

10 March 2014

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 2013.

Highlights

- 8% revenue growth, to US\$24.7 million (2012: US\$23.0 million)
- Strong increase in services revenues, up 35% from core customers
- Saudi Post expanded its licenses during 2013 to cover its entire post office network
- Delivered software and services to USPS – currently supporting its deployment exercise
- Significant investment in new product areas now beginning to generate contract wins:
 - RiposteTrEx™ platform won its first tender with South African Post Office
 - Interactive Services won its first NFC payments contract
 - Loyalty and couponing deal win with international food retail chain, Just Falafel
- Two important patents granted for RiposteTrEx's™ underlying technology
- Adjusted EBITDA* of US\$4.2 million (2012: US\$6.4 million)
- Renegotiated bank debt extending the Group's facilities to October 2018 reducing annual capital repayments

* 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:

"This has been a robust year of development and growth. All those customers which had contracts expiring during 2013 renewed them, with contract expansions in some instances. This is a great endorsement of the excellence and consistent performance of our solutions."

"Our investment in the diversification of our technology offering has already resulted in some early wins. We are now focused on building on these successes and addressing the potential for our products and services in new industries."

"With the strong quality of our pipeline and technology, we are confident about the prospects for 2014 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 postal industry worldwide. 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. Escher operates across three divisions - its Retail Software Division, its Digital Services Division and its Interactive Services Division.

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 Digital Services Division (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.

Escher's Interactive Service Division has a range of in-store engagement software for loyalty, couponing and payment.

Overview

Escher Group delivered a solid performance in 2013, resulting in an 8% increase in revenue over the prior year, generating US\$4.2m adjusted EBITDA* (2012: US\$6.4 million). Escher's postal point of service business performed strongly with services revenues increasing following new contract wins in 2012. During 2013, there were also a number of contract renewals and extensions with customers including An Post, Posten Norge, Saudi Post, Brunei Post and Israel Post.

In October 2013, the Group revised its expectation of when it would recognise license revenue from a particular customer. Whilst Escher had delivered the required software, the customer had not yet deployed the software to a sufficient number of workstations to trigger full license payment by year end. The Group continues to believe that this can be achieved in the first half of 2014. Escher remains pleased with progress on this project and the Group is supporting the customer through its large and complex software deployment exercise.

Escher continues to invest in its Digital and Interactive Services businesses, which provide retail/mobile, digital government and community based message solutions. These solutions are now gaining traction with customers. In December 2013, the South African Post Office selected the RiposteTrEx™ platform to deliver its eRegistered mail solution following a rigorous tender process. In July 2013, Escher signed its first contract to provide peer-to-peer mobile payments for an Irish restaurant chain.

The Group's development of these new product areas is reinforced by the grant of two new patents in the US and Singapore, covering the RiposteTrEx™ platform for digital messaging and mailbox services. These add to Escher's growing intellectual property portfolio.

Importantly, Escher has continued this investment while maintaining control on its costs and cash flow. During the year adjusted EBITDA* was US\$4.2m and the Group renegotiated its bank debt to reduce the annual capital repayments. Net debt was US\$2.3m at 31 December 2013. This strong financial position, along with a significant amount of revenue already contracted for in 2014, puts Escher in a strong position going forward.

Current trading and outlook

The market for Escher's products is characterised by investment:

- Postal operators are investing in physical networks
- Postal operators are investing in retail and financial services to diversify revenue streams
- Governments are investing in post offices as a front office for government service;
- Governments are investing in public digital infrastructure
- Local governments, cities and mobile infrastructure players are investing in public digital services
- Retailers are investing in loyalty and couponing systems to acquire and retain customers and reduce transaction costs

With its track record of delivery, strong relationships and expanded product offering in these areas, Escher is well positioned to benefit from the significant investment in software infrastructure in the coming years. As the point

of service automation supplier of choice for postal organisations across the globe, the Group will continue its drive to penetrate more of this market and to deliver further on the investments made during 2013.

Although lead times are long, the Group has been in contact with several postal organisations for some time and is confident that new customers will be signed during the course of 2014.

The new digital services and interactive retail markets are developing well and the pipeline of opportunities has expanded significantly over the last 12 months. The South Africa Post Office contract win is the start of the commercialisation of this opportunity and proof of the emerging demand for these services. Escher's Interactive Services have also developed a range of technologies including NFC to enable the identification of mobile phones, which has led to an increase in the number of opportunities in the market. Given the quality of the Group's pipeline and current technology set, Escher remains confident about the prospects for 2014 and beyond.

Financial review

Revenue

Revenue for the year increased by 8%, or US\$1.7 million, to US\$24.7 million (2012: US\$23.0 million). The increase is mainly due to a 35% increase in software development and consulting services revenue from Pos Malaysia and the United States Postal Service (USPS). It should be noted that the delay of approximately US\$6m of license revenue from 2013 to 2014 also had a significant impact on licensed revenue and EBITDA for 2013.

