider of outsourced, point-of-service software for use in the worldwide postal industry. Its core software, RiposteEssential™, enables post offices to expand upon their traditional offering, providing additional new services, reducing costs and increasing efficiency. Riposte® is a messaging middleware that enables applications operating on different computers to communicate with each other. The Riposte® software manages data, monitors the system status and communicates across the network.

The Retail Software Solution (RiposteEssential™) serves the postal and courier markets. Transactions include mail and financial services and the system is integrated with utilities and financial services companies, banks and central and local governments.

Escher's Message Based Communications (RiposteTrEx™) is based on a digital post office box model and is designed to provide a national digital infrastructure linking governments, businesses and citizens via a secure platform. It also provides a secure platform for unlimited communication and collaboration between widely dispersed individuals and groups on a spectrum from global to local.

## Overview

2014 was an important year for Escher. It is clear that the considerable investment Escher has made in developing new products has positioned it well to take advantage of the coming wave of investment from the Postal industry.

The underlying business delivered a solid performance, resulting in revenue of US$21.1 million (2013: US$24.7 million) and generating US$2.1 million adjusted EBITDA* (2013: US$4.2 million), despite the delay in a roll out of a major contract.

In early March 2015, Escher announced that it had recognised the remaining $2.4m licence revenue from a key customer, having achieved the final licence milestone. Maintenance fees, commensurate with the scale of the contract, commenced as of March 2015 for a multi-year period. While Escher had expected this revenue recognition to occur in 2014, the delivery of Escher software to one of the world’s largest postal customers is a strong endorsement of the Group’s technology and Escher anticipates a long and mutually beneficial relationship.

Throughout 2014, Escher continued its investment in new product development for the Postal industry and signed a number of new customer contracts including Emirates Post Group, DPDHL, The Royal Gibraltar Post Office and Insomnia Coffee Company.

At the same time, the Group has reported strong retention within the existing customer base and renewals of maintenance and support contracts in line with previous years.

## Outlook

Many of Escher’s customers are experiencing growth from eCommerce activity and an increase in retail services offsetting declines in letter volumes. This trend is driving Postal organisations to reinvest in technology and physical infrastructure.

With its track record of delivery, strong relationships and expanded product offering in eCommerce, eMoney and digital services areas, Escher is well positioned to benefit from the customer investment in software infrastructure in the coming years.

As the point of service automation supplier of choice for postal organisations across the globe, Escher will continue its drive to penetrate more of this market and to deliver further on the investment in new product development made during 2014.

The Group’s overall strategic position remains robust as international postal and logistic operators seek to improve interaction with their customers using enhanced digital technologies and mobile capabilities. Although sales cycles can be long and the Group experienced some delays in contract signings in 2014, Escher has a good pipeline of new business opportunities and is confident that new customers will be signed during the course of 2015.

The current financial year has started in line with the Board’s expectations. Given the quality of Escher’s pipeline, current technology set and contracted for revenue, the Board remains confident about the prospects for 2015 and beyond.

## Operational review

**Group positioning and postal industry trends**
In 2014, Escher witnessed positive and significant changes in the global postal industry. Coming off a growth year in 2013, the global postal industry saw consumer spending for postal services increase due to an uptake in parcel delivery driven by a rise in eCommerce activity.

eCommerce is also opening a number of new opportunities in terms of cross border deliveries and logistics, including retail and parcel shop expansion for package pick-up and return. Postal operators are becoming more agile and are positioning themselves "closer" to the customer as they continue to embrace Enterprise Mobile and Mobile Commerce technologies.

Led by eCommerce logistics requirements and improving revenues, Postal operators across the globe are now re-evaluating their current business models and taking a digital-first perspective to how they deliver products and services to their customers.

In recent years Escher has positioned itself to be the technology partner of choice for Postal operators and the global postal network offers a tremendous growth opportunity in the provision of innovative and intelligent solutions that meet the changing needs of a digitally connected world.

There is considerable interest in Escher's products amongst Postal operators with legacy retail systems that need to upgrade their existing retail infrastructure to deal with the increasing complex retail services environment and the need to open more channels to market to avail of the growing logistics markets. Escher is already working closely with a number of its key postal operators who have committed to investing in upgrading their retail systems.

Escher has also developed a range of complementary new products, based on its market leading Riposte platform, to address the growing market opportunities with revitalised Posts around the world. The recent contract wins with the South African post office for digital messaging and with DPDHL in Germany for eCommerce demonstrate the quality of the products that the Group has and is developing to support its customers.

**Postal point of service**
Escher continues to be the market-leading vendor of outsourced software to the postal industry with over 35 national postal operators around the world as it expanded its customer base to include Emirates and Gibraltar.

In June 2014, Emirates Post Group, the national postal operator in United Arab Emirates, licenced Escher's market leading Riposte counter automation software. The contract included a five year maintenance agreement to 2019 and confirms Escher as a key supplier of postal automation software to the Middle East.

Emirates Post Group chose Escher's solution to deliver upon its strategy to provide postal services and solutions that match the latest trends in global postal services, with a focus on making post offices one-stop shops offering multiple services throughout their network.

Emirates Post Group joins a growing list of postal operators in the Middle East, who have chosen Escher as their preferred supplier of counter automation technology and expertise and along with Saudi Post underpins Escher's expansion strategy in the Middle East.

