Escher Group Holdings plc
Annual report 2011

Beautifully simple yet powerful technologies

At a glance

A global software leader

Escher Group is a world-class provider of point-of-service and message-based software solutions and services.

Escher Group consists of two principal operating divisions – Retail Software and Message Based Communications – which deliver multi-channel, multi-industry solutions worldwide.

The Retail Software Division serves postal, general retail and courier markets, providing national organisations with software solutions that deliver retail and transactional environments, including customer facing front-end systems and enterprise back-end infrastructures.

The Message Based Communications Division provides a communication infrastructure to connect governments, businesses and citizens. It is based on a Digital PostBox model and encapsulates a modern social networking paradigm.

Escher has a projected sales pipeline from worldwide postal systems markets with exciting additional growth prospects derived from complimentary vertical markets and through its revolutionary product *RiposteTrEx.*

Our divisions

- Retail Software
- Message Based Communications

Key to our success

Our technology with its robust easy to use interface and architecture.

Not only do we make our technology easy to use, it simply will not fail for our clients.

Highlights

Strong performance

We are delighted to report our inaugural results as a listed Group, with strong operational performance, strong contracted revenues and good sales pipeline.

- Retail marketplace remained buoyant with two contract closures during 2011. 'Haypost', the Armenian national postal operator, and Saudi Post brought our customer base to thirty two.
- We continued to evolve our content delivery service – *RiposteTrEx* – with the completion of a commercial licensing agreement with An Post.
- Existing business remained strong with customers renewing contract and acquirement, and additional professional services purchased.
- Expansion of our service offering with the introduction of Escher Group interactive services which leverages Near Field Communication (NFC) for customer loyalty, e-wallet and coupons.

Subsequent to the post year end:

- Escher Group won a significant new contract in Q1 2012.
- A US$9.7 million term loan facility and a revolving facility for US$1.8 million with Bank of Ireland extending the loan.

2011 Highlights

Revenue

US$13.9m

Adjusted net profit after tax

US$2.3m

Adjusted earnings per share

12.7c

Overview

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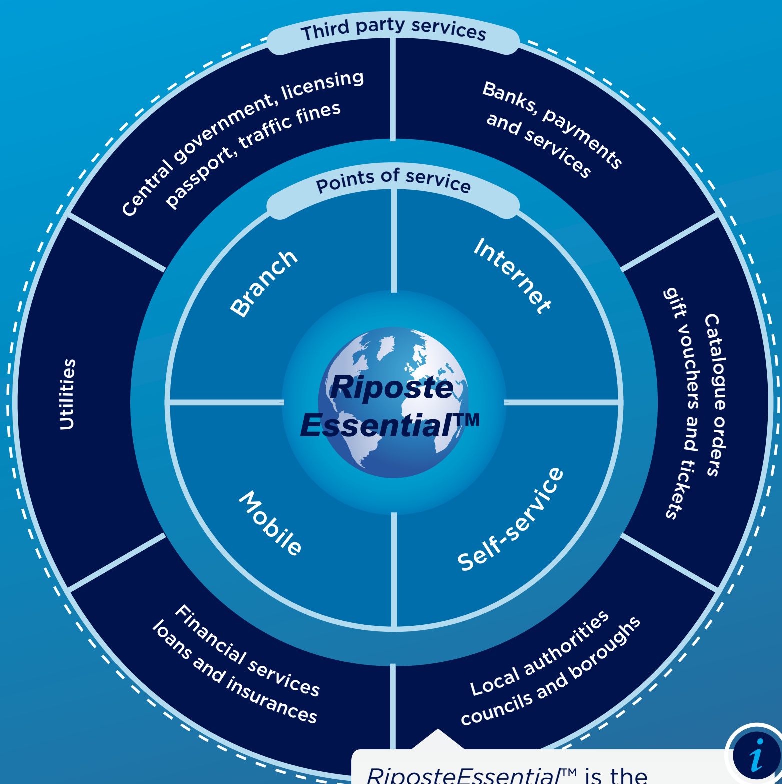
Business at a glance

Retail Software Division

Leveraging its counter automation software, *RiposteEssential*™, Escher Group is the market leader in the provision of point-of-service software to postal authorities worldwide.

Escher Group will look to drive and expand its current product range into new markets as it sees opportunities to apply its existing retail technology in other vertical markets.



RiposteEssential™
The market leading retail point of service

RiposteEssential is a superior counter automation solution which brings together a wide range of services – mail, retail, banking, payments, Government and Agency – that postal and retail organisations now provide.

RiposteEssential™ is the most widely used postal counter automation in the world, with a proven record of success within the postal market.

Retail Software Division – other products

Riposte®
– peer-to-peer messaging middleware and data storage architecture

RiposteKiosk™
– point-of-service solution for self-service and self-checkout devices

MobileRiposte™
– point-of-service solution for portable devices

RiposteMC™
– an eCommerce platform

RiposteTrack™
– item and container tracking solution

Message Based Communications Division

Leveraging our foundation technology *Riposte*®, Escher provides a communication based point-of-service solution that connects governments, businesses and citizens. It is called *RiposteTrEx*™.

Escher Group will look to review government tenders and other business opportunities to drive and expand *RiposteTrEx* sales through e-Government and e-Services.

RiposteTrEx™
The next generation of communication infrastructure

RiposteTrEx is a digital content delivery service that combines the power of structured data transmission with the convenience of sending traditional mail in electronic form, in a way that encourages people, businesses and governments to communicate, interact and transact securely.

RiposteTrEx™ delivers high levels of security and audit combined with industry leading data management and consistency of data integrity.

Message Based Communications Division – other products

Escher Group interactive services
– Near Field Communication (NFC) solutions

Our global operations

Global sales and operations

Escher is a world leading provider of outsourced, point-of-service software for use in the global postal industry.

We have contracts with national postal operators, delivering long-term relationships dispersed across the globe.

What our customers are saying:

"Escher Group's *Riposte* products enable rapid time to market for new products and low overall cost of ownership."
Posten Norge

"With *Riposte*, replication across servers in a distributed network means no single point of failure. *Riposte* is a proven solution."
Deutsche Post DHL

"*Riposte* is an end-to-end solution that automated our counters network and gave us the flexibility to extend our services to partner outlets. *Riposte's* agile architecture enables us to continually adapt to the changing business environment that we operate in."
Austria Post

"We needed a system that could address our requirements for high performance, cost reduction and flexibility in a very dynamic environment. *Riposte* is a proven solution that addresses all of these demands."
CTT Correios de Portugal

"*Riposte* provides us with the platform to process two billion *Riposte* messages each year. The technology delivers high performance and reliability and an incomparable up time. *Riposte* gives us the ability to operate seven days a weeks, on multiple channels, in a very dynamic and demanding environment."
An Post

Our customers transverse the globe

Our solutions are used in over 30 countries around the world.

Our technology, simple yet powerful, offers limitless opportunities for transactions.

With innovation at the core of Escher's success, our latest products redefine the delivery of business communication and support our customers moving into the digital era.

Chairman's statement

Bernard Somers, Chairman

In summary

- **Successful IPO on AIM in August 2011**
- **US$25 million (£15.4 million) raised through a Placing**
- **Extension of *Riposte* software licence with An Post to incorporate *RiposteTrEx***
- **Contracted by Saudi Post to expand their business capacity at the counter**
- **Extension of retail product suite to include device-to-device communications**
- **'Haypost' (Armenia) to use *RiposteEssential* to deliver enhanced retail network**
- **Since the year end a significant contract win with the United States Postal Service**

Overview

2011 was undoubtedly a landmark and transformational year for Escher. In early 2011, it became increasingly clear that to develop and capture new commercial opportunities and embark on introducing new technological solutions, Escher should seek new investors with foresight and with understanding of the Escher vision.

On 8 August 2011, Escher became part of AIM which is considered one of the most successfully traded growth markets with 1,000 international companies from across the globe. Through the diligent work of many stakeholders and advisers, US$25 million was raised via an Institutional Placing. The dedication of Escher executives and employees to deliver the Escher vision is matched by the commitment of investors and their belief in Escher's ability to deliver innovation and growth and augurs well for future development.

In April 2011, *RiposteEssential* software went live at Botswana Post, allowing the delivery of services to over two million people at its postal outlets. In Q4 2011, Escher's market momentum remained very encouraging, particularly as postal operators continued to face difficult market conditions. Market share increased with the addition of two new contracts with national postal operators and further organic growth from existing customers. Escher's commitment to research and innovation remains valued by customers and prospects, particularly with the development of Near Field Communication (NFC) products which complement the existing retail software.

With a dominant position in point of service in the postal sector, Escher believes it is ideally placed to enter into other related vertical industries and leverage its success in the postal sphere to these new markets.

Corporate governance

Escher has assembled a prominent Board with experience across a wide range of industries. Paul Taylor joined the Board on IPO and brings a wealth of technology and public company experience to the Board.

The Board is committed to strong corporate governance and this is reflected in its principles, policies and practices. The Board believes that corporate strategy will continue to be fulfilled through effective corporate governance, thus enhancing shareholder value and the long-term safeguarding of shareholder's interests.

Dividend

Escher is in a continuing phase of development and will periodically review the payment of dividends. It is the Board's belief that currently the best use of proceeds is to reinvest in the business for capital growth and to continue building on Escher's solid financial platform.

"2011 was a significant year for Escher Group Holdings plc across many levels. The investment Escher has made in the business will drive long-term growth and ensure that Escher delivers value across all the stakeholder groups."

Strategy and outlook
The vision and direction of the Board is supplemented by the drive and determination of executive managers and employees who are at the heart of making Escher a successful company. In 2012, Escher will relocate to new corporate headquarters in Dublin giving much needed additional space to develop and expand over the coming years.

As technology continues to evolve at a breathtaking pace, Escher's innovation and software will shape the future, delivering not just business value but also social value for its customers. Technology continues to underpin every aspect of our daily lives and Escher is constantly exploring opportunities that leverage its transformational technologies. For example, in tandem with developing customers' retail networks, our software allows post offices to offer mobile money transactions that are particularly suited for emerging nations. *RiposteTrEx* helps customers deliver new products and applications that utilise new media to the benefit of both customers and consumers.

The Q1 2012 announcement that the United States Postal Service has awarded Escher a US$50 million contract is wonderful news for all stakeholders. For one of the world's largest postal companies (in 2010, revenues stood at US$67 billion and 560 million mail pieces were processed daily across its network) to contract with Escher bears testament to Escher's capabilities in this space.

With the ongoing liberalisation of the European postal market, Escher remains primed to work with customers to assist them in adapting to this changing market landscape while broadening the reach of their retail infrastructure. Escher is committed to delivering innovation and dependability to customers and is ideally placed to increase market share.

I would like to express gratitude to all Escher employees, customers and suppliers who have played a significant role in allowing Escher to become the leading postal software company that it is today.

Bernard Somers.

Bernard Somers
Chairman
Escher Group Holdings plc
12 April 2012

Chief Executive Officer's report

Liam Church, Chief Executive Officer

In summary

- Successful listing on AIM of the London Stock Exchange
- Re-financed and consolidated company debt
- Added two new postal operators to our customer base
- Establishment of Near Field Communication (NFC) business unit
- Opened fifth global office – South Africa
- Expanded sales and marketing capabilities
- Since the year end announced a significant contract win with the United States Postal Service

Overview

I am delighted to present the inaugural full year results for Escher Group Holdings as a public company. We floated on AIM in August 2011 and since then we have continued to build on our position as the global market leader in digital point of service. The Institutional Placing we undertook, raising US$25 million and listing on AIM, was a historic moment in the company's existence. The capital raised in difficult economic times shows strong investor support for the ongoing development of Escher as a successful company which possesses the potential to grow and succeed in other industry sectors.