Analysis of revenue by category	2013	2012	Change	Contribution to Group
	US\$m	US\$m	%	%
Software development and consulting services	11.7	8.7	35%	47%
Software licenses	5.1	6.3	(19%)	21%
Maintenance	5.4	5.1	6%	22%
Support	2.5	2.9	(11%)	10%
Total	24.7	23.0	8%	100%

License revenue was US\$5.1 million (2012: US\$6.3 million). This reduction was due to the license revenue received from Pos Malaysia in the prior year. In 2013, Saudi Post extended its number of licenses and the USPS continued to make license payments in line with its agreement. License revenue was recognised for RiposteTrEx™ as it was delivered to the South African Post Office in the fourth quarter of 2013.

Maintenance revenue increased 6%, or US\$0.3 million, on the prior year resulting from contract renegotiations with certain customers and a full year of maintenance contracts being in place for certain customers compared to a partial year in 2012. Revenue from support was US\$2.5 million (2012: US\$2.9 million); the decrease was due to one country's contract renegotiation. This was partially offset by new support revenue from other customers.

Gross profit

Gross profit was in line with the prior year at US\$15.2 million for 2013 (2012: US\$15.1 million). The Gross profit margin decreased to 61% from 66% in 2012 due to the revenue mix. License revenues decreased from 2012 to 2013 while software development services revenues increased but are at lower gross profit margins. Service margins increased in 2013 compared to in 2012, mainly due to higher volumes related to specific customers.

Operating expenses/profit

Analysis of operating expenses by category	2013	2012	Increase
	US\$m	US\$m	%
Research and development	2.8	1.5	87%
Sales and marketing	4.8	3.9	25%
Administrative expenses	5.5	4.8	13%
Total	13.1	10.2	28%

Operating expenses were US\$13.1 million, an increase of US\$2.9 million from US\$10.2 million in the prior year. Of this increase, US\$1.3 million related to research and development (R&D) which increased from 7% of revenue to 11% of revenue. R&D expenses include a R&D tax credit of US\$0.8m (2012: US\$0.4m). Excluding the R&D tax credit, R&D spend increased from 8% to 15% reflecting the Group's investment in new technologies such as RiposteTrEx and Interactive Services.

Administration expenses increased by US\$0.6 million and sales and marketing spend increased by US\$1.0 million from the prior year. The increase in general expenses is in line with the growth in revenue, being 22% of revenue in 2013 compared to 21% in 2012. Sales and marketing moved from 17% of revenue to 20% of revenue in 2013. This increase represents a full year of the new business development teams for digital services and Interactive services as these new products move from research and development projects to commercialisation. The new contract win for RiposteTrEx in South Africa is a result of the increased business development focus in this product area.

The Group capitalised US\$2.7 million of R&D costs (2012: US\$2.7 million) (gross of government grants of US\$0.5 million (2012: US\$ nil)) which were internally generated intangible assets and the amortisation for these assets was \$1.1m (2012: 0.7m). The split between the projects and the amortisation charges are as follows:

	2013	2012
	US\$'000	US\$'000
Riposte Capitalised Cost	1,738	1,550
Riposte Amortisation	(274)	(41)
RiposteTrEx Capitalised Cost	927	1,112
RiposteTrEx Amortisation	(836)	(638)
Net impact on the Income Statement	1,555	1,983

Operating profit and Adjusted EBITDA

Adjusted EBITDA represents Operating profit before depreciation, amortisation and share based payments. Adjusted EBITDA was US\$4.2 million (2012: US\$6.4 million), mainly due to the additional costs and the mix of revenue in 2013 being more in favour of lower margin services revenues.

	2013	2012
	US\$'000	US\$'000
Operating profit	2,050	4,916
Add back:		
Depreciation	488	335
Amortisation	1,110	679
EBITDA	3,648	5,930
Share based payment	562	444
Adjusted EBITDA	4,210	6,374

Adjusted EBITDA, as an industry wide metric, is used by management as a key metric in assessing the performance of the Group.

Net finance expense

Net finance expense increased by US\$0.1 million to US\$0.6 million. The Group revised its facility with Bank of Ireland in October 2013, extending the term of the loan by more than 3 years to 2018 and increasing the loan to US\$9.0 million from US\$8.5million. Total costs to extend the facility amounted to US\$0.2 million. The amortisation charge for deferred financing costs for 2013 was US\$0.2 million (2012: US\$0.1 million).

Profit before tax

Profit before tax was US\$1.5 million (2012: US\$4.4 million). Adjusted profit before tax excluding share based payments was US\$2.0 million (2012: US\$4.8 million).

Income tax expense

Income tax expense for the year was US\$0.6 million a decrease of US\$0.8 million from the prior year. The effective rate for 2013 was 38% up from 32% in the prior year. A fixed deferred tax charge of US\$0.3 million (2012: US\$0.3 million) was incurred related to corporate restructuring which increased the effective tax rate from 16.5% to 38%. The Group believes the effect of the fixed deferred tax charge will be significantly reduced in 2014 and eliminated in 2015.