Escher's Riposte solution has also been delivered to the Royal Gibraltar Post Office, providing a seamless integrated platform for six years which will enable rapid deployment of additional services in the future.

Escher's customers are continuing to invest in new products and services and other potential customers are considering further infrastructure investment. Roll out with a key customer in North America is proceeding apace and has now resulted in the recognition of the remaining licence fee in 2015.

**Enterprise mobility and ECommerce**
The Group's customers are increasing their focus on digital commerce, which is driving demand for more points of presence, more flexible software solutions and an increasing range of additional services at these access points. These market developments, along with the investment Escher has made in developing an Enterprise mobile capability, gives the Group increasing confidence about its medium-term growth prospects.

2014 saw Escher diversify its product portfolio with a number of new solutions including the Click and Collect, Enterprise Mobile, Assured Identity and eMoney solutions. This has generated considerable interest not only from postal organisations, but also from logistics companies, governments and retailers.

In September DPDHL, a pioneer in this area, contracted for Escher's Enterprise Mobile solution for 15,000 mobile devices across its Paketshop network. This is a significant development for Escher that demonstrates the flexibility of the core Riposte® software platform to be utilised by customers in the rapidly growing and evolving eCommerce market.

DPDHL, the world's leading postal and logistics services group generating revenue of more than €55 billion in 2013, is a long standing Riposte® customer. This innovative solution allows DPDHL to quickly expand its network and the five year subscription licence agreement is based on a minimum of 15,000 mobile devices for DPDHL and allows for further worldwide expansion.

To support the Group's customers, Escher has made significant investments in its Research and Development programs and has a number of enhancements and new product offerings for launch throughout 2015 especially enterprise mobility for DPDHL

**Digital services**
RiposteTrEx is Escher's solution for digital government, allowing citizens, governments and businesses to communicate and transact at any time and from anywhere. RiposteTrEx is a secure, highly scalable, digital post box solution that allows citizens, businesses, governments and international agencies to collaborate securely online. Demand for this product is driven by government and local authorities' need to reduce costs and increase citizen interaction.

In December 2013, the South African Post Office selected the RiposteTrEx platform to deliver its eRegistered mail solution, which has since been delivered. The platform will provide eRegistered mail services to more than 51 million citizens. In addition, Escher is working with local authorities in the UK and Ireland to provide small businesses with a messaging platform to provide eCommerce solutions and payments.

**Interactive services**
Since 2012, Escher has invested in an innovative range of in-store engagement software that enables retailers to offer customer engagement and payments through a mobile wallet and other card based programs. The wallet supports both NFC and QR code based transactions and other technologies such as card emulation, peer-to-peer (P2P) data transfer and iBeacons.

Escher's mobile wallet solutions have been deployed to high street retailers throughout Ireland and the UK. In April of this year, Escher was awarded Best Loyalty System in the highly coveted Visa sponsored Contactless and Mobile Awards in London.

In July 2014, Insomnia signed up for Escher's fully managed service solution for interactive loyalty, coupons, mobile payments to enhance customer engagement and is already live in 40 of its outlets. The innovative, user-friendly product enables Insomnia customers to receive coupons and pay for Insomnia goods at a range of locations nationwide.

The Group has also integrated the mobile technology in its Riposte platform to provide an integrated eMoney solution for benefit payments. Post office customers can receive benefits using an eMoney card that can be used to pay for goods and services at local retailers. This innovative solution combining Escher's technologies has applicability for Escher's other Post office customers.

## Financial review

**Revenue**
Revenue for the year ended 31 December 2014 was US$21.1 million (2013: US$24.7 million) which reflects the slower implementation and roll out of a substantial contract in North America. In addition to licence revenue, this delay impacted software development and consulting services revenue.

In March 2015, Escher announced that it had recognised the remaining $2.4m licence revenue from a key customer of the Group, having achieved the final licence milestone. Maintenance fees have commenced from March 2015 for a multi-year period.

Services revenue reduced as the customer transitioned from software customisation services to support services for the roll-out phase which commenced towards the end of 2014.

| **Analysis of revenue by category** | 2014 | 2013 | Change | Contribution to Group |
|---|---|---|---|---|
| | US$m | US$m | % | % |
| Software development and consulting services | 7.9 | 11.7 | (32) | 37 |
| Software licences | 5.2 | 5.1 | 2 | 25 |
| Maintenance | 5.7 | 5.4 | 7 | 27 |
| Support | 2.3 | 2.5 | (11) | 11 |
| Total | 21.1 | 24.7 | (14) | 100 |

Licence revenue was US$5.2 million (2013: US$5.1 million) as the North America customer continued to make licence payments in line with its agreement. The other main licence fee recognised during the year was from the Emirates Post Group.

Maintenance revenue increased 7%, or US$0.3 million, resulting from contract renegotiations and maintenance periods coming into effect for customers for the first time.

Revenue from support at US$2.3 million (2013: US$2.5 million) reflects one customer's contract renegotiation which was partially offset by new support revenue from other customers.