The proceeds of this fundraising have been partially deployed to provide development capital in order to pursue the significant growth opportunities available to us. These include the expansion of our sales and marketing capabilities, new hires and the addition of Near Field Communication (NFC) business. All of these helped lead to new wins with 'Haypost' and Saudi Post and, subsequent to the year end, our most significant contract win to date with the United States Postal Service.

Background to our business

We supply technology, expertise and professional services to 32 postal operators worldwide. On a daily basis, our *Riposte* family of products handles a range of diverse transactions at point of service that cross the boundaries of many industries, from postal to retail, to banking and e-Government.

Escher is ideally placed to consolidate its position as the number one supplier of counter automation technology in the postal sector, while diversifying further into digital mail, NFC service and vertical markets.

Our objectives

We are pursuing four main avenues to grow the business:

- incremental sales to existing customers;
- further penetration of the outsourced postal counter software market;
- the adoption of Escher's revolutionary message based communications software, *RiposteTrEx;* and
- the application of Escher's existing technology to other vertical markets.

In 2012, these are now supplemented by opportunities offered to Escher with the creation of a dedicated unit to manage NFC service opportunities. Escher Interactive Services will provide complementary technology that connects into our Retail Software Division, offering managed

“Our aim is to build on the success that Escher has established as the world leader in the supply of digital point of service software. We are an innovative group that meets and exceeds the demands of our customers and the market.”

services and identity management to retailers and mobile network operators alike.

We expect 2012 to be a strong year with the prospect of further substantial growth in 2013 as we benefit from contracts secured in 2011. We will continue to focus on core markets, existing customers and expanding our product offering while strengthening our geographical penetration.

Status of the market

Our win in Q1 2012, with the United States Postal Service, confirms Escher’s position as the pre-eminent supplier of software and services to the global postal market. The contract, which has a 54 month base period and renewal options, is expected to generate, over a fifteen-year term, approximately US$50 million in revenue for the Group but with scope for substantial additional revenue. Even in current economic conditions the global market remains significant. There are over 650,000 permanent post offices across the globe employing 4 million personnel and handling US$327 billion worth of business.

The world in which postal operators conduct their business continues to evolve and develop. The business of delivering mail is constantly redefined and as new challenges arise, postal operators are looking to their suppliers for innovation in this ever-changing market space.

The rise of digital technology is an important factor in this equation for all postal operators. With new opportunities offered by digital point of service, they are diversifying their businesses to find new revenue opportunities, particularly from financial services, mobile money, e-Government and the increase in digital mail. Escher sees opportunities for the branch network to diversify to device-to-device transactions, self-checkout and online services.

Overall, with our products, solutions, innovation and global position, Escher is strategically positioned to assist postal operators to deliver sustainability in this new commercial world.

Our outlook

Since the year end, the announcement of our largest ever contract win, with the United States Postal Service, coupled with the recent win of Pakistan Post and contracts for self service with Jersey and Namibia validates the Board’s belief that Escher’s software will continue to play a significant role in enabling post offices across the globe to embrace digital point of service. Our pipeline of work is growing at a healthy rate and the opportunities for our technology continue to expand. Much planning has already taken place in the current financial year and further judicious investment will be made to take advantage of these opportunities. The Board believes that 2012 will be another exciting year for the company with further significant progress expected.

As CEO, the day-to-day management of our company is made that little bit easier when I look at the management and staff who continue to show dedication and commitment to Escher.

It is their vision and hard work that makes this a fantastic company and it is through their endeavours that the company will grow into the future.

Liam Church
Chief Executive Officer
Escher Group Holdings plc
12 April 2012

Financial review

Trevor McIntyre, Finance Director

In summary

- Revenue for the year of US$13.9m
- US$0.1m invested in NFC products
- Net finance costs decreased by US$0.5m
- Profit for the year before exceptional items and unusual costs of US$2.3m
- Basic EPS before exceptional items of US$12.7c
- Development costs to create Proof of Concept of US$991,000

Revenue

Total revenue for the year ended 31 December 2011 was US$13.9 million, a decrease of US$0.1 million from the revenue of US$14 million in the prior year. Within total revenue there was an increase of US$339,000 or 11% in software development and consulting services, a decrease of US$388,000 or 14% in licenses with maintenance and support being broadly in line with the prior year.

The main drivers behind the software development and consulting services revenue increase was the provisioning of services to a new customer, and increased service provisioning for existing customers.

US$136,000 of the decrease in license revenue from the year ended 31 December 2010 to the year ended 31 December 2011 was due to amortising time based licenses, the balance of the decrease was due to the structure of the contracts signed in 2011.

Profit before exceptional items and unusual costs

Included in operating profit are proof of concept costs and the costs in relation to the development of Near Field Communications (NFC) of US$1.1 million, which although not exceptional in nature, are unusual in that such large scale projects are not regularly undertaken by Escher and differ from exceptional costs, which are considered to be significant non-recurring costs.

These unusual costs include:

- US$708,000 to create a proof of concept for a contract that was awarded to Escher in Q1 2012;
- US$158,000 to create a proof of concept for a large potential postal authority contract;
- US$125,000 to create a proof of concept for a message based communication software contract; and
- US$133,000 for developing a new division towards NFC capabilities.

Exceptional costs

Exceptional costs of US$0.8 million relate to professional fees and other related expenses on the fundraising activities which occurred in 2011. These are non-recurring one-off expenses.

Net finance costs

Net finance costs decreased by US$0.5 million from the year ended 31 December 2010 to the same period in 2011. Interest on debentures accounted for US$0.3 million of this decrease due to a US$5.6 million partial repayment made in August 2011 and a reduction in the interest rate from 16% to 5.1%. The balance of the decrease was mainly due to the decrease in the fair value of the derivatives during the year. As part of the refinancing which occurred on 5 January 2012 both the debenture and the derivatives were repaid.

Profit for the year

The profit for the year after exceptional items is US$0.6 million. Excluding exceptional items and unusual costs, the profit for the year increased by US$0.8 million or 54% as a result of the items previously mentioned.

Earnings per share

Basic EPS before exceptional items was US$12.7c for 2011 for the year compared to US$19.5c in the prior year. Basic EPS for the year was US$5.3 cent.

Cash

Escher raised US$25 million on admission to AIM prior to expenses, US$21.4 million net of expenses. The net proceeds were used to partially repay the debenture and bank loans.

Development costs

During the year Escher capitalised US$2.2 million (2010: US$1.0 million) of internally generated intangible assets. US$1.4 million related to *RiposteTrEx* and US$0.8 million related for other products being developed which will form part of the *Riposte* suite of products.

Dividend

The Board does not propose paying a dividend.

Trevor McIntyre
Finance Director
Escher Group Holdings plc
12 April 2012

Income statement adjusted for exceptional items and unusual costs

For an accurate year-on-year comparison, these costs have been added back to operating profit below:

	2011 US$'000	2010 US$'000	Year-on-year movement US$'000	Year-on-year movement %
Sales	13,862	13,959	(97)	(1%)
Cost of sales	(3,807)	(3,510)	(297)	8%
Gross profit	10,055	10,449	(394)	(4%)
Operating expenses	(6,733)	(6,355)	(378)	6%
Operating profit before exceptional items	3,322	4,094	(772)	(19%)
Add back:				
Proof of concept contract win	708	–	708	100%
Proof of concept for a potential postal authority contract	158	–	158	100%
Proof of concept for a message based software	125	–	125	100%
Development of NFC	133	–	133	100%
Operating profit before exceptional items and unusual costs	4,446	4,094	352	9%
Net finance costs	(1,347)	(1,858)	511	28%
Income tax charge	(544)	(769)	225	29%
Income tax adjustment for unusual items	(293)	–	(293)	(100%)
Profit for the year before exceptional items and unusual costs	2,262	1,467	795	54%

On a comparable basis operating profit increased by US$352,000 or 9% for the year ended 31 December 2011 compared to the prior year.

Adjusted EBITDA	2011 US$'000	2010 US$'000	Year-on-year movement US$'000	Year-on-year movement %
Operating profit excluding unusual costs	4,446	4,094	352	9%
Add back:				
Depreciation	155	179	(24)	(13%)
Amortisation	358	34	324	953%
Adjusted EBITDA	4,959	4,307	652	15%

Board of Directors

Connected through strong leadership

Bernard Somers
Non-executive Chairman

Bernard is a graduate of University College Dublin and a chartered accountant. He is principal of Somers & Associates and specialises in corporate and debt restructuring. He has been an adviser to many of Ireland's largest companies. Bernard is currently a director of DCC plc and Irish Continental Group plc and has previously served on the board of many listed companies in Ireland and the US. He is a former director of the Central Bank of Ireland. He has invested in private companies both for start-up and growth and has managed many acquisitions and disposals both in Ireland and internationally. Bernard has been Chairman of Escher since 2007.

Liam Church
Chief Executive Officer

As Chief Executive Officer of Escher Group, Liam has spearheaded Escher's efforts to build and expand its postal business. He is considered a thought leader within the industry and has led the development of Escher's ground-breaking point-of-service software, *RiposteTrEx*. Liam is co-author of a number of papers in the area of Digital Post and the delivery of eGovernment services.

Prior to his appointment as CEO, Liam held management positions at An Post, Ireland's national postal operator, overseeing its technology retail strategy. In 1998, he co-founded Anshe Limited, a software company, raising venture capital funding while growing revenue. In 2000, the company was acquired by Escher Group. In 2011, Liam oversaw Escher's successful IPO on AIM that raised US$25 million (£15.4 million) through its Placing.

Trevor McIntyre
Finance Director

Trevor is a graduate of Rhodes University (BCom and PDipAcc), the National College of Ireland (MA Finance with First Class Honours) and is a chartered accountant (Institute of Chartered Accountants in England and Wales and South African Institute of Chartered Accountants). Trevor joined the Group in 2008 as Chief Financial Officer following the management buy-out. Trevor has over 15 years' experience in strategic initiatives and financial control, financial reporting and operations and has worked extensively in reorganisation, mergers and acquisitions and fundraising activities in industry and as an adviser. Trevor previously fulfilled a number of senior roles with PwC, AIG and KPMG both in Ireland and in South Africa. Trevor was appointed to the Board in July 2011.

Fionnuala Higgins
Executive Director

Fionnuala joined Escher Group in 2000. With over 30 years' experience, Fionnuala brings knowledge of retail technology as well as specific industry knowledge. Prior to joining Escher, Fionnuala held senior management positions with An Post, Ireland's national postal operator and Post Consult International, where she was technology director. She was a co-founder of Anshe Ltd, a technology company subsequently acquired by Escher Group in 2000.

Since joining Escher Fionnuala was instrumental in overseeing Escher's expansion across the global postal market and was a key member of the management buy-out team in 2007. Fionnuala has been a board member since 2007.

Paul Taylor
Non-executive Director

Paul is a Fellow of the Association of Chartered Certified Accountants. Paul joined AVEVA Group plc in 1989 and was heavily involved in the flotation process and was responsible for UK accounting and the development of AVEVA's overseas subsidiaries including adherence to group standards. Between 1998 and 2001, Paul was also UK director of human resources and was appointed to the position of finance director of AVEVA Group plc on 1 March 2001, a position he held until 1 January 2011. Prior to joining AVEVA, Paul trained within the accountancy profession before moving to Philips Telecommunications (UK) where he was responsible for the management accounts of its public sectors division. Paul was a recipient of the FTSE250 Finance Director of the Year award and is also a non-executive director of Anite plc, Ubisense Group plc and Digital Barriers plc. He was appointed to the Board of Escher Group in July 2011.