Earnings per share

Basic earnings per share (EPS) was US\$4.9 cents per share (2012: US\$16.5 cents per share). Diluted EPS for 2013 was US\$4.8 cents compared to US\$16.3 cents in the prior year.

Dividend

The Board does not propose paying a dividend for the year.

Cash flow and net debt

Net debt at 31 December 2013 was US\$2.3 million (2012: US\$2.2 million). Cash at the end of 2013 was US\$6.7 million (2012: US\$7.8 million) and borrowings were US\$9.0 million (2012: US\$10.0 million).

Net cash generated from operations was US\$3.1 million (2012: US\$4.2 million). This main impact is the change in Adjusted EBITDA from US\$6.4 million for the year ended 31 December 2012 to US\$4.2 million in 2013. The R&D tax credit received of US\$0.5 million reduced the tax paid in the year by the same amount. The balance of the movement on net cash generated from operations related to the increase in receivables was substantially lower than 2012. This is mostly due to a large receivable from Pos Malaysia for their license fee due at the end of 2012.

Net cash used in financing activities in 2013 was US\$1.3 million compared to cash generated from financing activities of US\$3.6 million in 2012. The Group agreed a revised facility with Bank of Ireland in October 2013 after the annual repayment of US\$3.3 million were made. The revised facility is a five year term loan of US\$9.0 million with a revolver of US\$3.0 million, none of which was drawn at 31 December 2013. The revised structure is to extend the term of the loan with lower annual repayments of US\$1.0 million compared to US\$3.3 million under the previous facility.

Operational review

Retail Services - Postal point of service

Escher is the market leading vendor of outsourced software to the postal industry. The Group's products provide 35 national postal operators around the world with the infrastructure to generate revenues. This includes the USPS which is Escher's largest contract win to date and is one of the largest retail software implementations in the world.

The strategic focus for the Group's core postal point of service market is to drive incremental sales from existing customers and to further penetrate the outsourced postal counter market with its Riposte range of products. These provide seamlessly integrated counter and automation solutions for postal and retail organisations of all sizes.

This was exemplified by Saudi Post expanding its licenses during 2013 to cover its entire post office network. Other existing postal customers, particularly recently acquired customers like Malaysia and the USPS, have generated significant services revenues through integration services and requests for additional software functionality. Renewals of maintenance and support contracts by the Group's existing customers remain consistent and in line with previous years.

There is significant change occurring in the post office market. Customers' mail businesses are beginning to stabilise with increases in parcel delivery offsetting declines in letter volumes. This is driving postal operators to invest in their networks. While cost pressures inhibit the growth of traditional post offices there is a move to expand the number of postal outlets through agency or 'post in shop' arrangements. This requires a more mobile orientated software infrastructure which Escher is able to provide. In addition, Governments and post offices are diversifying revenue opportunities by increasing the product offering at post office and 'post in shop' networks.

These trends mean Escher is seeing a number of new country tender opportunities as well as upgrade opportunities for existing customers, resulting in a strong pipeline for 2014 and beyond.

RiposteTrEx™ and Digital services

RiposteTrEx™ is Escher's solution for digital Government, allowing citizens, governments and businesses to communicate and transact with each other anytime and from anywhere. Driven by the need to reduce costs and increase interaction with citizens, Governments and local authorities are looking for new cost effective and efficient ways to communicate. RiposteTrEx™ is a secure, highly scalable, digital post box solution which allows citizens, businesses, governments and international agencies to collaborate securely online.

In December 2013, following a rigorous tender process, the South African Post Office selected the RiposteTrEx™ platform to deliver its eRegistered mail solution. The platform will provide eRegistered mail services to more than 51 million citizens. RiposteTrEx™ will allow South African Post users including citizens, government, business and SME's to send eRegistered and confidential mail to secure digital mailboxes, or as registered hybrid letters.

Underpinning Escher's investment in this key technology capability are two important patents. The Electronic Business Postal System patent covers the two way communication of messages between mailboxes and portals

through a network of secured system end points. This patent, along with the Digital Mailbox System patent, protect the foundations of the RiposteTrEx™ digital services product and is a strong endorsement of Escher's Intellectual Property and expertise in interactive digital communications and digital mail technology.

The digital government market is developing rapidly and Escher has seen the number of opportunities in the market increase from one or two a year ago to several times that amount today.

Interactive Services

Escher Interactive Services has developed a range of in-store engagement software in areas like payment, loyalty and couponing. Its Interactive technology has already been implemented in a number of retail outlets by utilising a number of NFC (Near Field Communications) and other technologies such as Card Emulation, peer-to-peer (P2P) data transfer and QR codes.

The Group's focus in this area is on solving retailer's issues. Retailers seek to collect data on their customers in order to produce targeted marketing campaigns. Customers have numerous ways to pay for goods and services and tend not to be motivated towards any particular payment method without an incentive. Mobile loyalty programs which create these incentives are often the best way of obtaining customer data through mobile devices with embedded consumer identity. Escher's solutions also use other smartphone technologies in addition to NFC to ensure it is able to gather the optimum data from all customers.