**Gross profit**
Gross profit was US$12.9 million (2013: US$15.2 million). The gross profit margin remained unchanged at 61%. The gross profit margin for licence, maintenance and support remained in line with prior years

**Operating expenses/profit**

| **Analysis of operating expenses by category** | 2014 | 2013 | Increase/ (decrease) |
|---|---|---|---|
| | US$m | US$m | % |
| Research and development | 2.9 | 2.8 | 4 |
| Sales and marketing | 4.6 | 4.8 | (5) |
| Administrative expenses | 5.3 | 5.5 | (4) |
| Total | 12.8 | 13.1 | (2) |

Operating expenses reduced by US$0.3 million to US$12.8 million. Decreases in sales and marketing and administrative expenses were partially offset by an increase of US$0.1 million in research and development (R&D). R&D increased from 11% of revenue to 14% of revenue. R&D expenses included an R&D tax credit of US$0.6m (2013: US$0.8m). Excluding the R&D tax credit, R&D spend as a percentage of revenue increased from 15% to 17% reflecting the Group's continued investment in new technologies such as Enterprise Mobile.

Both administration expenses and sales and marketing spend were reduced by US$0.2 million, reflecting prudent cost management.

The Group capitalised US$2.2 million of R&D costs (2013: US$2.7 million), gross of government grants of US$0.1 million (2013: US$ 0.5m) in respect of internally generated intangible assets. The amortisation charge for these intangible assets was US$1.2m (2013: US$1.1m). The split between the projects and the amortisation charges are as follows:

| | 2014 | 2013 |
|---|---|---|
| | US$'000 | US$'000 |
| Enterprise Mobile Capitalised Cost | 631 | 282 |
| Enterprise Mobile Amortisation | - | - |
| Riposte Capitalised Cost | 497 | 1,456 |
| Riposte Amortisation | (308) | (274) |
| RiposteTrEx Capitalised Cost | 1,092 | 927 |
| RiposteTrEx Amortisation | (845) | (836) |
| **Net impact on the income statement** | **1,067** | **1,555** |

**Operating profit and Adjusted EBITDA**
Adjusted EBITDA is US$2.1 million (2013: US$4.2 million), reflecting the reduction in revenue which was partially offset by the reduction in costs. Adjusted EBITDA represents operating profit before depreciation, amortisation and share based payments.

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| Operating profit | 116 | 2,050 |
| Add back: | | |
| Depreciation | 519 | 488 |
| Amortisation | 1,153 | 1,110 |
| EBITDA | 1,788 | 3,648 |
| Share based payment | 278 | 562 |
| Adjusted EBITDA | 2,066 | 4,210 |

**Net finance expense**
Net finance expense is unchanged at US$0.6 million. The amortisation charge for deferred financing costs for 2014 was US$0.1 million (2013: US$0.2 million). The decrease in the deferred finance charge relates to the initial finance charge being fully amortised and a reduction in the subsequent finance charges.

**Results before tax**
The loss before tax is US$0.5million (2013: profit before tax US$1.5 million). Adjusted loss before tax excluding share based payments is US$0.2 million (2013: adjusted profit before tax US$2.0 million).

**Income tax expense**
Income tax is US$0.5million (2013: US$0.6 million). Included in the income tax expense is a fixed tax charge of US$0.3 million (2013: US$0.3 million) related to the final phase of the Group's corporate restructuring. Excluding this fixed tax charge, the tax charge is US$0.2 million, the majority of which is withholding tax on invoices issued to certain jurisdictions. There will be no fixed tax charge in 2015 and this will result in a lower effective tax rate for the Group going forward.

**Earnings per share**
The Group reported a basic loss per share (LPS) of US$5.3 cents per share (2013: earnings US$4.9 cents per share). Diluted LPS for 2014 was US$5.3 cents compared to earnings of US$4.8 cents in the prior year.

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

**Cash flow and net debt**
Net debt at 31 December 2014 was US$5.3 million (2013: US$2.3 million). Cash at the end of 2014 was US$5.7 million (2013: US$6.7 million) and borrowings were US$11.0 million (2013: US$9.0 million).

Net cash used in operations is US$0.8 million (2013: net cash generated US$3.1 million). The year-on-year movement mainly relates to the lower Adjusted EBITDA, which was partially offset by the movement in trade and other payables due to the decrease in the salary and bonus accrual.

Net cash generated from financing activities is US$2.0 million compared to cash used in financing activities of US$1.3 million in 2013. Scheduled loan repayments totalling US$1.0 million (2013: US$3.3 million) were offset by a drawdown of US$3.0m of the revolving credit facility (2013: nil).

**CONSOLIDATED INCOME STATEMENT**
Extract from our audited results for the year ended 31 December 2014
**For the Year Ended 31 December 2014**

| | Notes | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| Revenue | 1 | 21,147 | 24,699 |
| Cost of sales | 2 | (8,223) | (9,530) |
| **Gross profit** | | 12,924 | 15,169 |
| Operating expenses | 2 | (12,808) | (13,119) |
| **Operating profit** | | 116 | 2,050 |
| Finance income | 4 | 14 | 40 |
| Finance costs | 4 | (600) | (610) |
| **Net finance costs** | | (586) | (570) |
| (Loss)/profit before income tax | | (470) | 1,480 |
| Income tax expense | 5 | (525) | (561) |
| **(Loss)/profit for the year** | | (995) | 919 |
| **Earnings per share (in US$ cent per share)** | 17 | | |
| - Basic | | (5.3) | 4.9 |
| - Diluted | | (5.3) | 4.8 |

| **Reconciliation of EBITDA and adjusted EBITDA** | | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| **Operating profit** | | 116 | 2,050 |
| Depreciation | 6 | 519 | 488 |
| Amortisation | 7 | 1,153 | 1,110 |
| **EBITDA** | | 1,788 | 3,648 |
| Share options expense | 2 | 278 | 562 |
| **Adjusted EBITDA** | | 2,066 | 4,210 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the Year Ended 31 December 2014**