Michael Smurfit Jnr
Non-executive Director

Michael is Chief Executive of S.F. Investments, a privately held company that manages worldwide investments on behalf of the Smurfit family. As well as being on the advisory board of the University College Dublin Business School, Michael is also a director of a number of companies including GameAccount and The K Club Limited. Prior to his current position, Michael held a number of senior positions within the Jefferson Smurfit Group both in Europe and the US. Michael has been on the Board of Escher Group since 2007.

John Quinn
Non-executive Director

John is the managing director of JD Champion Ireland, a substantial Irish retail business and subsidiary of JD Sports Fashion plc. Previously, John has worked in the corporate finance business with Arthur Andersen and Merrion Capital. He has also worked in the venture capital industry in the UK and Ireland. John has been on the Board of Escher Group since 2007.

Company information

Board of Directors

Bernard Somers	Chairman
Liam Church	Chief Executive Officer
Fionnuala Higgins	EVP Sales and Marketing
Trevor McIntyre	Finance Director*
John Quinn	Non-executive
Michael Smurfit Jnr	Non-executive
Paul Taylor	Non-executive**

* Appointed Director, 11 July 2011
** Appointed Non-executive Director, 31 July 2011

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US

Bankers
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Bank of Ireland
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Corporate governance report

Escher Group Holdings plc and its subsidiaries are committed to high standards of corporate governance. The Directors recognise the importance of sound corporate governance and confirm that they aim to comply with best practice in corporate governance, appropriate for a company of its nature and size.

Role of the Board

The role of Escher's Board is to represent and safeguard effectively the long-term interests of all its shareholders, with the ultimate aim being to add value to the Group's shares. The Board is responsible for the proper direction and control of the Group's activities. To this extent Escher Group Holdings plc and its subsidiaries is committed to comply with best practice in corporate governance, appropriate for a company of its nature and size.

Board composition

In 2011, Paul Taylor (Non-executive) and Trevor McIntyre (Finance Director) joined the Board. Following their appointment the Board now comprises the Chairman, who was independent at the time of his appointment, three executive Directors and three Non-executive Directors, two of whom are independent. Biographical details of all members of the Board are set out on pages 12–13. Paul Taylor was appointed to the Board at the time of the IPO.

The Board is expected to meet at least six times a year to review the Group's strategy and oversee the Group's progress towards its goals. In addition, ad hoc meetings will be called to address specific issues requiring Board approval. In the period between admission of Escher Group Holdings plc to AIM to the date of this report, the Board has formally met five times, all being fully attended meetings with one exception where one Director was unable to attend. The Board has established Audit, Remuneration and Nomination Committees. The Board considers the current balance of skills and experience appropriate for the business following its admission to AIM. The Board is collectively responsible for the success of the Group. The roles of Chairman and Chief Executive Officer are vested in separate individuals, each with clear allocation of accountability and responsibility.

The Chairman has prime responsibility for running the Board and the Chief Executive Officer has executive responsibilities for the Group's strategic development, operations and results. The structure of the Board and the integrity of each Director ensures that there is no one individual or group dominating the decision making process. Independent professional advice is taken as required. The Directors comply with Rule 21 of the AIM rules relating to directors' dealings as applicable to AIM companies and will take all reasonable steps to ensure compliance by the Group's applicable employees. They also comply with all other AIM rules for companies as set out by the London Stock Exchange.

Board committees

The Board has formally established three committees during the year, with clearly defined terms which are set by the Board. The role, work and members of the committees are outlined in the reports below.

Audit Committee

The Audit Committee, chaired by Paul Taylor, consists of two Non-executive Directors, Paul Taylor and John Quinn. The Audit Committee meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on, controlled and monitored, including reviewing the annual and interim accounts, results announcements, internal control and risk management systems, procedures and accounting policies. It also reviews and approves the auditors' reports and fees and meets with the auditors without executive Board members being present at least two times a year. In the period between admission of Escher Group Holdings plc to AIM and the date of this report, the Audit Committee formally met twice in preparation for, and subsequent approval of, the financial statements to the Board.

Remuneration Committee

The Remuneration Committee is chaired by John Quinn and consists of three Non-executive Directors, John Quinn, Paul Taylor and Michael Smurfit Jnr. The Remuneration Committee determines the level and structure of remuneration of the executive Directors and senior management, including pension rights and compensation payments. It is also responsible for recommending the award of options for all employees under the share option scheme. The fees of the Non-executive Directors are determined by the Board as a whole. No Director or employee is involved in any decisions with regard to their own remuneration. In the period between admission of Escher Group Holdings plc to AIM and the date of this report, the Remuneration Committee formally met twice, both fully attended, to include a discussion and recommendation of a share option plan to the Board.

Nomination Committee

The Nomination Committee is chaired by Bernard Somers and consists of three Non-executive Directors, Bernard Somers, John Quinn and Paul Taylor. It is expected to meet not less than two times a year. The committee has responsibility for reviewing the balance of the Board including its balance of skills and experience and the state of the business and its leadership needs, and gives full consideration to succession planning. It also has responsibility for recommending new appointments to the Board. In the period between admission of Escher Group Holdings plc to AIM and the date of this report, the Nomination Committee formally met once, and the meeting was fully attended.

Internal control and risk management

The Group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements that must be applied throughout the Group. Executive directors have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

There is in place a comprehensive system of financial reporting based on the annual budget which the Board approves. The results for the Group as a whole are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis. No system can provide absolute assurance against material misstatement or loss but the Group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities. There is currently no internal audit function as this is not considered necessary at this stage of the company's development but this will be reviewed on an annual basis as the Group evolves.

Shareholder relations

Meetings with institutional shareholders are held following the interim and full year announcements and on an ad hoc basis. These are usually attended by the Chief Executive Officer and Finance Director. Feedback from these meetings and regular market updates prepared by the Group's broker are presented to the Board. The Chairman and the other Non-executive Directors are available to shareholders to discuss strategy and governance issues. In accordance with AIM Rule 26, there is an investors section on the company's website, investors.eschergroup.com, which is kept up to date.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011.

Directors' responsibilities for financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 1963 to 2009 applicable to companies reporting under IFRS.

Irish company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that year. In preparing these financial statements, the Directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable and prudent;

— ensure that the financial statements comply with IFRS, as adopted by the European Union; and

— prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account, that disclose with reasonable accuracy at any time the financial position of the company and the Group, and enable them to ensure that the financial statements are prepared in accordance with IFRS, as adopted by the European Union, and with those parts of the Companies Act, 1963 to 2009 applicable to companies reporting under IFRS.

The Directors are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Books of account

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at 12 Camden Row, Dublin 8, Ireland.

Going concern

The directors have a reasonable expectation that the Group has and will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include any adjustments that would be required if the Group were unable to continue as a going concern.

Principal activity

Escher Group Holdings plc and its wholly owned subsidiaries (collectively the "Group") is a leading provider of distributed messaging and data management solutions and points of service. The Group develops markets and sells enterprise-wide software applications for post office counter automation and distributed network communication. The Group's principal customers are international postal services. The Group services these customers from their offices in Ireland, the United States, Singapore, South Africa and the United Kingdom.

On 25 July 2011, the Group filed for an Initial Public Offering on London's AIM. Admission to AIM occurred on 8 August 2011. This raised US$25.0 million in funding (US$21.4 million net of expenses). These funds were used to reduce existing debt and to provide ongoing working capital funding.

Review of the business and future developments

The review of the business and future developments in outlined in the Chief Executive's report on pages 8 and 9 and the Financial review on pages 10 and 11.

Results and dividends

The results for the year are set out in the consolidated income statement on page 19. It is the Directors' intention that all funds generated by the Group will be invested in the development of the business, as is usual for a business at this stage of development.

Principal risks and uncertainties

Management and the Board regularly review the risks facing the Group. The Directors consider that the following are the principal risk factors that could materially and adversely affect the Group's future operating profits or financial position:

— technological risk;

— intellectual property protection;

— reliance on key systems;

— data security;

— dependence on key management personnel;

— ability to recruit and retain skilled personnel;

— growth management (including the new US contract);

— reputation risk;

— potential requirement for further investment;

— economic conditions and current economic weakness; and

— financial risk (see below).

Financial risk management

The Group's operations expose it to a variety of financial risks that include market rate risk, foreign exchange risk, credit risk, liquidity risk and interest rate risk. Please see note 3 to the financial statements for further details.

Directors

The names of the persons who were Directors at any time during the year ended 31 December 2011 and up to the date of approval of these financial statements are as listed on pages 12 and 13 and, unless otherwise indicated, have served throughout the entire year.

Directors' and secretary's interests

The beneficial interests, including the interests of spouses and minor children, of the Directors and secretary in office at 31 December 2011 in the share capital of the company were as follows:

	Ordinary shares	
	31 December 2011	31 December 2010
Directors		
Liam Church	2,060,160	25,752
Fionnuala Higgins	2,060,160	25,752
Michael Smurfit Jnr(1)	1,195,315	12,500
John Quinn	985,840	12,323
Bernard Somers	745,840	9,323
Trevor McIntyre	48,000	600
Paul Taylor	—	—

(1) Representative of Bacchantes which is a shareholder of the company.

The Directors and secretary (including their spouses and minor children) had no other interests in the shares of the company or any other Group company at 31 December 2011.

Transactions involving Directors

There were no contracts of any significance in relation to the business of the company in which the Directors had any interest, as defined in the Companies Act 1990 at any time during the year ended 31 December 2011.

Research and development

The Group performed research and development of IT solutions for the postal industry during the year. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets in accordance with our Group policy.

In current year US$1.4 million (2010: US$1.0 million) of development expenditure in relation to *RiposteTrEx* has been capitalised in accordance with the criteria set out in IAS 38 "Intangible Assets". In addition, there has been US$0.8 million capitalised in relation to other products being developed which will form part of the *Riposte* suite of products. In the current year US$1.9 million (2010: US$1.8 million) of research and development costs were expensed in the income statement as the state of completion was not viewed as being sufficiently developed to warrant capitalisation.

Subsidiary companies

The information required by the Companies (Amendment) Act 1986 in relation to subsidiary undertakings is given in note 13 to the financial statements.

Political and charitable contribution

There are no political contributions to report. There was a charitable contribution of US$1,400 made to the Irish Youth Foundation during 2011.

Environmental matters

There are no environmental matters to report.

Re-registration as a public limited company

The company was re-registered as a public limited company on 14 July 2011.

Subsequent events

Details of subsequent events are set out in note 25.

Auditors

The auditors, PricewaterhouseCoopers, will be re-appointed in accordance with Section 160(2) of the Companies Act 1963.

On behalf of the Board

Liam Church
Chief Executive Officer

Trevor McIntyre
Finance Director
12 April 2012

Independent auditors' report

to the members of Escher Group Holdings plc

We have audited the group and parent company financial statements (the "financial statements") of Escher Group Holdings plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statement of Changes in Equity, the Consolidated and Parent Company Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts, 1963 to 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the parent company statement of financial position is in agreement with the books of account.

We also report to you our opinion as to:

— whether the parent company has kept proper books of account;

— whether the directors' report is consistent with the financial statements; and

— whether at the date of the Statement of Financial Position there existed a financial situation which may require the parent company to convene an extraordinary general meeting of the parent company; such a financial situation may exist if the net assets of the parent company, as stated in the parent company statement of financial position, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive Officer's Report, the Financial Review, the Corporate Governance Statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

— the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;

— the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the parent company's affairs as at 31 December 2011 and cash flows for the year then ended; and

— the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the parent company. The parent company statement of financial position is in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 16 and 17 is consistent with the financial statements.