Escher's P2P payments solution was deployed in Irish restaurant chain Graham O'Sullivan in July 2013 and is performing well. Customers can make payments using any NFC-enabled Android phone on any mobile network, once they have downloaded the retailer's app. It uses Android Beam to send the customer identity from the phone to the retail point of sale to allow closed loop payment, loyalty and coupon redemption. Being able to offer the latest secure payment and loyalty solutions in a cost effective way is increasingly important to customers operating in a very competitive retail environment.

In March 2014, Escher secured a contract to deliver loyalty couponing and mobile payments to international retail chain, Just Falafel. Just Falafel is the biggest falafel franchise in the world with plans to expand to 903 outlets in 18 different countries including Australia, Abu Dhabi, Canada, Turkey and the UK. Escher's capability and growing experience in the mobile retail space heralds a number of larger opportunities the Group looks forward to developing in 2014 as well as exploring possible channel partners.

Platform Technology

Escher's Riposte is a highly scalable peer to peer messaging and transaction platform and forms the foundation of all the Group's product lines. It has a significant pedigree in the postal transaction space handling millions of transactions on a daily basis across the globe for over 20 years without interruption. This platform also forms the basis of the digital services offerings giving potential customers the confidence in the ability of Riposte to also deliver for government, mobile operators and retailers.

CONSOLIDATED INCOME STATEMENT

Extract from our audited results for the year ended 31 December 2013

For the Year Ended 31 December 2013

	Notes	2013 US\$'000	2012 US\$'000
Revenue	1	24,699	22,953
Cost of sales	2	(9,530)	(7,804)
Gross profit		15,169	15,149
Operating expenses	2	(13,119)	(10,233)
Operating profit		2,050	4,916
Finance income	4	40	1
Finance costs	4	(610)	(531)
Net finance costs		(570)	(530)
Profit before income tax		1,480	4,386
Income tax expense	5	(561)	(1,387)
Profit for the year		<u>919</u>	<u>2,999</u>
Earnings per share (in US\$ cent per share)	17		

- Basic	4.9	16.5
- Diluted	4.8	16.3

Reconciliation to EBITDA		2013	2012
		US\$'000	US\$'000
Operating profit		2,050	4,916
Depreciation	6	488	335
Amortisation	7	1,110	679
EBITDA		3,648	5,930

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended 31 December 2013

	2013	2012
	US\$'000	US\$'000
Profit for the year	919	2,999
Other comprehensive income:		
Items that may be reclassified to the Income Statement		
Currency translation differences	450	(52)
Total comprehensive income for the year	1,369	2,947

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Extract from our audited results for the year ended 31 December 2013

At 31 December 2013

	Notes	2013	2012
		US\$'000	US\$'000
Assets			
Non-current assets			
Property, plant and equipment	6	1,013	970
Intangible assets	7	36,992	35,705
Trade and other receivables	9	-	916
Deferred income tax assets	5	721	317
		38,726	37,908
Current assets			
Cash and cash equivalents	10	6,712	7,828
Trade and other receivables	9	9,715	7,615
		16,427	15,443
Total assets		55,153	53,351
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	128	128
Share premium	14	26,899	26,899
Other reserves		1,922	880
Retained earnings		8,121	7,202
Total equity		37,070	35,109

Non-current liabilities			
Borrowings	12	7,630	6,410
Deferred income tax liabilities	5	634	317
Provisions for other liabilities and charges		24	-
		<u>8,288</u>	<u>6,727</u>
Current liabilities			
Borrowings	12	865	3,169
Trade and other payables	11	8,897	7,692
Current income tax liabilities		33	630
Provisions for other liabilities and charges		-	24
		<u>9,795</u>	<u>11,515</u>
Total liabilities		<u>18,083</u>	<u>18,242</u>
Total equity and liabilities		<u>55,153</u>	<u>53,351</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Extract from our audited results for the year ended 31 December 2013

For the Year Ended 31 December 2013

	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 2012	118	20,884	(447)	964	4,203	25,722
Profit for the financial year	-	-	-	-	2,999	2,999
Other comprehensive expense	-	-	(52)	-	-	(52)
Total comprehensive income for the year	-	-	(52)	-	2,999	2,947
Share based payments	-	-	-	415	-	415
Proceeds from the issue of shares	10	6,346	-	-	-	6,356
Share issue costs	-	(331)	-	-	-	(331)
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 31 December 2013	128	26,899	(49)	1,971	8,121	37,070