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| (Loss)/profit for the year | (995) | 919 |
| **Other comprehensive income:** | | |
| **Items that may be reclassified to the income statement** | | |
| Currency translation differences | (932) | 450 |
| **Total comprehensive income for the year** | (1,927) | 1,369 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
Extract from our audited results for the year ended 31 December 2014
**For the Year Ended 31 December 2014**

| Assets | Notes | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 722 | 1,013 |
| Intangible assets | 7 | 37,267 | 36,992 |
| Deferred income tax assets | 5 | 730 | 721 |
| | | 38,719 | 38,726 |
| **Current assets** | | | |
| Trade and other receivables | 9 | 10,515 | 9,715 |
| Cash and cash equivalents | 10 | 5,720 | 6,712 |
| | | 16,235 | 16,427 |
| **Total assets** | | 54,954 | 55,153 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 14 | 128 | 128 |
| Share premium | 14 | 26,909 | 26,899 |
| Other reserves | | 1,268 | 1,922 |
| Retained earnings | | 7,126 | 8,121 |
| **Total equity** | | 35,431 | 37,070 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | 6,766 | 7,630 |
| Deferred income tax liabilities | 5 | 49 | 634 |
| Provisions for other liabilities and charges | | 23 | 24 |
| | | 6,838 | 8,288 |
| **Current liabilities** | | | |
| Borrowings | 12 | 3,866 | 865 |
| Trade and other payables | 11 | 8,091 | 8,897 |
| Current income tax liabilities | | 728 | 33 |
| | | 12,685 | 9,795 |
| **Total liabilities** | | 19,523 | 18,083 |
| **Total equity and liabilities** | | 54,954 | 55,153 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
Extract from our audited results for the year ended 31 December 2014
**For the Year Ended 31 December 2014**

| | Equity share capital | Share Premium | Cumulative foreign translation reserve | Share based payment reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Balance at 1 January 2013** | 128 | 26,899 | (499) | 1,379 | 7,202 | 35,109 |
| Profit for the financial year | - | - | - | - | 919 | 919 |
| Other comprehensive income | - | - | 450 | - | - | 450 |
| Total comprehensive income for the year | - | - | 450 | - | 919 | 1,369 |
| Share based payments | - | - | - | 592 | - | 592 |
| **Balance at 1 January 2014** | **128** | **26,899** | **(49)** | **1,971** | **8,121** | **37,070** |
| Loss for the financial year | - | - | - | - | (995) | (995) |
| Other comprehensive income | - | - | (932) | - | - | (932) |
| Total comprehensive income for the year | - | - | (932) | - | (995) | (1,927) |
| Share based payments | - | - | - | 278 | - | 278 |
| Shares issued under options | - | 10 | - | - | - | 10 |
| **Balance at 31 December 2014** | **128** | **26,909** | **(981)** | **2,249** | **7,126** | **35,431** |

**CONSOLIDATED STATEMENT OF CASH FLOWS**
Extract from our audited results for the year ended 31 December 2014
**For the Year Ended 31 December 2014**

| | Notes | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash (used in)/generated from operations | 13 | (232) | 4,049 |
| Interest received | | 3 | 9 |
| Interest paid | | (445) | (410) |
| Income tax paid | | (197) | (996) |
| R&D tax credit received | | 62 | 458 |
| Net cash (used in)/generated from operating activities | | (809) | 3,110 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 6 | (258) | (541) |
| Additions to intangible assets | 7 | (2,220) | (2,665) |
| Government grant received | | 348 | 236 |
| Net cash used in investing activities | | (2,130) | (2,970) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 12 | (1,000) | (3,342) |
| Proceeds from borrowings | 12 | 3,000 | 2,317 |
| Borrowing costs | | - | (225) |
| Net cash generated/(used in) from financing activities | | 2,000 | (1,250) |
| Net decrease in cash and cash equivalents | | (939) | (1,110) |
| Cash and cash equivalents at beginning of year | | 6,712 | 7,828 |
| Foreign exchange adjustments | | (53) | (6) |
| Net decrease in cash and cash equivalents | | (939) | (1,110) |
| **Cash and cash equivalents at end of year** | 10 | 5,720 | 6,712 |

Selected accounting policies applied in the preparation of this consolidated financial information are as follows:

**Basis of preparation**

The financial information contained in this preliminary results statement has been extracted from the Group financial statements for the year ended 31 December 2014 and is presented in US$, rounded to the nearest thousand. The financial information does not include all the information and disclosures required in the annual financial statements. The Group financial statements for the year ended 31 December 2014 have been prepared in EU-adopted IFRS and were approved by the Board of Directors on 6 March 2015. The accounting policies used in preparing the group financial statements for 31 December 2014 are consistent with those applied in the prior year. The 2014 Annual Report will be distributed to shareholders and made available on the Company's website www.eschergroup.com. It will also be filed with the Companies Registration Office. The auditors have reported on the financial statements for the year ended 31 December 2014 and their report was unqualified.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1 Segment Information