The net assets of the parent company, as stated in the parent company statement of financial position on page 21 are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent company.

Damian Byrne
for and on behalf of
PricewaterhouseCoopers
Chartered Accountants
and Statutory Audit Firm
Dublin
12 April 2012

Consolidated income statement

for the year ended 31 December 2011

	Notes	2011 Before exceptional items US$'000	2011 Exceptional items US$'000	2011 After exceptional items US$'000	2010 US$'000
Revenue	5	13,862	–	13,862	13,959
Cost of sales	7	(3,807)	–	(3,807)	(3,510)
Gross profit		10,055	–	10,055	10,449
Operating expenses	6/7	(6,733)	(828)	(7,561)	(6,355)
Operating profit		3,322	(828)	2,494	4,094
Finance income	9	127	–	127	7
Finance costs	9	(1,474)	–	(1,474)	(1,865)
Net finance costs		(1,347)	–	(1,347)	(1,858)
Profit before income tax		1,975	(828)	1,147	2,236
Income tax expense	10	(544)	–	(544)	(769)
Profit for the year		1,431	(828)	603	1,467
Earnings per share (in US$ cent per share)	27				
– Basic		12.7	–	5.3	19.5
– Diluted		12.7	–	5.3	18.5

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the year	603	1,467
Other comprehensive income:		
Currency translation differences	(366)	301
Total comprehensive income for the year	237	1,768

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Consolidated statement of financial position

at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment	11	548	282
Intangible assets	12	33,963	32,247
Deferred income tax assets	10	170	296
		34,681	32,825
Current assets			
Cash and cash equivalents	15	3,439	779
Trade and other receivables	14	5,650	5,480
		9,089	6,259
Total assets		43,770	39,084
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	21	118	13
Share premium	21	20,884	—
Other reserves	22	517	344
Retained earnings		4,203	3,640
Total equity		25,722	3,997
Non-current liabilities			
Borrowings	18	—	8,177
Deferred income tax liabilities	10	141	124
Provisions for other liabilities and charges	17	24	24
		165	8,325
Current liabilities			
Borrowings	18	11,816	19,936
Trade and other payables	16	5,683	5,927
Current income tax liabilities		328	721
Derivative financial instruments	19	56	178
		17,883	26,762
Total liabilities		18,048	35,087
Total equity and liabilities		43,770	39,084

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Company statement of financial position

at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Assets			
Non-current assets			
Property, plant and equipment	11	3	—
Investment in subsidiaries	13	1,540	1,540
Trade and other receivables	14	—	5,000
		1,543	6,540
Current assets			
Cash and cash equivalents	15	2,456	13
Trade and other receivables	14	20,882	—
		23,338	13
Total assets		24,881	6,553
Equity and liabilities			
Capital and reserves attributable to equity holders of the company			
Ordinary shares	21	118	13
Share premium	21	20,884	—
Other reserves	22	964	425
Retained earnings		(767)	—
Total equity		21,199	438
Non-current liabilities:			
Trade and other payables	16	—	5,000
Current liabilities:			
Trade and other payables	16	3,682	1,115
Total liabilities		3,682	6,115
Total equity and liabilities		24,881	6,553

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Equity share capital US$'000	Share premium US$'000	Cumulative foreign translation reserve US$'000	Other reserves US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2010	13	—	(382)	158	2,173	1,962
Profit for the financial year	—	—	—	—	1,467	1,467
Other comprehensive income	—	—	301	—	—	301
Total comprehensive income for the year	—	—	301	—	1,467	1,768
Share based payments	—	—	—	267	—	267
Balance at 1 January 2011	13	—	(81)	425	3,640	3,997
Profit for the financial year	—	—	—	—	603	603
Other comprehensive income	—	—	(366)	—	—	(366)
Total comprehensive income for the year	—	—	(366)	—	603	237
Bonus issue of shares	40	—	—	—	(40)	—
Share based payments	1	—	—	539	—	540
Proceeds from the issue of shares on IPO	63	23,773	—	—	—	23,836
Shares issued in debt for equity swap on IPO	1	599	—	—	—	600
Share issue costs	—	(3,488)	—	—	—	(3,488)
Balance at 31 December 2011	118	20,884	(447)	964	4,203	25,722

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Company statement of changes in equity

for the year ended 31 December 2011

	Equity share capital US$'000	Share premium US$'000	Other reserves US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2010	13	—	158	—	171
Capital contribution in respect of employee share based payments	—	—	267	—	267
Balance at 31 December 2010	13	—	425	—	438
Loss for the year	—	—	—	(727)	(727)
Bonus issue of shares	40	—	—	(40)	—
Share based payments	1	—	539	—	540
Proceeds from the issue of shares on IPO	63	23,773	—	—	23,836
Shares issued in debt for equity swap on IPO	1	599	—	—	600
Share issue costs	—	(3,488)	—	—	(3,488)
Balance at 31 December 2011	118	20,884	964	(767)	21,199

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Consolidated statement of cash flows

for the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Cash generated from operations	20	2,982	4,252
Interest received		5	7
Interest paid		(418)	(700)
Income tax paid		(698)	(198)
Net cash generated from operating activities		1,871	3,361
Cash flows from investing activities			
Additions to intangible assets		(2,207)	(1,021)
Payments to acquire property, plant and equipment		(446)	(211)
Net cash used in investing activities		(2,653)	(1,232)
Cash flows from financing activities			
Repayment of borrowings		(16,750)	(1,876)
Funds raised on admission to AIM		23,837	—
Share issue costs paid		(3,483)	—
Net cash generated from/(used in) financing activities		3,604	(1,876)
Net increase in cash and cash equivalents		2,822	253
Cash and cash equivalents at beginning of year		779	583
Foreign exchange adjustments		(162)	(57)
Net increase in cash and cash equivalents		2,822	253
Cash and cash equivalents at end of year	15	3,439	779

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Company statement of cash flows

for the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Cash generated from operations	20	(193)	—
Income tax paid		1	—
Net cash generated from operating activities		(192)	—
Cash flows from financing activities			
Intercompany loans		(17,719)	—
Funds raised on admission to AIM		23,837	—
Share issue costs paid		(3,483)	—
Net cash generated from financing activities		2,635	—
Net increase in cash and cash equivalents		2,443	—
Cash and cash equivalents at beginning of year		13	13
Net increase in cash and cash equivalents		2,443	—
Cash and cash equivalents at end of year	15	2,456	13

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Liam Church
Chief Executive Officer
12 April 2012

Trevor McIntyre
Finance Director

Accounting policies and estimation techniques

for the year ended 31 December 2011

The significant accounting policies adopted by the company are as follows:

(i) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1963 to 2009 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the measurement of the fair value of share options and financial assets and financial liabilities (including derivatives) at fair value through profit on loss. A summary of the more important Group accounting policies is set out below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

(ii) Consolidation

The consolidated financial statements include the accounts of Escher Group Holdings plc and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group has availed of the exemption under IFRS 1 in relation to business combinations and has not applied IFRS 3 retrospectively to business combinations prior to the date of transition to IFRS (1 January 2008).

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and whenever there is an indicator of impairment by comparing the carrying value to the recoverable amount and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. The Group has two main operating entities. The combination of the two 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. The combined CGUs are not larger than an operating segment.

(iv) Revenue recognition

The Group's revenue consists primarily of revenues from the sale of technology products and services. Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

Revenue from professional services contracts and time and material training is recognised as the services are provided. The Group charges a service fee to customise software. If the service is on a contracted time and material basis, then the revenue is recognised as and when the services are performed. If it is a fixed fee, then the services revenue is recognised under the percentage of completion contract accounting method. The Group measures percentage of completion based on labour hours incurred to date as a proportion of total hours allocated to the contract. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the period in which the circumstances that give rise to the revision become known by management. Unbilled revenues are recognised as revenue during the month the service is provided.

Maintenance revenue is recognised over the contractual periods. Related support services are recognised as the services are performed.

(iv) Revenue recognition continued

License revenue for time based licences is deferred by the Group, and recognised evenly over the term of the licence. Revenues for perpetually licensed software is recognised on customer acceptance, provided the company has objective evidence of fair value of any undelivered elements. Revenue is deferred for undelivered elements.

For customers where the collectability is not assured, revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group.

Where the Group receives payment from customers in advance of the performance of its contractual obligations, a liability equal to the amount received is recognised as deferred revenue. That liability is reduced and the amount of the reduction is recognised as revenue, when and as the Group obtains the right to consideration in exchange for the service it provides.

Deferred revenue includes licence, software configuration and consulting service fees and maintenance and support contracts billed in advance.

(v) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the Board.

(vi) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). These consolidated financial statements are presented in US Dollar, which is the company's functional and the Group's presentation currency and is denoted by the symbol "US$".

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The Group has availed of the exemption in IFRS 1, whereby the cumulative translation differences for all foreign operations were deemed to be reset to zero at the date of transition to IFRS (1 January 2008).

(vii) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Equipment	33⅓% straight line
Fixtures and fittings	20% straight line
Computer equipment	33⅓% straight line
Leasehold improvements	50% straight line

Maintenance and repairs are charged to the income statement as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the financial statements and any resulting gain or loss is included in the determination of net income or loss.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy note (xi)).

Accounting policies and estimation techniques continued

for the year ended 31 December 2011

(viii) Investments in subsidiaries

Investments in subsidiaries included in the Parent Company Balance Sheet are shown at cost, plus share based payments expense less provision for impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the subsidiaries carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the subsidiaries fair value less costs to sell and value in use.

(ix) Pension obligations

The Group operates defined contribution plans. A defined contribution is a pension plan under which the Group pays fixed contributions into an independently administrated pension fund.

The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(x) Research and development and software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Research expenditure is recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

— it is technically feasible to complete the software so that it will be available for use;

— management intends to complete the software and use or sell it;

— there is an ability to use or sell the software;

— it can be demonstrated how the software will generate probable future economic benefits;

— adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

— the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads.

The estimated useful lives currently range up to five years and are reviewed at each statement of financial position date.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(xi) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(xii) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(xiii) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, net of outstanding bank overdrafts.

(xiv) Trade receivables

Trade receivables are recognised initially at fair value, which is normally the original invoiced amount and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or a financial re-organisation, default or delinquency in payments and general economic conditions are considered indicators that the trade receivable is impaired.

(xv) Taxation

The company is managed and controlled in the Republic of Ireland and, consequently, is tax resident in Ireland.

Current tax is calculated on the profits of the period. Current tax is determined using tax rates (and laws) that have been enacted by the balance sheet date.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, if the deferred tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in other comprehensive income or directly in equity, if the tax relates to items that are credited or charged, in the same or a different period, in other comprehensive income or directly in equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(xvi) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement for the liability for at least 12 months after the balance sheet date.

(xvii) Financial assets and liabilities

Financial assets and liabilities carried on the statement of financial position include receivables, cash and bank balances, borrowings and trade and other payables.

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset when the Group has a legally enforceable right to offset and it intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(xviii) Share capital and other reserves

Ordinary shares and Convertible Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xix) Finance income

Interest income is recognised on a time-proportion basis using the effective interest method.

(xx) Derivative financial instruments

Interest rate swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any gain or loss arising from the re-measurement of the fair value of derivatives are reported in the Income Statement within “Finance Income/(Costs)”.