CONSOLIDATED STATEMENT OF CASH FLOWS

Extract from our audited results for the year ended 31 December 2013

For the Year Ended 31 December 2013

	Notes	2013 US\$'000	2012 US\$'000
Cash flows from operating activities			
Cash generated from operations	13	4,049	5,573
Interest received		9	1
Interest paid		(410)	(337)
Income tax paid		(538)	(1,061)
		<hr/>	<hr/>
Net cash generated from operating activities		3,110	4,176
		<hr/>	<hr/>
Cash flows from investing activities			
Additions to intangible assets		(2,665)	(2,662)
Government Grant		236	-
Purchases of property, plant and equipment		(541)	(742)
		<hr/>	<hr/>
Net cash used in investing activities		(2,970)	(3,404)
		<hr/>	<hr/>
Cash flows from financing activities			
Repayment of Bacchantes PIK		-	(3,392)
Repayment of IBRC borrowings		-	(8,424)
Repayment of other borrowings		(3,342)	(4,281)
Proceeds from other borrowings		2,317	14,250
Borrowing costs		(225)	(580)
Proceeds from issue of ordinary shares		-	6,357
Share issue costs paid		-	(331)
		<hr/>	<hr/>
Net cash (used in)/generated from financing activities		(1,250)	3,599
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(1,110)	4,371
		<hr/>	<hr/>
Cash and cash equivalents at beginning of year		7,828	3,439
Foreign exchange adjustments		(6)	18
Net (decrease)/increase in cash and cash equivalents		(1,110)	4,371
		<hr/>	<hr/>
Cash and cash equivalents at end of year	10	6,712	7,828
		<hr/>	<hr/>

SELECTED ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES**For the Year Ended 31 December 2013**

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

1 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 2013 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 2013 have been prepared under IFRS as adopted by the EU and were approved by the Board of Directors on 7 March 2014. The accounting policies used in preparing the group financial statements for 31 December 2013 are

consistent with those applied in the prior year. The 2013 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 2013 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 operating profit before non-cash share based payments, interest, tax, depreciation on property plant and equipment and amortisation on intangible assets.

These revenues derive from the following main sources:

Analysis of revenue by category	2013 US\$'000	2012 US\$'000
Software development and consulting services	11,616	8,634
Software licenses	5,129	6,325
Maintenance	5,408	5,123
Support	2,546	2,871
	<u>24,699</u>	<u>22,953</u>

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

	2013 US\$'000	2012 US\$'000
Ireland	337	334
UK	221	284
Other Europe	4,736	5,001
North & Latin America	10,998	8,261
Asia-Pacific region	3,314	5,560
Africa & Middle East	5,093	3,513
	<u>24,699</u>	<u>22,953</u>

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:

	2013 %	2012 %
Customer A	40%	31%
Customer B	10%	17%

% of total reported revenues

50%

48%

The total of non-current assets other than deferred income tax assets located in the Republic of Ireland is US\$6.7m (2012: US\$5.5m), and the total of non-current assets located in other countries is US\$31.4m (2012: US\$36.0m).

2 Expenses by nature

	2013 US\$'000	2012 US\$'000
Employee benefit expense (note 3)	10,238	7,843
Rental & utilities expense	1,178	827
Travel costs	1,260	1,119
Consulting and contractors expense	3,355	2,287
Insurance	634	487
Loss on foreign exchange	351	421
Legal fees	218	384
Direct selling and marketing costs	670	335
Depreciation (note 6)	488	335
Amortisation of intangible assets (note 7)	1,110	679
Data communications	379	328
Professional fees	568	706
Directors' remuneration	1,638	1,665
Movement in doubtful debts provision	-	34
Other expenses	562	587
Total	22,649	18,037
Analysed as:		
Cost of sales	9,530	7,804
Research and development	2,806	1,501
Sales and marketing	4,839	3,874
Administrative expenses	5,474	4,858
Total	22,649	18,037

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

	2013 US\$'000	2012 US\$'000
Directors' remuneration		
Emoluments:		
- for services as directors	264	260
- for other services	1,375	1,405
	1,638	1,665

3 Employee benefit expense

	2013 US\$'000	2012 US\$'000
Wages and salaries	11,822	9,129
Social welfare costs	188	351
Pension costs – defined contribution scheme	262	149
	12,272	9,629
Capitalised labour	(2,492)	(2,160)
	9,780	7,469

Employee share based payments (see note 15)	458	374
	<u>10,238</u>	<u>7,843</u>

Total share based payments for the period amounted to US\$562,000 (2012: US\$444,000) of which US\$458,000 (2012: US\$374,000), disclosed above, related to employees excluding directors. US\$104,000 (2012: 70,000) related to directors' remuneration.

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

	2013 Number	2012 Number
Development	121	86
Selling and distribution	25	16
Administration	20	14
	<u>166</u>	<u>116</u>

The number of persons employed by the Group (including executive directors) at 31 December 2013 was 169 (2012: 146).

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\$262,000 in respect of 2013 (2012: US\$149,000), of which US\$90,000 was accrued at the year-end (2012: US\$53,000).