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

The Board assess the performance of the segment based primarily on measures of revenues, adjusted EBITDA and profit before tax. Adjusted EBITDA is used as it is an industry-wide standard and it is calculated using operating profit before non-cash share based payments, interest, tax, depreciation on property plant and equipment and amortisation of intangible assets. These revenues derive from the following main sources:

| **Analysis of revenue by category** | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| Software development and consulting services | 7,880 | 11,616 |
| Software licences | 5,231 | 5,129 |
| Maintenance | 5,760 | 5,408 |
| Support | 2,276 | 2,546 |
| | 21,147 | 24,699 |

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

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| Ireland | 382 | 337 |
| UK | 476 | 221 |
| Other Europe | 4,956 | 4,736 |
| North & Latin America | 7,774 | 10,998 |
| Asia-Pacific region | 3,584 | 3,314 |
| Africa & Middle East | 3,975 | 5,093 |
| | 21,147 | 24,699 |

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

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

| | 2014<br>% | 2013<br>% |
|---|---|---|
| Customer A | 35% | 40% |
| Customer B | 13% | 10% |
| **% of total reported revenues** | 48% | 50% |

The total of non-current assets other than deferred income tax assets located in the Republic of Ireland is US$6.8m (2013: US$6.7m), and the total of non-current assets located in other countries is US$31.2m (2013: US$31.4m).

## 2 Expenses by nature

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| Employee benefit expense (note 3) | 9,877 | 10,238 |
| Rental & utilities expense | 1,179 | 1,178 |
| Travel costs | 979 | 1,260 |
| Consulting and contractors expense | 2,008 | 3,355 |
| Insurance | 685 | 634 |
| Loss on foreign exchange | 283 | 351 |
| Legal fees | 322 | 218 |
| Direct selling and marketing costs | 601 | 670 |
| Depreciation (note 6) | 519 | 488 |
| Amortisation of intangible assets (note 7) | 1,153 | 1,110 |
| Data communications | 442 | 379 |
| Professional fees | 901 | 568 |
| Directors' remuneration | 1,452 | 1,638 |
| Provision for impaired receivables | (5) | - |
| Other expenses | 635 | 562 |
| Total | 21,031 | 22,649 |
| | | |
| Analysed as: | | |
| Cost of sales | 8,223 | 9,530 |
| Research and development | 2,923 | 2,806 |
| Sales and marketing | 4,613 | 4,839 |
| Administrative expenses | 5,272 | 5,474 |
| Total | 21,031 | 22,649 |

*(a) The profit on ordinary activities before taxation, all of which arises from continuing operations, is stated after charging:*

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Directors' remuneration | | |
| Emoluments: | | |
| - for services as Directors | 264 | 264 |
| - for other services | 1,188 | 1,374 |
| | 1,452 | 1,638 |

## 3 Employee benefit expense

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Wages and salaries | 11,187 | 11,822 |
| Social welfare costs | 348 | 188 |
| Pension costs – defined contribution scheme | 318 | 262 |
| | 11,853 | 12,272 |
| Capitalised labour | (2,200) | (2,492) |
| | 9,653 | 9,780 |
| Employee share based payments (see note 15) | 224 | 458 |
| | 9,877 | 10,238 |

Total share based payments for the period amounted to US$278,000 (2013: US$562,000) of which US$224,000 (2013: US$458,000) disclosed above, related to employees excluding Directors. US$54,000 (2013: US$104,000) related to Directors' remuneration (see note 2).

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

| | 2014 Number | 2013 Number |
|---|---|---|
| Development | 115 | 121 |
| Selling and distribution | 25 | 25 |
| Administration | 24 | 20 |
| | 164 | 166 |

The number of persons employed by the Group (including executive Directors) at 31 December 2014 was 152 (2013: 169).

The Group operates a number of defined contribution pension schemes in which the majority of Group employees participate. The assets of these schemes are held separately from those of the Group in independently administrated funds. The pension charge represents contributions payable by the Group to the schemes and amounted to US$318,000 for employees excluding Directors in respect of 2014 (2013: US$262,000), of which US$75,000 was accrued at the year-end (2013: US$90,000).

## 4 Finance income and costs

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| **Finance income** | | |
| Interest income | 14 | 40 |
| **Finance costs** | | |
| Interest on bank borrowings | (436) | (443) |
| Amortisation of deferred financing costs | (137) | (167) |
| Finance charges | (27) | - |
| | (600) | (610) |
| **Net finance costs** | (586) | (570) |

## 5 Income tax expense

*(a) Recognised in the income statement*

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Current income tax: | | |
| Irish corporation tax at 12.5% | 21 | 248 |
| Foreign corporation tax | 1,042 | 315 |
| Adjustments in respect of current income tax of previous years | 56 | 54 |
| Total current tax | 1,119 | 617 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (594) | (56) |
| Total income tax charge recognised in the income statement | 525 | 561 |

| The tax charge in the income statement for the year differs from the standard rate of corporation tax in the Republic of Ireland of 12.5%. The differences are reconciled below: | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| (Loss)/profit before taxation | (470) | 1,480 |
| Tax calculated at the Irish standard rate of corporation tax of 12.5% | (59) | 185 |
| *Effects of:* | | |
| Income taxable at higher rates in other jurisdictions | 331 | 203 |
| Dividend fiscal charge | 88 | 317 |
| Expenses not deductible for tax purposes | 27 | 20 |
| R&D tax credit – non-taxable | (76) | (95) |
| Other adjustments | 17 | (215) |
| Foreign withholding tax suffered | 141 | 92 |
| Adjustment in respect of current income tax of previous years | 56 | 54 |
| Total income tax charge | 525 | 561 |

*(c) Deferred tax*

Arising from temporary trading conditions a subsidiary of the Group incurred a loss in 2014. The Group recognised a deferred tax asset in relation to those losses in the current year of $226,000 on the basis that it is expected that taxable income will arise in future years in the subsidiary in which the taxable losses arose, and these unused tax losses can be utilised against this future income. The Group has no material unrecognised deferred tax assets at 31 December 2014 (2013: nil).