Derivatives are presented as current if realisation or settlement is expected within one year or the Group does not have an unconditional right to defer payment; otherwise they are classified as non-current.

Accounting policies and estimation techniques continued

for the year ended 31 December 2011

(xxi) Share based compensation

The Group operated a share based compensation plan, under which the entity received services from certain employees as consideration for shares of the Group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined on the measurement date, based on market prices if available, taking into account the terms and conditions upon which the shares were granted.

For transactions with parties other than employees, who receive shares for goods or services received, the fair value of the goods or services received and the corresponding increase in equity, are measured at the date the entity obtains the goods or the counterparty renders service.

(xxii) Debt for equity swaps

Where the entity issues equity instruments to a creditor of the entity to extinguish all or part of a financial liability, the entity measures the fair value of the equity instruments issued, by reference to the listed share price, and the creditor is reduced by that amount, with the corresponding entry to equity.

(xxiii) Exceptional items

The Group has adopted an income statement format which seeks to highlight significant items within Group results for the year. The Group believe that this presentation provides additional analysis as it highlights one-off items. Such items may include costs of refinancing, restructuring, impairment of assets, litigation settlements, legislative changes and other significant non-recurring costs. Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are disclosed in the Group income statement and related notes as exceptional items.

Notes to the consolidated financial statements

for the year ended 31 December 2011

1. General information

Escher Group Holdings plc and its wholly owned subsidiaries (collectively the "Group") are leading providers of distributed messaging and data management solutions and services. They develop, market, sell and support enterprise-wide software applications for post office counter automation and distributed network communication. The Group's principal customers are international postal services. The Group services these customers from their offices in Ireland, the United States, Singapore, South Africa and the United Kingdom.

The company was incorporated in the Republic of Ireland on 7 June 2007 as NG Postal Limited, a private company limited by shares. On 14 September 2007, the company acquired the main operating subsidiaries (see note 13) giving rise to the goodwill asset (see note 12). The company was renamed Escher Group Holdings Limited on 2 September 2008.

The company re-registered as a public limited company on 14 July 2011 and changed its name to Escher Group Holdings plc on 14 July 2011. On 25 July 2011, the Group filed for an Initial Public Offering on London's AIM. Admission to AIM occurred on 8 August 2011.

The company's registered office is North Wall Quay, Dublin 1, Ireland.

2. Going concern

The financial statements have been prepared on a going concern basis which assumes the Group will continue in operational existence for the foreseeable future. The Group recorded a profit after tax of US$0.6 million in the year and its net current liabilities were US$8.8 million at 31 December 2011, due mainly to the classification of US$11.8 million of borrowings as current at 31 December 2011. This loan was repayable in September 2012. The loan contains a debt covenant and in late 2009, the Group experienced an increase in leverage due in part due to a delay in certain debtors due prior to year end, the end of a large contract and additional research and development costs in the furtherance of a new product. As such the Group exceeded its maximum leverage threshold in the fourth quarter of 2009 and has been in breach of its leverage covenant since that date.

On 8 August 2011, the company raised US$25 million (gross before US$3.5 million directly attributable costs) in new equity from institutional investors from its initial public offering on AIM of the London Stock Exchange. These funds were used to pay down US$5.6 million of the debenture and renegotiate the balance at a significantly lower interest rate. The funds were also used to partially repay US$10.8 million off the Irish Bank Resolution Corporation facility thereby reducing the bank debt significantly at 31 December 2011.

On 5 January 2012, the Group undertook a refinancing with Bank of Ireland where existing bank loans and debentures were repaid and new debt was raised with Bank of Ireland. This new financing put in place a US$9.7 million term loan facility and a revolving twelve-month facility for US$1.8 million. The term loan is amortising being fully repayable by 2015.

The combination of both fundraising activities has given sufficient working capital to enable the Group to execute its business plan. In addition to this fundraising, the Group has also signed a new US customer contract which has a 54-month base period and renewal options. The contract is expected to generate, over a fifteen-year term, approximately US$50 million in revenue for the Group, but with scope for substantial additional revenue.

Taking the above factors into account along with reviewing the company's budgets and forecasts, the Directors have a reasonable expectation that the company and the Group have and will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow risk, interest rate risk, currency risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Board is responsible for setting risk management policies and management are responsible for implementing these policies.

(a) Market rate risk

Market rate risk refers to the exposure of the Group's financial position to movements in interest rates, currency rates and general price risk.

The principal aim of managing the interest rate risk is to limit the adverse impact on cash flows and shareholder value of movements in interest rates.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Cash and cash equivalents and borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain in excess of its 50% of its borrowings in fixed rate instruments. During 2011 and 2010, the Group's borrowings at variable rate were denominated in US Dollars.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

Cash and cash equivalents and borrowings at variable rates expose the Group to cash flow interest rate risk.

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

3. Financial risk management continued

Financial risk factors continued

(a) Market rate risk continued

Cash flow and fair value interest rate risk continued

As at reporting date, the Group had the following cash and cash equivalents (note 15), borrowing (note 18), and interest rate swap contracts outstanding (note 19):

	2011		2010	
Group	Weighted average interest rate %	Balance US$'000	Weighted average interest rate %	Balance US$'000
Cash and cash equivalents	0.26	3,439	0.27	779
Bank borrowings	4.50	(8,424)	3.33	(19,936)
Debenture loan	13.58	(3,324)	16.00	(5,000)
Interest rate swaps (notional principal amount)	2.10	15,000	2.10	15,000
Net (exposure) to interest rate risk		6,691		(9,157)

	2011		2010	
Company	Weighted average interest rate %	Balance US$'000	Weighted average interest rate %	Balance US$'000
Cash and cash equivalents	0.26	2,456	0.27	13
Loan from subsidiaries	—	(3,786)	—	(1,115)
Net exposure to interest rate risk		(1,330)		(1,102)

Interest rate sensitivity analysis

Based on the financial instruments held at the balance sheet date, if interest rates had been 100 basis points (bps) higher/lower and all other variables were held constant, the Group profit/(loss) after tax for the year would have been higher or lower by the amounts set out in the table below:

	Increase by 100 bps		Decrease by 100 bps	
Group – after tax	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
(Loss)/profit for the year	(180)	(40)	180	40

A sensitivity of 100 bps has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign exchange transaction risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The effects of currency fluctuations on the translation of net assets values into US Dollars are reflected in the Group's consolidated equity position.

At 31 December 2011, if the US Dollar had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been US$11,000 (2010: US$35,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro denominated income and expenses.

The Group does not utilise foreign exchange hedging over these forecast exposures. The Group attempts where possible to avail of natural hedging. New contracts are either quoted in Euro or US Dollar depending on the currency cost funding requirement.

Interest on borrowings is denominated in the currency of the borrowing entity. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, being US Dollar. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by reviewing foreign currencies on a regular basis.

The Group's investments in foreign denominated subsidiaries are not hedged.

3. Financial risk management continued
Financial risk factors continued
(a) Market rate risk continued
Price risk
The Group is not significantly exposed to commodity price risk as a result of its operations. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.

(b) Credit risk
Credit risk is managed on Group basis. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to trade receivables. The Group banks with Irish Bank Resolution Corporation Limited, Bank of Ireland and Allied Irish Bank (AIB). Deposits held in Irish Bank Resolution Corporation Limited, Bank of Ireland and AIB are guaranteed by the Irish Government. The utilisation of credit limits is regularly monitored. As both the Irish Bank Resolution Corporation Limited and AIB are owned by the Irish state, the sovereign Irish ratings are also regularly monitored.

With respect to the credit quality of trade receivables that are neither past due not impaired, there are no indicators at the date of the statement of financial position, that the customers will not meet their payment obligations.

(c) Liquidity risk
The Group actively maintains a mix of long-term and short-term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions.

The Board monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
31 December 2011			
Borrowings	8,424	—	—
Debentures and accrued interest	3,392	—	—
Derivative financial instruments	56	—	—
Trade payables	746	—	—
31 December 2010			
Borrowings	19,936	10,624	—
Debentures and accrued interest	—	8,177	—
Derivative financial instruments	178	—	—
Trade payables	527	—	—

Company	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000
31 December 2011			
Amounts owed to subsidiaries	3,786	—	—
31 December 2010			
Amounts owed to subsidiaries	1,115	—	5,000

On 5 January 2012, the Group undertook a refinancing with Bank of Ireland where existing bank loans and debentures were repaid and new debt was raised with Bank of Ireland. This new financing put in place a US$9.7 million term loan facility and a revolving twelve-month facility for US$1.8 million. The term loan is amortising being fully repayable by 2015. On 31 January 2012, the first capital repayment of US$1.4 million was paid. The interest rate applying to this new term loan is 4.31%.

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

3. Financial risk management continued

Financial risk factors continued

(d) Fair value hierarchy

IFRS 7 requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

— quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

— inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

— inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The table below shows, for the Group's financial assets and liabilities that are recognised and subsequently measured at fair value, their classification within a three-level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets at the balance sheet date. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of the non-observable market data is significant in determining the fair value of the instrument. Non-observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

Group	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Derivative financial instruments				
31 December 2011	—	56	—	56
31 December 2010	—	178	—	178

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on available yield curves.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

To achieve the aim of an optimal capital structure, on 8 August 2011, the company raised US$25 million in new equity from institutional investors from its Initial Public Offering on AIM of the London Stock Exchange. These funds were used to pay down US$5.6 million of the debenture and renegotiate the balance at a significantly lower interest rate. The funds were also used to partially repay US$10.8 million off the Irish Bank Resolution Corporation facility thereby reducing the bank debt significantly at 31 December 2011.

Additionally, on 5 January 2012, the Group undertook a refinancing with Bank of Ireland where existing bank loans and debentures were repaid and new debt was raised with Bank of Ireland. This new financing put in place a US$9.7 million term loan facility and a revolving twelve-month facility for US$1.8 million. The term loan is amortising being fully repayable by 2015. On 31 January 2012, the first capital repayment of US$1.4 million was paid.

The capital structure of the Group consists of borrowings as set out above and equity comprising issued capital, reserves and retained earnings. Borrowings comprise bank loans and a debenture from a shareholder (see note 24). The capital structure includes a significant level of borrowings. The borrowing arrangements include certain financial covenants customary for debt of this magnitude.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill and intangible assets

The Group tests annually whether goodwill has suffered any impairment. Factors which the Group consider could trigger an impairment include, but are not limited to significant negative industry or economic trends or changes in key assumptions underpinning the value in use calculation. No impairment charge arose in the course of the year. The Group has conducted a sensitivity analysis on the impairment test of the carrying value, the results of which can be found in note 12 to these financial statements.

The estimated useful lives currently range up to five years and are reviewed at each statement of financial position date. Intangibles are tested for impairment if impairment indicators are identified. In 2011, the amortisation charge was US$358,000 (2010: US$34,000). If the amortisation period was shortened by one year for all categories of intangible, other than goodwill, in 2011 it would have resulted in an additional amortisation charge of US$90,000. The recoverable amount of the cash-generating units has been determined based on value-in-use calculations. These calculations require the use of estimates. Please see note 12 for further details of these estimates.

(b) Capitalisation of development costs

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. These calculations require the use of estimates, primarily around the level of directly attributable developer time and an appropriate portion of relevant overheads. Capitalisation ceases and amortisation commences once a product is available for deployment.

(c) IPO cost allocation

Costs incurred in issuing our own equity instruments include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Such costs incurred fell into three categories:

(i) costs clearly attributable to issuing new shares;

(ii) costs attributable to listing; and

(iii) shared costs which apply to (i) and (ii) together.