4 Finance income and costs	2013 US\$'000	2012 US\$'000
Finance income		
Interest income	40	1
Finance costs		
Interest on bank borrowings	(443)	(395)
Interest on debentures owing to shareholders	-	(2)
Amortisation of deferred financing costs	(167)	(134)
	<u>(610)</u>	<u>(531)</u>
Net finance costs	<u>(570)</u>	<u>(530)</u>

5 Income tax expense	2013 US\$'000	2012 US\$'000
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(a) Recognised in the income statement

Current income tax:		
Irish corporation tax at 12.5%	248	338
Foreign corporation tax	315	759
Adjustments in respect of current income tax of previous years	54	291
Total current tax	<u>617</u>	<u>1,388</u>
Deferred tax:		
Origination and reversal of temporary differences	(56)	(1)
Total income tax charge recognised in the income statement	<u>561</u>	<u>1,387</u>

(b) Reconciliation of the total actual tax charge

The tax charge in the income statement for the year differs from the standard rate of corporation tax in the Republic of Ireland of 12.5%. The differences are reconciled below:

Profit before taxation	1,	4,386
Tax calculated at the Irish standard rate of corporation tax of 12.5%	185	548
<i>Effects of:</i>		
Income taxable at higher rates in other jurisdictions	263	514
Expenses not deductible for tax purposes	277	123
R&D Tax Credit – non taxable	(95)	-
Other adjustments	(123)	(89)
Adjustment in respect of current income tax of previous years	54	291
Total income tax charge	561	1,387

(c) Deferred tax

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

	2013 US\$'000	2012 US\$'000
Deferred tax assets		
Foreign R&D tax credits	255	271
Unrealised foreign exchange transactions	63	17
Intangible assets	139	-
Share Options	178	-
Other	8	29
	72	317
Deferred tax liabilities		
Foreign dividend payable	634	317
	634	317

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

	2013 US\$'000	2012 US\$'000
Deferred tax assets		
Foreign R&D tax credits	255	271
Unrealised foreign exchange transactions	63	17
Intangible assets	139	-
Share Options	178	-
Other	8	29
	72	317
Deferred tax liabilities		
Foreign dividend payable	634	317
	634	317

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

	1 January 2013	Recognition in income statement credit/(charge)	31 December 2013
	US\$'000	US\$'000	US\$'000
Deferred tax assets			
Unrealised foreign exchange transactions	17	45	62
Foreign R&D tax credits	271	(16)	255
Intangible assets	-	139	139
Share Options	-	178	178
Other	29	57	86
Deferred tax asset	<u>317</u>	<u>403</u>	<u>720</u>

	1 January 2012	Recognition in income statement credit/(charge)	31 December 2012
	US\$'000	US\$'000	US\$'000
Deferred tax assets			
Unrealised foreign exchange transactions	182	(165)	17
Foreign R&D tax credits	-	271	271
Other	(12)	41	29
Deferred tax asset	<u>170</u>	<u>147</u>	<u>317</u>

	1 January 2013	Recognition in income statement credit/(charge)	31 December 2013
	US\$'000	US\$'000	US\$'000
Deferred tax liabilities			
Foreign intercompany dividends payable	(317)	(317)	(634)
Temporary differences on intangible assets	-	-	-
Deferred tax liability	<u>(317)</u>	<u>(317)</u>	<u>(634)</u>

	1 January 2012	Recognition in income statement credit/(charge)	31 December 2012
	US\$'000	US\$'000	US\$'000
Foreign intercompany dividends payable	-	(317)	(317)
Temporary differences on intangible assets	(141)	141	-
Deferred tax liability	<u>(141)</u>	<u>(176)</u>	<u>(317)</u>

	1 January 2013	Recognition in income statement credit/(charge)	31 December 2013
	US\$'000	US\$'000	US\$'000
Deferred tax in equity			
Share options	30	(30)	-

			1 January 2012	Recognition in income statement credit/(charge)	31 December 2012	
			US\$'000	US\$'000	US\$'000	
Deferred tax in equity						
	Share options		-	30	30	
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 2011	3,253	481	180	167	4,081
	Additions	313	298	75	56	742
	Disposals	(1,044)	(34)	(87)	(24)	(1,189)
	Exchange differences	12	3	2	7	24
	At 31 December 2012	2,534	748	170	206	3,658
	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
Accumulated depreciation						
	At 31 December 2011	(2,760)	(445)	(162)	(166)	(3,533)
	Charge for the year	(275)	(28)	(23)	(9)	(335)
	Disposals	1,039	33	87	23	1,182
	Exchange differences	(2)	-	1	(1)	(2)
	At 31 December 2012	(1,998)	(440)	(97)	(153)	(2,688)
	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)
Net book value						
	At 31 December 2011	493	36	18	1	548
	At 31 December 2012	536	308	73	53	970
	At 31 December 2013	486	370	75	82	1,013

Depreciation of US\$270,000 (2012: US\$218,000) has been charged in administrative expenses and US\$218,000 (2012: US\$117,000) in cost of sales in the income statement.