The deferred tax included in the statement of financial position is as follows:

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Trade losses carried forward | 226 | - |
| Foreign R&D tax credits | 181 | 255 |
| Unrealised foreign exchange transactions | - | 63 |
| Intangible assets | - | 139 |
| Share options | 228 | 178 |
| Other | 95 | 86 |
| | 730 | 721 |

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| **Deferred tax liabilities** | | |
| Foreign dividend payable | - | 634 |
| Unrealised foreign exchange transactions | 49 | - |
| | 49 | 634 |

The movement in the deferred tax during the financial year is as follows:

| | 1 January 2013<br>US$'000 | Recognition in income statement credit/(charge)<br>US$'000 | 31 December 2013<br>US$'000 |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Unrealised foreign exchange transactions | 17 | 46 | 63 |
| Foreign R&D tax credits | 271 | (16) | 255 |
| Intangible assets | - | 139 | 139 |
| Share options | - | 178 | 178 |
| Other | 29 | 57 | 86 |
| | 317 | 404 | 721 |

| | 1 January 2014 US$'000 | Recognition in income statement credit/(charge) US$'000 | 31 December 2014 US$'000 |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Trade losses carried forward | - | 226 | 226 |
| Unrealised foreign exchange transactions | 63 | (63) | - |
| Foreign R&D tax credits | 255 | (74) | 181 |
| Intangible assets | 139 | (139) | - |
| Share options | 178 | 50 | 228 |
| Other | 86 | 9 | 95 |
| | 721 | 9 | 730 |

| | 1 January 2013 US$'000 | Recognition in income statement charge US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Foreign intercompany dividends payable | (317) | (317) | (634) |
| | (317) | (317) | (634) |

| | 1 January 2014 US$'000 | Recognition in income statement credit/(charge) US$'000 | 31 December 2014 US$'000 |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Foreign intercompany dividends payable | (634) | 634 | - |
| Unrealised foreign exchange transactions | - | (49) | (49) |
| | (634) | 585 | (49) |

| 6 Property, plant and equipment | Computer equipment US$'000 | Fixtures and fittings US$'000 | Equipment US$'000 | Leasehold improvements US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 31 December 2012 | 2,534 | 748 | 170 | 206 | 3,658 |
| Additions | 277 | 165 | 37 | 56 | 535 |
| Exchange differences | 6 | (5) | - | (4) | (3) |
| At 31 December 2013 | 2,817 | 908 | 207 | 258 | 4,190 |
| At 31 December 2013 | 2,817 | 908 | 207 | 258 | 4,190 |
| Additions | 135 | 11 | 112 | - | 258 |
| Disposals | (1,406) | (407) | (42) | (31) | (1,886) |
| Exchange differences | (54) | (17) | (13) | (4) | (88) |
| At 31 December 2014 | 1,492 | 495 | 264 | 223 | 2,474 |
| **Accumulated depreciation** | | | | | |
| At 31 December 2012 | (1,998) | (440) | (97) | (153) | (2,688) |
| Charge for the year | (328) | (98) | (35) | (27) | (488) |
| Exchange differences | (5) | - | - | 4 | (1) |
| At 31 December 2013 | (2,331) | (538) | (132) | (176) | (3,177) |
| At 31 December 2013 | (2,331) | (538) | (132) | (176) | (3,177) |
| Charge for the year | (348) | (89) | (51) | (31) | (519) |
| Disposals | 1,406 | 407 | 42 | 31 | 1,886 |
| Exchange differences | 42 | 7 | 4 | 5 | 58 |
| At 31 December 2014 | (1,231) | (213) | (137) | (171) | (1,752) |
| **Net book value** | | | | | |
| At 31 December 2012 | 536 | 308 | 73 | 53 | 970 |
| At 31 December 2013 | 486 | 370 | 75 | 82 | 1,013 |
| At 31 December 2014 | 261 | 282 | 127 | 52 | 722 |

Depreciation of US$282,000 (2013: US$270,000) has been charged in administrative expenses and US$237,000 (2013: US$218,000) in cost of sales in the income statement.