The shared costs in (iii) above have been allocated on a systematic basis between the share issue and the listing and then recorded in part as an equity deduction and in part as an expense.

(d) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver customisation services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognised in the year would increase by US$0.4 million if the proportion performed were increased or would decrease by US$0.4 million if the proportion performed were decreased.

(e) Income tax

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(f) Determination of functional currency

The Group is headquartered in Ireland and has significant operations in both the US and the UK and accordingly principally operates in three main currencies. Reflecting its economic operating environment, the Group has determined that the US Dollar is the company's functional currency.

(g) Trade receivables

Provision is made against trade receivables when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. This is a matter of management judgement, based on its best estimate of the likelihood of recovery on a specific, customer-by-customer basis.

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

5. Segment information

In line with the requirements of IFRS 8 "Operating Segments" the Group has identified its chief operating decision maker (CODM). The Group has identified the Board of the company as its CODM. The Board reviews the Group's internal reporting in order to assess the performance of the Group and allocates resources. The operating segment has been identified based on these reports.

The Board assesses the performance of the segments based primarily on measures of revenues and net profit. The Board reviews working capital and overall statement of financial position performance on a Group-wide basis.

The Board considers the business from a product perspective and consequently determined there to be only one segment. These product revenues derive from the Group's owned software products and from the following main sources:

Analysis of revenue by category	2011 US$'000	2010 US$'000
Perpetual licences	1,474	1,741
Time based licences	825	946
Maintenance	5,510	5,449
Support	2,497	2,606
Software development and consulting services	3,556	3,217
Revenue	13,862	13,959

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

	2011 US$'000	2010 US$'000
Ireland	330	1,007
UK	381	1,119
Other Europe	6,243	4,804
North and Latin America	1,402	4,081
Asia-Pacific region	1,136	1,569
Africa and Middle East	4,370	1,379
Revenue	13,862	13,959

Fluctuations in revenues with individual customers are typically due to a combination of up-front perpetual licence billings 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 period the Group derived revenues from the following external customers (reporting segment region in parentheses) which individually represented 10% or more of total reported revenues for that year:

	2011 %	2010 %
Customer A (other Europe)	16	15
Customer B (Africa and Middle East)	15	10
% of total reported revenues	31	25

The total of non-current assets other than deferred income tax assets located in the Republic of Ireland is US$3.1 million (2010: US$1.3 million), and the total of non-current assets located in other countries is US$31.5 million (2010: US$31.2 million).

6. Exceptional items

Exceptional expenses of US$0.8 million relate to professional fees and other related expenses on the fundraising activities which occurred in 2011. These are non-recurring one-off expenses. There is no tax impact of these exceptional items.

7. Expenses by nature

	2011 US$'000	2010 US$'000
Employee benefit expense (note 8)	4,921	5,650
Rental expense	525	468
Travel costs	543	493
Consulting expense	964	566
Insurance	372	286
Loss on foreign exchange	118	358
Legal fees	221	129
Direct selling and marketing costs	423	136
Depreciation	163	179
Amortisation of intangible assets	358	34
Data communications	226	181
Auditors' remuneration	204	177
Professional fees	12	135
Directors' remuneration	879	617
Movement in doubtful debts provision	192	—
Other expenses	419	456
Exceptional items (note 6)	828	—
Total	11,368	9,865
Analysed as:		
Cost of sales	3,807	3,510
Research and development	1,948	1,772
Sales and marketing	1,954	1,451
Administrative expenses	3,659	3,132
Total	11,368	9,865

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

Directors' remuneration	2011 US$'000	2010 US$'000
Emoluments:		
– for services as Directors	100	—
– for other services	779	617
	879	617

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

7. Expenses by nature continued

(a) continued:

Directors' remuneration	2011 Salary/fees US$'000	2011 Benefits in kind/car allowance US$'000	2011 Bonus US$'000	2011 Post-employment benefits US$'000	2011 Total US$'000	2010 Total US$'000
Executive Directors						
Liam Church	292	6	—	29	327	306
Fionnuala Higgins	292	30	—	29	351	311
Trevor McIntyre(1)	91	2	—	8	101	—
	675	38	—	66	779	617
Non-executive Directors						
Bernard Somers	37	—	—	—	37	—
John Quinn	21	—	—	—	21	—
Michael Smurfit Jnr	21	—	—	—	21	—
Paul Taylor(2)	21	—	—	—	21	—
	100	—	—	—	100	—
Total remuneration	775	38	—	66	879	617

(1) Appointed as Director on 11 July 2011.
(2) Appointed as Director on 31 July 2011.

(b) The Group obtained the following services from the Group's auditors at cost as detailed below:

Auditors' remuneration	2011 US$'000	2010 US$'000
Remuneration of the auditors for the statutory audit of the individual and Group financial statements is as follows:		
Audit of the parent individual financial statements	11	11
Audit of the Group financial statements	133	111
Tax advisory services	42	55
Other non-audit services	18	—
	204	177
Other assurance services	756	—
	960	177

Included in other assurance services are US$0.8 million of costs arising from various refinancing projects and the IPO. Directly attributable costs of US$0.5 million in relation to the IPO have been deducted from equity, while US$0.3m has been included in exceptional costs in the income statement.

(c) Employee share based payments

The ultimate parent company operated a share based compensation plan which ended in 2010. Certain employees were awarded shares in the ultimate parent company. The award of these shares was not subject to performance conditions and the share awards vested immediately. The parent issued new shares directly to the recipients. The ultimate parent company did not charge the subsidiaries of which the recipients are employees for the transaction.

In the consolidated financial statements, the transaction is treated as an equity-settled share based payment, as the Group has received services in consideration for the Group's shares. An expense is recognised immediately in the Group income statement for the grant date fair value of the share based payment, with a corresponding credit recognised in equity.

In the ultimate parent company's entity financial statements, there is no share based payment charge as no employees are providing services to the ultimate parent. Consequently, the parent's investment in the subsidiaries is increased by the cost of the share award as a capital contribution from the parent and a corresponding credit is recognised in equity (see note 21).

The cost of the equity settled amount recognised in the year was US$nil (2010: US$267,000). The expense in relation to these shares is based on the fair value of the shares at the date that the award was granted using free cash flows adjusted for the time value of money and stripping out the value of debt from the enterprise value to obtain the value of equity.

8. Employee benefit expense

	2011 US$'000	2010 US$'000
Wages and salaries	5,643	5,178
Social welfare costs	497	467
Pension costs – defined contribution scheme	195	195
	6,335	5,840
Capitalised labour	(1,414)	(457)
	4,921	5,383
Employee share based payments (see note 7)	—	267
	4,921	5,650

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

	2011 Number	2010 Number
Development	41	44
Selling and distribution	11	4
Administration	13	12
	65	60

The number of persons employed by the Group (including executive Directors) at 31 December 2011 was 72 (2010: 68).

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$195,000 in respect of 2011 (2010: US$195,000), of which US$154,727 was accrued at the year end (2010: US$129,738).

9. Finance income and costs

	2011 US$'000	2010 US$'000
Finance income		
Interest income	5	7
Fair value of derivatives	122	—
	127	7
Finance costs		
Interest on bank borrowings	(657)	(700)
Interest on debentures owing to shareholders	(817)	(1,128)
Fair value of derivatives	—	(37)
	(1,474)	(1,865)
Net finance costs	(1,347)	(1,858)

Finance income includes a credit of US$122,000 (2010: US$nil) to reflect movements in the fair value of interest rate swaps, while finance costs includes a charge of US$nil (2010: US$37,448) to reflect movements in the fair value of interest rate swaps.

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

10. Income tax expense

(a) Recognised in the income statement

	2011 US$'000	2010 US$'000
Current income tax		
Irish corporation tax at 12.5%	228	234
Foreign corporation tax	672	671
Adjustments in respect of current income tax of previous years	(213)	(280)
Total current tax	687	625
Deferred tax		
Origination and reversal of temporary differences	(143)	144
Total income tax charge recognised in the income statement	544	769

(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:

	2011 US$'000	2010 US$'000
Profit before taxation	1,147	2,236
Tax calculated at the Irish standard rate of corporation tax of 12.5%	143	280
Effects of:		
Income taxable at higher rates in other jurisdictions	360	424
Expenses not deductible for tax purposes	259	347
Other adjustments	(5)	(2)
Adjustment in respect of current income tax of previous years	(213)	(280)
Total income tax charge	544	769

(c) Deferred tax

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

	2011 US$'000	2010 US$'000
Deferred tax assets		
Deferred revenue	—	70
Derivative financial instruments	—	23
Unrealised foreign exchange transactions	182	154
Other	(12)	49
	170	296
Deferred tax liabilities		
Temporary differences on intangible assets	141	124

10. Income tax expense continued

(c) Deferred tax continued

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

	1 January 2011 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2011 US$'000
Deferred tax assets			
Deferred revenue	70	(70)	–
Derivative financial instruments	23	(23)	–
Unrealised foreign exchange transactions	154	28	182
Other	49	(61)	(12)
Deferred tax asset	296	(126)	170

	1 January 2010 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2010 US$'000
Deferred tax assets			
Deferred revenue	164	(94)	70
Derivative financial instruments	18	5	23
Unrealised foreign exchange transactions	78	76	154
Other	56	(7)	49
Deferred tax asset	316	(20)	296

	1 January 2011 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2011 US$'000
Deferred tax liabilities			
Temporary differences on intangible assets	(124)	(17)	(141)

	1 January 2010 US$'000	Recognition in income statement credit/(charge) US$'000	31 December 2010 US$'000
Deferred tax liabilities			
Temporary differences on intangible assets	–	(124)	(124)

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

11. Property, plant and equipment

Group	Computer equipment US$'000	Fixtures and fittings US$'000	Equipment US$'000	Leasehold improvements US$'000	Total US$'000
Cost					
At 31 December 2009	2,735	468	181	167	3,551
Additions	201	7	2	1	211
Disposals	(2)	—	(2)	(1)	(5)
At 31 December 2010	2,934	475	181	167	3,757
At 31 December 2010	2,934	475	181	167	3,757
Additions	438	8	—	—	446
Disposals	(81)	(1)	—	—	(82)
Exchange differences	(38)	(1)	(1)	—	(40)
At 31 December 2011	3,253	481	180	167	4,081
Accumulated depreciation					
At 31 December 2009	(2,570)	(435)	(150)	(145)	(3,300)
Charge for the year	(142)	(5)	(12)	(20)	(179)
Disposals	1	—	2	1	4
At 31 December 2010	(2,711)	(440)	(160)	(164)	(3,475)
At 31 December 2010	(2,711)	(440)	(160)	(164)	(3,475)
Charge for the year	(142)	(7)	(3)	(3)	(155)
Disposals	78	1	—	—	79
Exchange differences	15	1	1	1	18
At 31 December 2011	(2,760)	(445)	(162)	(166)	(3,533)
Net book value					
At 31 December 2009	165	33	31	22	251
At 31 December 2010	223	35	21	3	282
At 31 December 2011	493	36	18	1	548

Depreciation of US$155,000 (2010: US$179,000) has been charged in administrative expenses and US$nil (2010: US$nil) in cost of sales in the income statement.