7	Intangible assets	Goodwill US\$'000	Riposte TrEx development US\$'000	Riposte development US\$'000	Total US\$'000
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Cost				
At 31 December 2011	31,127	2,442	786	34,355
Additions	-	1,112	1,550	2,662
Exchange differences	(257)	6	10	(241)
At 31 December 2012	<u>30,870</u>	<u>3,560</u>	<u>2,346</u>	<u>36,776</u>
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	<u>31,114</u>	<u>3,975</u>	<u>4,084</u>	<u>39,173</u>
Accumulated amortisation				
At 31 December 2011	-	(392)	-	(392)
Charge for the year	-	(638)	(41)	(679)
At 31 December 2012	<u>-</u>	<u>(1,030)</u>	<u>(41)</u>	<u>(1,071)</u>
At 31 December 2012	-	(1,030)	(41)	(1,071)
Charge for the year	-	(836)	(274)	(1,110)
At 31 December 2013	<u>-</u>	<u>(1,866)</u>	<u>(315)</u>	<u>(2,181)</u>
Net book value				
At 31 December 2011	<u>31,127</u>	<u>2,050</u>	<u>786</u>	<u>33,963</u>
At 31 December 2012	<u>30,870</u>	<u>2,530</u>	<u>2,305</u>	<u>35,705</u>
At 31 December 2013	<u>31,114</u>	<u>2,109</u>	<u>3,769</u>	<u>36,992</u>

Amortisation of US\$0.84m (2012: US\$0.64m) on Riposte TrEx is included in cost of sales in the income statement and amortisation of US\$0.27m (2012: US\$0.04m) on Riposte Development is included in operating costs in the income statement. With the exception of Riposte TrEx 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 Riposte TrEx development is 27 months (2012: 44 months). In the year there was US\$2.8m (2012: US\$1.5m) of research and development expenditure recognised as an expense in the income statement as the state of completion was not viewed as being sufficiently developed to warrant capitalisation.

The Group has two CGUs. The combination of these CGUs represent the lowest level at which goodwill is monitored by the Group and the lowest level at which management captures information for internal management reporting purposes about the benefits of the goodwill.

8 Government Grants

During the year Government Grants of US\$512,000 (2012: US\$nil) were recognised and were netted against the development cost of the related intangible assets. For further details please see Note 7 Intangible Assets.

9 Trade and other receivables

	2013 US\$'000	2012 US\$'000
<i>Non Current</i>		
Accrued income	-	916

<i>Current</i>		
Trade receivables	5,301	4,062
Less provision for impaired receivables	(233)	(233)
Trade receivable - net	5,068	3,829
Accrued income	2,813	2,895
Amounts owed by subsidiaries	-	-
Prepayments	708	437
Other receivables	517	169
Recoverable taxes	609	285
	<u>9,715</u>	<u>7,615</u>

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:

	2013 US\$'000	2012 US\$'000
Neither impaired nor past due	2,446	2,593
Less than 30 days past due	1,252	470
Between 31-60 days past due	728	546
More than 90 days past due	642	220
Impaired	233	233
Total	<u>5,301</u>	<u>4,062</u>

As of 31 December 2013, trade receivables of US\$2,446,000 (2012: US\$2,593,000) were fully performing.

As of 31 December 2013, trade receivables of US\$2,622,000 (2012: US\$1,236,000) 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 2013, trade receivables of US\$233,000 (2012: US\$233,000) were impaired. The individually impaired receivables mainly relate to two customers.

(b) The majority of the Group's customers, primarily representing national post offices, operate within the postal service industry. As at 31 December 2013, a significant portion of the trade receivables of the Group related to 3 customers (2012: 4 customers) as follows:

	2013 %	2012 %
Customer A	26%	19%
Customer B	16%	5%
Customer C	10%	12%

No credit limits were exceeded during the year and management does not expect any losses from non-performance by the counterparties.

10 Cash and cash equivalents

	Group	
	2013 US\$'000	2012 US\$'000
Cash at banks and in hand	<u>6,712</u>	<u>7,828</u>

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 maximum exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents noted above.

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 2013 these exposures were as follows:

	2013 US\$'000	2012 US\$'000
Non-US\$ denominated cash balances		
Euro	3,198	939
Sterling	110	16
Singapore dollar	122	64
South African Rand	22	14
	<hr/>	<hr/>
Total non US\$	3,452	1,033
	<hr/>	<hr/>

11 Trade and other payables

	2013 US\$'000	2012 US\$'000
Current		
Trade payables	1,256	927
Amounts owed to subsidiaries	-	-
Other creditors and accruals	2,062	1,662
Deferred revenue	5,579	5,103
	<hr/>	<hr/>
	8,897	7,692
	<hr/>	<hr/>

The fair values of trade and other trade payables approximate to the values shown above.