## 7 Intangible assets

| | Goodwill | RiposteTrEx | Riposte | Total |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Cost** | | | | |
| At 31 December 2012 | 30,870 | 3,560 | 2,346 | 36,776 |
| Additions | - | 927 | 1,738 | 2,665 |
| Government grants | - | (512) | - | (512) |
| Exchange differences | 244 | - | - | 244 |
| At 31 December 2013 | 31,114 | 3,975 | 4,084 | 39,173 |
| At 31 December 2013 | 31,114 | 3,975 | 4,084 | 39,173 |
| Additions | - | 1,092 | 1,128 | 2,220 |
| Government grants | - | (72) | - | (72) |
| Exchange differences | (715) | (4) | (1) | (720) |
| At 31 December 2014 | 30,399 | 4,991 | 5,211 | 40,601 |
| **Accumulated amortisation** | | | | |
| At 31 December 2012 | - | (1,030) | (41) | (1,071) |
| Charge for the year | - | (836) | (274) | (1,110) |
| At 31 December 2013 | - | (1,866) | (315) | (2,181) |
| At 31 December 2013 | - | (1,866) | (315) | (2,181) |
| Charge for the year | - | (845) | (308) | (1,153) |
| At 31 December 2014 | - | (2,711) | (623) | (3,334) |
| **Net book value** | | | | |
| At 31 December 2012 | 30,870 | 2,530 | 2,305 | 35,705 |
| At 31 December 2013 | 31,114 | 2,109 | 3,769 | 36,992 |
| At 31 December 2014 | 30,399 | 2,280 | 4,588 | 37,267 |

Of the additions of US$2,220,000 (2013: US$2,665,000), gross of government grants, US$2,200,000 (2013: US$2,492,000) relate to capitalised labour (see note 3). The remaining amount, US$20,000 (2013: US$173,000), relates to capitalised professional fees.

Amortisation of US$0.85m (2013: US$0.84m) on RiposteTrEx and amortisation of US$0.31m (2013: US$0.27m) on Riposte is included in operating costs in the income statement. With the exception of RiposteTrEx and some of the Riposte products, these products are still in the development phase and no amortisation has occurred. The average remaining amortisation period of the RiposteTrEx development is 27 months (2013: 27 months). In the year there was US$1.7m (2013: US$1.7m) of research and development expenditure (excluding amortisation) recognised as an expense in the income statement as the state of completion was not viewed as being sufficiently developed to warrant capitalisation.

## 8 Government Grants

Government Grants of US$72,000 (2013: US$512,000) were recognised in the year and were netted against the development cost of the related intangible assets. For further details please see Note 7.

## 9 Trade and other receivables

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Trade receivables | 5,361 | 5,301 |
| Less provision for impaired receivables | (228) | (233) |
| Trade receivable - net | 5,133 | 5,068 |
| Accrued income | 3,378 | 2,813 |
| Prepayments | 974 | 708 |
| Other receivables | 215 | 517 |
| Recoverable taxes | 815 | 609 |
| | 10,515 | 9,715 |

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

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

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

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Neither impaired nor past due | 1,682 | 2,446 |
| Less than 30 days past due | 1,685 | 1,252 |
| Between 31-60 days past due | 1,182 | 728 |
| More than 90 days past due | 584 | 642 |
| Impaired | 228 | 233 |
| | 5,361 | 5,301 |

As of 31 December 2014, trade receivables of US$1,682,000 (2013: US$2,446,000) were fully performing.

As of 31 December 2014, trade receivables of US$3,451,000 (2013: US$2,622,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

As of 31 December 2014, trade receivables of $228,000 (2013: US$233,000) were impaired. The individually impaired receivables mainly relate to two customers.

(b) The majority of the Group's customers operate within the postal service industry, primarily representing national post offices. As at 31 December 2014, a significant portion of the trade receivables of the Group related to four customers (2013: three customers) as follows:

| | 2014 % | 2013 % |
|---|---|---|
| Customer A | 22% | 8% |
| Customer B | 21% | 1% |
| Customer C | 10% | 25% |
| Customer D | 10% | 10% |
| Customer E | 2% | 16% |

## 10 Cash and cash equivalents

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Cash at banks and in hand | 5,720 | 6,712 |

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

The Group's currency exposure is set out below. Such exposure comprises the cash and cash equivalents of the Group that are denominated other than in US dollars. As at 31 December 2014 these exposures were as follows:

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| **Non-US Dollar denominated cash balances** | | |
| Euro | 2,385 | 3,198 |
| Sterling | 103 | 110 |
| Singapore dollar | 305 | 122 |
| South African Rand | 25 | 22 |
| Total non-US Dollar | 2,818 | 3,452 |

## 11 Trade and other payables

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Trade payables | 994 | 1,256 |
| Amounts owed to subsidiaries | - | - |
| Other creditors and accruals | 1,692 | 2,062 |
| Deferred revenue | 5,405 | 5,579 |
| | 8,091 | 8,897 |

## 12 Borrowings

| | Book value 2014 US$'000 | Book value 2013 US$'000 | Fair value 2014 US$'000 | Fair value 2013 US$'000 |
|---|---|---|---|---|
| **Non-current liabilities** | | | | |
| Bank loans | 7,000 | 8,000 | 7,005 | 7,949 |
| Deferred financing costs | (234) | (370) | (234) | (370) |
| **Borrowings** | 6,766 | 7,630 | 6,771 | 7,579 |
| **Current liabilities** | | | | |
| Bank loans | 4,000 | 1,000 | 4,000 | 1,000 |
| Deferred financing costs | (134) | (135) | (134) | (135) |
| **Borrowings** | 3,866 | 865 | 3,866 | 865 |
| **Total borrowings** | 10,632 | 8,495 | 10,637 | 8,444 |

On 9 October 2013, the Group agreed a revised banking facility with Bank of Ireland Corporate Banking comprising a US$9.0 million five year term loan facility and a revolving twelve-month facility for US$3.0 million, which was fully drawn at year end (2013: undrawn). The amended term loan is amortising to October 2018.