Company	Computer equipment US$'000	Total US$'000
Cost		
At 31 December 2010	—	—
Intergroup transfer	11	11
Additions	3	3
At 31 December 2011	14	14
Accumulated depreciation		
At 31 December 2010	—	—
Intergroup transfer	(9)	(9)
Charge for the year	(2)	(2)
At 31 December 2011	(11)	(11)
Net book value		
At 31 December 2010	—	—
At 31 December 2011	3	3

12. Intangible assets

	Goodwill US$'000	*RiposteTrEx* development US$'000	COTS US$'000	Other intangibles US$'000	Total US$'000
Cost					
At 31 December 2009	31,260	—	—	—	31,260
Additions	—	1,021	—	—	1,021
At 31 December 2010	31,260	1,021	—	—	32,281
At 31 December 2010	31,260	1,021	—	—	32,281
Additions	—	1,421	597	189	2,207
Exchange differences	(133)	—	—	—	(133)
At 31 December 2011	31,127	2,442	597	189	34,355
Accumulated amortisation					
At 31 December 2009	—	—	—	—	—
Charge for the year	—	(34)	—	—	(34)
At 31 December 2010	—	(34)	—	—	(34)
At 31 December 2010	—	(34)	—	—	(34)
Charge for the year	—	(358)	—	—	(358)
At 31 December 2011	—	(392)	—	—	(392)
Net book value					
At 31 December 2009	31,260	—	—	—	31,260
At 31 December 2010	31,260	987	—	—	32,247
At 31 December 2011	31,127	2,050	597	189	33,963

During 2011 there was US$2.2 million of costs capitalised for intangible assets. US$1.4 million of this related to the ongoing development of the *RiposteTrEx* product. US$0.6 million was capitalised for development of our new "Complete out of the box solution" (COTS) and US$0.2 million for other products being developed.

Amortisation of US$358,000 (2010: US$34,000) on *RiposteTrEx* is included in cost of sales in the income statement. With the exception of *RiposteTrEx,* these products are still in the development phase and no amortisation has occurred. The average remaining amortisation period of the *RiposteTrEx* development is 50 months. In the year there was US$1.9 million (2010: US$1.8 million) 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 main operating entities. The combination of the two 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. The combined CGUs are not larger than an operating segment.

Impairment test of goodwill and other indefinite life assets

The value of goodwill and intangible assets was tested as at 31 December 2011, after business planning had been completed.

Impairment testing methodology

The recoverable amount of a CGU is determined on the basis of value-in-use, using the discounted cash flow (DCF) method. At 31 December 2011, these calculations use pre-tax cash flow projections based on business plans approved by the Board of Directors covering a five-year period up to 31 December 2016. For the period beyond five years a terminal growth rate of 2.5% has been applied. The cash flows are discounted using the discount rate stated overleaf.

In addition to this value-in-use test a separate fair value less costs to sell calculation has been performed. This supports the findings of the overleaf value-in-use test.

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

12. Intangible assets continued

Impairment test of goodwill and other indefinite life assets continued

Key assumptions

The key assumptions are based on past experience, adjusted for expected changes in future conditions. Key assumptions involved in the calculation of value-in-use include management's estimates of future operating cash flows, replacement capital expenditure requirements, tax considerations, discount rates and long-term growth rates. The key assumptions in relation to long-term growth rates and discount rates were evaluated with regard to external information on comparable companies in similar markets.

The Group considers the business plan and long-term projections to be reasonable in view of the anticipated long-term performance of the global economy.

The key assumptions used for value-in-use calculations are as follows:

	2011 %	2010 %
Discount rate (pre-tax)	16.0	14.1
Terminal growth rate	2.5	2.5

Growth rates

The growth rates are determined based on the long-term historical growth rates of the sectors in which the CGUs operate, and reflect an assessment of the growth prospects of the sector as well as further individual significant contract wins. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the long-term historical average growth rates for those markets or sectors.

Discount rates

The discount rate used is pre-tax and reflect specific risks relating to the CGUs. The discount rate applied to the cash flows of the Group's segment is based on the risk-free rate for ten year plus US government bonds. In estimating the discount rate, inputs required are the equity market risk premium (that is, the excess return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific CGU's operations relative to the market as a whole. In determining the risk adjusted discount rate, management has applied an adjustment for the risk of the Group's CGUs determined using an average of the betas of comparable companies. If the estimated discount rate used in the impairment calculations was 26%, the value in use would equal the net carrying amount.

Impairment test results

No impairment has been identified.

The percentages shown in the table below represent the increase or decrease in the individual sensitivity factors that would lead to the recoverable amount equalling the carrying value of the assets.

	2011 %
Discount rate (pre-tax) (absolute increase)	12
Business plan EBITDA (relative decrease)	37

Any adverse changes in a key assumption underpinning the value-in-use calculation may cause an impairment loss to be recognised in future periods. The Group's revenue projections are relatively concentrated on a small number of significant customers. The loss of a small number of customers without replacement or failure to achieve expected new contract wins may result in a significant change to the estimated net future cash flows used in the above calculations.

13. Investment in subsidiaries

	Cost of investment US$'000	Capital contribution US$'000	Total US$'000
At 1 January 2010	1,115	158	1,273
Capital contribution in respect of employee share based payments (see note 6)	—	267	267
At 31 December 2010	1,115	425	1,540
At 31 December 2011	1,115	425	1,540

13. Investment in subsidiaries continued

The principal subsidiaries of the Group at 31 December 2011 were as follows:

Name	Nature of business	% holding	Registered office
Escher Group (Irl) Limited	Developing software solutions	100	North Wall Quay, Dublin 1
NG Postal FinCo Limited	Funding vehicle	100	North Wall Quay, Dublin 1
Escher Group Limited	Developing software solutions	100	12 Farnsworth Street, Boston, MA 02210, US
Escher Europe Limited	Developing software solutions	100	North Wall Quay, Dublin 1
Escher Asia Pacific Pte	Software consulting	100	10 Eunos Road 8, Singapore Post Centre #13-03 Singapore 408600
Escher Group Africa	Software consulting	100	Unit 36 Norma Jean Office Park, 244 Jean Avenue, Centurian 0157, Republic of South Africa

14. Trade and other receivables

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Non-current				
Amounts owed by subsidiaries	—	—	—	5,000
Current				
Trade receivables	2,374	3,959	—	—
Less provision for impaired receivables	(192)	—	—	—
Trade receivable – net	2,182	3,959	—	—
Accrued income	2,798	1,097	—	—
Amounts owed by subsidiaries	—	—	20,788	—
Prepayments	369	171	—	
Other receivables	219	188	94	—
Recoverable taxes	82	65	—	—
	5,650	5,480	20,882	—

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

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

(a) The carrying amounts of the trade and other receivables are denominated in the following currencies:

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
US Dollar	677	3,039	—	—
Sterling	—	—	94	—
Euro	1,697	920	—	—
	2,374	3,959	94	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

14. Trade and other receivables continued

As at 31 December 2011, at a Group level, trade receivables with a nominal value of US$192,000 were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Group US$'000	Company US$'000
At 1 January 2010	–	–
Charge for the year	–	–
At 31 December 2010	–	–
At 1 January 2011	–	–
Charge for the year	192	–
At 31 December 2011	192	–

Ageing of trade receivables

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

	Group	
	2011 US$'000	2010 US$'000
Less than 30 days	1,267	630
Between 31–60 days	138	1
More than 90 days	50	74
Neither impaired nor past due	727	3,254
Impaired	192	–
Total	2,374	3,959

As of 31 December 2011, trade receivables of US$727,000 (2010: US$3,254,000) were fully performing.

As of 31 December 2011, trade receivables of US$1,647,000 (2010: US$705,000) 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 2011, trade receivables of US$192,000 (2010: US$nil) were impaired. The individually impaired receivables mainly relate to two customers. It was assessed that a portion of the receivables is expected to be recovered.

(b) The majority of the Group's customers, primarily representing post offices operate within the postal service industry. As at 31 December 2011, a significant portion of the trade receivables of the Group related to 2 customers (2010: 3 customers) as follows:

	2011 %	2010 %
Customer A	33	3
Customer B	10	3
Customer C	–	20
Customer D	–	17
Customer E	–	12

(c) Amounts owed by Group undertakings are interest free, unsecured and are repayable on demand. The Board has reviewed these amounts for impairment. Following this review, no provision for impairment was deemed necessary.

15. Cash and cash equivalents

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Cash at bank and in hand	3,439	779	2,456	13

Cash at bank 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 2011 these exposures were as follows:

	2011 US$'000	2010 US$'000
Non-US Dollar denominated cash balances		
Euro	766	314
Sterling	14	9
Singapore Dollar	62	70
South African Rand	62	32
Total non-US Dollar	904	425

16. Trade and other payables

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Non-current				
Amounts owed to subsidiaries	—	—	—	5,000
	—	—	—	5,000
Current				
Trade payables	746	527	—	—
Amounts owed to subsidiaries	—	—	3,668	1,115
Income tax deducted under PAYE	244	74	—	—
Pay related social insurance	95	40	—	—
Other creditors and accruals	1,027	841	14	—
Deferred revenue	3,571	4,445	—	—
	5,683	5,927	3,682	1,115

Amounts owed to subsidiary companies are unsecured and interest free.

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

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2011 US$'000	2010 US$'000
USD	350	177
EUR	282	350
GBP	69	—
ZAR	44	—
SEK	1	—
	746	527

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

17. Provisions and other liabilities and charges

	Restoration of leasehold improvement US$'000
At 1 January 2011	24
Charged to the income statement	—
At 31 December 2011	24

	2011 US$'000	2010 US$'000
Provisions have been analysed between current and non-current as follows:		
Non-current	24	24
Current	—	—
	24	24

The provision relates to restoration of lease improvements on the leased premises in Singapore.

18. Borrowings

	Book value		Fair value	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Non-current liabilities				
Debentures	—	5,000	—	5,000
Accrued interest	—	3,177	—	3,177
	—	8,177	—	8,177
Current liabilities				
Bank loans	8,424	19,936	8,424	19,936
Debentures	3,324	—	3,324	—
Accrued interest	68	—	68	—
	11,816	19,936	11,816	19,936
Total borrowings	11,816	28,113	11,816	28,113

The debenture from Bacchantes Limited above attracts interest of 5.1% per annum which is rolled up. During the year, shares to the value of US$0.6 million were issued in part payment of this debenture. The debenture was repaid in full on 5 January 2012 as part of a Group refinancing.

Interest on the debenture is rolled up and there is no cash impact while the interest is rolled up and due for payment on redemption of the debenture.

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. See note 19 for the fair value of derivative instruments entered into in relation to these borrowings.

18. Borrowings continued

Maturity of financial borrowings

The maturity profile of the carrying amount of the Group's borrowings is set out below. As set out in note 2, the Group was in breach of certain of its covenants, thereby necessitating the related borrowings to be reclassified as current in the prior year. These borrowings were due for repayment in September 2012. As set out in note 25, these borrowings have been repaid since the year end as part of a Group refinancing.

Group	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	8,424	—	—	—	8,424
Debentures	3,324	—	—	—	3,324
Accrued interest	68	—	—	—	68
At 31 December 2011	11,816	—	—	—	11,816
Bank loans	19,936	—	—	—	19,936
Debentures	—	5,000	—	—	5,000
Accrued interest	—	3,177	—	—	3,177
At 31 December 2010	19,936	8,177	—	—	28,113

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.