12 Borrowings

	Book value		Fair value	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Non-current liabilities				
Bank loans	8,000	6,683	7,949	6,620
Deferred Financing	(370)	(273)	(370)	(273)
	<hr/>	<hr/>	<hr/>	<hr/>
Borrowings	7,630	6,410	7,579	6,347
	<hr/>	<hr/>	<hr/>	<hr/>
Current liabilities				
Bank loans	1,000	3,342	1,000	3,342
Deferred financing	(135)	(173)	(135)	(173)
	<hr/>	<hr/>	<hr/>	<hr/>
Borrowings	865	3,169	865	3,169
	<hr/>	<hr/>	<hr/>	<hr/>
Total borrowings	8,495	9,579	8,444	9,516
	<hr/>	<hr/>	<hr/>	<hr/>

On 9 October 2013, the Group agreed a further revised banking facility with Bank of Ireland Corporate Banking comprising a US\$9.0 million five year term loan facility and a revolving 12-month facility for US\$3.0 million. The amended term loan is amortising to October 2018. On renegotiation of these borrowing

facilities the terms of the facility were modified. The present value of the cash flows under the new facility, discounted using the original effective interest rate, were less than 10% different to the discounted present value of the remaining cash flows of the facility being replaced. Accordingly the transaction has been accounted for as a modification of the existing facility. Costs and fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term.

Fair values

The fair values of borrowings are based on discounted cash flows where the discount rate reflects the risks inherent in each type of borrowing. The carrying amounts of current liabilities are deemed to approximate their fair value.

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	3,342	3,342	3,341	-	10,025
Deferred financing	(173)	(173)	(100)	-	(446)
Borrowings at 31 December 2012	3,169	3,169	3,241	-	9,579
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

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

Currency

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

13 Cash generated from operations

	Group 2013 US\$'000	Group 2012 US\$'000
Profit before tax	1,480	4,386
Adjustments for		
Depreciation	488	335
Amortisation of intangible assets	1,110	679
Amortisation of deferred financing	167	134
Loss on disposal of tangible assets	-	2
Finance income	(40)	(1)
Finance costs	443	397
Employee share based payments	562	444
Effect of foreign exchange	(169)	186
Management fee	-	-
Changes in working capital		
Increase in trade and other receivables	(1,184)	(2,878)
Increase in trade and other payables	1,192	1,889
Cash generated from operations	4,049	5,573

14 Share capital and premium

	Number of Ordinary shares	Ordinary shares US\$'000	Total US\$'000	
Authorised share capital - group				
<i>Equity share capital</i>				
At 1 January 2012				
A ordinary shares of €0.005 each	201,000,000	1,395	1,395	
At 31 December 2012	201,000,000	1,395	1,395	
At 1 January 2013				
A ordinary shares of €0.005 each	201,000,000	1,395	1,395	
At 31 December 2013	201,000,000	1,395	1,395	
Issued share capital				
	Number of shares	Equity share capital US\$'000	Share premium US\$'000	Total US\$'000
Ordinary share capital				
At 1 January 2012	17,033,097	118	20,884	21,002
Shares issued during the year	1,599,999	10	6,015	6,025
At 31 December 2012	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

During 2013, 21,797 shares (2012; nil) were issued during the year as part of the Group's share-based payments scheme. For further details please see Note 15. On 25 April 2012, 1.6 million shares were issued in a share placing on AIM. This raised US\$10,000 in share capital and US\$6.3m in share premium, against which US\$0.3m of directly attributable costs have been netted.

15 Share-based payments

During 2013, the Group granted 267,742 (2012: 317,071) share options through its share option scheme to directors and to selected employees. The exercise price of the granted options was set at £2.525 (2012: €0.005). 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 is April 2014.

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

	2013		2012	
	Average exercise price in US\$ per share option	Options	Average exercise price in US\$ per share option	Options
At 1 January	0.007	310,071	-	-
Granted	3.887	267,742	0.007	317,071
Forfeited	0.930	(12,742)	0.007	(7,000)

Exercised	0.007	(21,797)	-	-
At 31 December	1.942	543,274	0.007	310,071

Out of the 543,247 outstanding options (2012: 310,071 options), 83,912 options (2012: nil) were exercisable.

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	
			2013	2012
2012-15	2013	0.007	83,912	103,357
	2014	0.007	97,333	103,357
	2015	0.007	97,333	103,357
2013-16	2014	3.887	88,232	-
	2015	3.887	88,232	-
	2016	3.887	88,232	-
			543,274	310,071

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was US\$1.39 per option (2012: US\$3.42). The significant inputs into the model were weighted average share price of US\$3.85 (2012: US\$3.43) at the grant date, exercise price shown above, dividend yield of 0% (2012: 0%), an expected option life of five years (2012: five years); volatility of 32.42% (2012: 31%) based on the past movement in the share price and an annual risk-free interest rate of 4.25% (2012: 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 2013.

17 Earnings per share

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

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

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

	2013 US\$'000	2012 US\$'000
Profit attributable to ordinary shareholders	919	2,999
	Number	Number
Weighted average number of shares used in basic EPS	18,	18,126,430
Effects of:		
Employee share options	543,	310,071

Weighted average number of shares used in diluted EPS	19,	18,436,501
	<hr/>	<hr/>
Basic earnings per share (in US\$ cent per share)	4.9	16.5
	<hr/>	<hr/>
Diluted earnings per share (in US\$ cent per share)	4.8	16.3
	<hr/>	<hr/>