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

**Maturity of financial borrowings**
The maturity profile of the carrying amount of the Group's borrowings is set out below.

| | Within 1 year US$'000 | Between 1 & 2 years US$'000 | Between 2 & 5 years US$'000 | After 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Bank loans | 1,000 | 1,000 | 7,000 | - | 9,000 |
| Deferred financing | (135) | (135) | (235) | - | (505) |
| **Borrowings at 31 December 2013** | 865 | 865 | 6,765 | - | 8,495 |
| Bank loans | 4,000 | 1,000 | 6,000 | - | 11,000 |
| Deferred financing | (134) | (134) | (100) | - | (368) |
| **Borrowings at 31 December 2014** | 3,866 | 866 | 5,900 | - | 10,632 |

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

## 13 Cash generated from operations

| | 2014<br>US$'000 | 2013<br>US$'000 |
|---|---|---|
| **(Loss)/profit before tax** | (470) | 1,480 |
| **Adjustments for** | | |
| Depreciation | 519 | 488 |
| Amortisation of intangible assets | 1,153 | 1,110 |
| Amortisation of deferred financing | 137 | 167 |
| Finance income | (14) | (40) |
| Finance costs | 463 | 443 |
| Employee share based payments | 278 | 562 |
| Effect of foreign exchange | (283) | (169) |
| **Changes in working capital** | | |
| Increase in trade and other receivables | (1,050) | (1,184) |
| (Decrease)/increase in trade and other payables | (965) | 1,192 |
| **Cash (used in)/generated from operations** | (232) | 4,049 |

## 14 Share capital and share premium

| | Number of Ordinary shares | Ordinary shares<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|
| **Authorised share capital** | | | |
| *Equity share capital* | | | |
| At 1 January 2013, 31 December 2013 and 31 December 2014 | | | |
| A ordinary shares of €0.005 each | 201,000,000 | 1,395 | 1,395 |

| **Issued share capital** | Number of shares | Equity share capital<br>US$'000 | Share premium<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| A ordinary shares of €0.005 each | | | | |
| At 1 January 2013 | 18,633,096 | 128 | 26,899 | 27,027 |
| Shares issued during the year | 21,797 | - | - | - |
| At 31 December 2013 | 18,654,893 | 128 | 26,899 | 27,027 |
| Shares issued during the year | 34,177 | - | 10 | 10 |
| At 31 December 2014 | 18,689,070 | 128 | 26,909 | 27,037 |

During 2014, 34,177 shares (2013: 21,797) were issued during the year as part of the Group's share-based payments scheme. For further details please see note 15.

## 15 Share-based payments

During 2014, the Group did not grant any share options. In 2013, 267,742 options were granted through its share option scheme to Directors and to selected employees. The exercise price of the options granted in 2013 was set at £2.525. The options vest at various stages over three years. The options are conditional on the employee remaining in the Company's employment at the vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The first vesting date of options granted in 2013 was April 2014.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Average exercise price in US$ per share option | Options | Average exercise price in US$ per share option | Options |
| At 1 January | 1.942 | 543,274 | 0.007 | 310,071 |
| Granted | - | - | 3.887 | 267,742 |
| Forfeited | 2.634 | (24,002) | 0.930 | (12,742) |
| Exercised | 0.554 | (34,177) | 0.007 | (21,797) |
| At 31 December | 1.956 | 485,095 | 1.942 | 543,274 |

Out of the 485,095 outstanding options (2013: 543,247 options), 226,534 options (2013: 83,912) were exercisable at 31 December 2014.

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

| **Grant - vest** | Expiry date – 1 January | Exercise price in US$ per share options | Share options 2014 | Share options 2013 |
|---|---|---|---|---|
| 2012-15 | 2013 | 0.007 | 72,570 | 83,912 |
| | 2014 | 0.007 | 75,404 | 97,333 |
| | 2015 | 0.007 | 93,491 | 97,333 |
| 2013-16 | 2014 | 3.887 | 78,560 | 88,232 |
| | 2015 | 3.887 | 82,535 | 88,232 |
| | 2016 | 3.887 | 82,535 | 88,232 |
| | | | 485,095 | 543,274 |

For options granted in 2013, the weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was US$1.39 per option. The significant inputs into the model were weighted average share price of US$3.85 at the grant date, exercise price shown above, dividend yield of nil, an expected option life of five years; volatility of 32.42% based on the past movement in the share price and an annual risk-free interest rate of 4.25%. See note 2 for the total expense recognised in the income statement for share options granted to Directors and employees.

## 16 Subsequent events

There were no significant subsequent events since 31 December 2014.

## 17 Earnings per share

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

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

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

| | 2014 | 2013 |
|---|---|---|
| | US$'000 | US$'000 |
| **(Loss)/profit attributable to ordinary shareholders** | (995) | 919 |
| | Number | Number |
| **Weighted average number of shares used in basic EPS** | 18,682,012 | 18,647,324 |
| Effects of: | | |
| Employee share options | - | 543,274 |
| **Weighted average number of shares used in diluted EPS** | 18,682,012 | 19,190,598 |
| Basic (loss)/earnings per share (in US$ cent per share) | (5.3) | 4.9 |
| Diluted (loss)/earnings per share (in US$ cent per share) | (5.3) | 4.8 |