19. Derivative financial instruments

Group	Fair value 2011 US$'000	Fair value 2010 US$'000
Non-current liabilities		
Interest rate swaps – not designated as hedges	—	—
Current liabilities		
Interest rate swaps – not designated as hedges	56	178

20. Cash generated from operations

	Group 2011 US$'000	Group 2010 US$'000	Company 2011 US$'000	Company 2010 US$'000
Profit/(loss) before tax	1,147	2,236	(722)	—
Adjustments for:				
Depreciation	155	179	2	—
Amortisation	358	34	—	—
Loss on disposal of tangible assets	—	1	—	—
Finance income	(5)	(7)	—	—
Finance costs	1,474	1,828	—	—
Employee share based payments	—	267	—	—
Effect of foreign exchange	(177)	358	(34)	—
Movement in derivatives	(122)	37	—	—
Movement in provisions	—	3	—	—
Management fee	—	—	(184)	—
Exceptional costs	828	—	828	—
Changes in working capital				
Decrease in trade and other receivables	(60)	(181)	(94)	—
(Decrease)/increase in trade and other payables	(616)	(503)	11	—
Cash generated from operations	2,982	4,252	(193)	—

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

21. Share capital and premium

Authorised share capital – Group and company	Number of ordinary shares	Ordinary shares US$'000	Number of B ordinary shares	Ordinary shares US$'000	Total US$'000
Equity share capital					
At 1 January 2010					
A ordinary shares of €0.10 each	10,000,000	1,388	—	—	1,388
B convertible ordinary shares of €0.10 each	—	—	1,000,000	136	136
At 31 December 2010	10,000,000	1,388	1,000,000	136	1,524
Re-designation of A ordinary shares into ordinary shares of €0.005 each	200,000,000	1,388	—	—	1,388
Re-designation of B convertible ordinary shares into shares of €0.005 each	—	—	20,000,000	(133)	(133)
Re-designation of B shares as A ordinary shares	428,000	3	(428,000)	(3)	—
Cancellation of the reminder of B shares	—	—	(19,572,000)	136	136
Increase in authorised share capital	572,000	4	—	—	4
At 31 December 2011	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 2010	94,000	13	—	13
Share based payments	650	—	—	—
At 31 December 2010	94,650	13	—	13
Bonus issue of shares	283,950	40	—	40
Split of share capital	7,193,400	—	—	—
Re-designation of B shares as ordinary share capital	428,000	—	—	—
Share based payment (note 22)	195,315	1	—	1
Shares issued in debt for equity swap on IPO	195,315	1	599	600
Issued on IPO	8,642,467	63	20,285	20,348
At 31 December 2011	17,033,097	118	20,884	21,002

	Number of shares	B ordinary shares US$'000	Share premium US$'000	Total US$'000
B convertible ordinary shares				
At 1 January 2010	3,100	—	—	—
Employee share option scheme:				
– proceeds from shares issued	2,250	—	—	—
At 31 December 2010	5,350	—	—	—
Bonus issue of shares	16,050	—	—	—
Split of share capital	406,600	—	—	—
Re-designation of B shares as ordinary share capital	(428,000)	—	—	—
At 31 December 2011	—	—	—	—

21. Share capital and premium continued

The rights attaching to the B convertible ordinary shares mirror the rights attaching to the A ordinary shares except that B convertible ordinary shares do not carry the right to vote or attend at general meetings of the company. The Group has the right to buy back or redeem at nominal amount 100% of the shares issued if the employee ceases employment with the Group within twelve months of the date of their commencement of employment. The shares are convertible immediately prior to a realisation of the company (including an IPO) to A Ordinary shares on a one to one basis. Such conversion shall be effected to the extent permitted by law in any manner as the directors shall from time to time determine. The B convertible ordinary shares are not transferable except as may be agreed by holders of 75% or greater of the A ordinary shares.

On 5 February 2010, 2,250 B convertible shares and on 20 December 2010 650 A ordinary shares were issued to management of the Group at par value. The fair value of this award was valued by reference to the capital asset pricing model and a charge of US$267,000 has been recorded as a capital contribution (note 7).

On 15 July 2011, there was a 3 for 1 bonus issue of shares through a capitalisation of reserves. This brought the issued share capital to €40,000, to meet the minimum requirements (€38,094) for a public limited company under Irish company law.

On 2 August 2011, the share capital was subdivided into €0.005 shares (2010: €0.10).

On 2 August 2011, prior to the Initial Public Offering (IPO), 428,000 B shares were re-designated as ordinary shares and the remaining 19,572,000 authorised but unissued B convertible shares were cancelled.

On 2 August 2011, the Group increased its authorised share capital to 201 million shares by the creation of 572,000 ordinary shares.

On 8 August 2011, 9 million shares were issued in an IPO raising US$65,000 in share capital and US$24.4 million in share premium, against which US$3.5 million of directly attributable costs have been netted against this amount.

22. Reserves

Group	Cumulative foreign translation reserve US$'000	Share based payments US$'000	Total US$'000
At 1 January 2010	(382)	158	(224)
Movement in the year	301	—	301
Share based payments (see note 6)	—	267	267
At 31 December 2010	(81)	425	344
At 1 January 2011	(81)	425	344
Movement in the year	(366)	—	(366)
Share based payments	—	539	539
At 31 December 2011	(447)	964	517

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries where the functional currency is not US Dollar.

The increase in the share based reserve relates to shares issued in lieu of services received. The fair value of the shares granted was determined by reference to the listed market price the grant date. In total 196,835 shares were granted at a price of £1.70 per share.

Company	Capital contribution US$'000	Total US$'000
At 1 January 2010	158	158
Capital contribution in respect of employee share based payments (see note 6)	267	267
At 31 December 2010	425	425
At 1 January 2011	425	425
Share based payments	539	539
At 31 December 2011	964	964

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

23. Commitments and guarantees

(a) Commitments

(i) Operating leases

The Group leases offices in Dublin, Boston, Singapore and South Africa under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The leases do not contain any escalation clauses or terms pertaining to contingent rent.

Lease rentals in respect of these offices, amounting to US$0.4 million (2010: US$0.2 million), are included in the income statement.

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Land and buildings				
Within one year	405	374	–	–
Between two and five years	441	662	–	–
	846	1,036	–	–

(ii) Capital commitments

The Group had no capital commitments at 31 December 2011 (2010: US$ nil).

(b) Guarantees

At the year end, the company is a participant in a Group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to Group members. In addition, the company has issued an unlimited guarantee to the bank to support these Group facilities. Total Group borrowings under these facilities amounted to US$8.4m at 31 December 2011.

The fair value of this guarantee is considered to be US$nil (2010: US$nil). The guarantees were released following the refinancing of the company in January 2012 (see note 25 for further details).

24. Related party disclosures

The amounts due to and from companies of the Group at each year end are as follows:

	Company	
	2011 US$'000	2010 US$'000
Amounts owed by Group undertakings		
Escher Group Limited	15,126	–
NG Postal Finco Limited	599	–
Escher Group (Irl) Limited	5,063	5,000
	20,788	5,000
Amounts owed to Group undertakings		
Escher Europe Limited	2,925	–
Escher UK Limited	743	–
NG Postal FinCo Limited	–	5,000
Escher Group Limited	–	1,115
	3,668	6,115

The company did not make any sales to or purchase from any Group entities during the year (2010: US$ nil).

Debentures

The Group owes a debenture to Bacchantes Limited, a company represented by Michael Smurfit Jnr., who is a Director of the company. The par value of the debenture at 31 December 2011 was US$3.3 million (2010: US$5.0 million). The debenture attracts interest at 5.1% per annum, which is rolled up for payment on redemption. Accrued interest at 31 December 2011 was US$0.1 million (2010: US$3.2 million). During the year, shares to the value of US$0.6 million were issued in part payment of this debenture (see note 18 for further details). The debenture was repaid in full on 5 January 2012.

24. Related party disclosures continued

Guarantees

In connection with the Irish Bank Resolution Corporation (IBRC) Facility Agreement, Bernard Somers and John Quinn each entered into personal guarantees in respect of the obligations of Escher Group Ltd. Under the IBRC Facility Agreement each of their personal guarantees is limited to a principal amount of US$1m. Fionnuala Higgins and Liam Church entered into a personal guarantee on a joint and several basis in respect of the IBRC Facility Agreement. This personal guarantee is limited to a principal amount of US$3 million. All three personal guarantees include a mechanism for a potential reduction in the liability cap based on the performance of Escher Group Limited. The fair value of these guarantees is considered to be US$ nil. The guarantees were released following the refinancing of the company in January 2012 (see note 25 for further details).

	2011 US$'000	2010 US$'000
Compensation of key management personnel (including Directors)		
Salaries and other short-term employee benefits	900	824
Share based payments	—	78
Post-employment benefits	76	73
	976	975

	Ordinary shares		
	31 December 2011	Acquired during FY 2011	31 December 2010
Directors			
Liam Church	2,060,160	2,034,408	25,752
Fionnuala Higgins	2,060,160	2,034,408	25,752
Michael Smurfit Jnr(1)	1,195,315	1,182,815	12,500
John Quinn	985,840	973,517	12,323
Bernard Somers	745,840	736,517	9,323
Trevor McIntyre	48,000	47,400	600
Paul Taylor	—	—	—

(1) Representative of Bacchantes which is a shareholder of the company.

During 2011, the Directors did not purchase any shares. The movements above reflect the bonus issue and share split as outlined in note 21. Also Bacchantes, who are represented by Michael Smurfit Jnr, received 195,315 shares in lieu of payment of a debenture (please see note 18 for further details).

25. Subsequent events

On 5 January 2012, the Group undertook a refinancing with Bank of Ireland where existing bank loans and debentures were repaid and new debt was raised with Bank of Ireland. This new financing put in place a US$9.7 million term loan facility and a revolving twelve-month facility for US$1.8 million. The term loan is amortising, being fully repayable by 2015. On 31 January 2012, the first capital repayment of US$1.4 million was paid.

In January 2012, Escher signed a significant new contract with the USPS. This new contract has a 54-month base period with further options for renewal and is expected to generate, over a fifteen-year term, approximately US$50 million in revenue for the Group, but with scope for substantial additional revenue. In addition, a new six-year contract was signed in March 2012 with the Pakistan Post Office.

26. Company only income statement

In accordance with Section 148(8) of the Companies Act 1963 and Section 7(1)(A) of the Companies (Amendment) Act 1986, the Company is availing of the exemption from presenting its individual income statement to the Annual General Meeting and from filling it with the Registrar of Companies. The company's loss for the financial year is US$727,000 (2010: US$nil).

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for the year ended 31 December 2011

27. 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.

A 3 for 1 bonus issue of shares was made on 15 July 2011 through a capitalisation of reserves. This brought the issued share capital to €40,000, to meet the minimum requirements (€38,094) for a public limited company under Irish company law. On 15 July 2011, the Company subdivided its share capital into €0.005 shares. On 2 August 2011, 428,000 B ordinary shares were re-designated as ordinary shares. On 8 August 2011, 9,033,097 new shares were issued as part of the IPO. In accordance with, IAS 33 "Earnings per Share", this bonus issue of shares and share split has been reflected in the current year and the comparative EPS calculations.

	Before exceptional items 2011 US$'000	After exceptional items 2011 US$'000	2010 US$'000
Profit attributable to equity holders of the parent	1,431	603	1,467
	Number	Number	Number
Basic weighted average number of shares	11,311,633	11,311,633	7,521,567
Dilutive potential ordinary shares			
Convertible ordinary shares	–	–	410,247
Diluted weighted average number of shares	11,311,633	11,311,633	7,931,814
Basic earnings per share (in US$ cent per share)	12.7	5.3	19.5
Diluted earnings per share (in US$ cent per share)	12.7	5.3	18.5

28. Recent accounting pronouncements

The following new and amended IFRS and IFRIC interpretations became effective as of 1 January 2011; however, they either do not have an effect on the Group financial statements or they are not currently relevant for the Group:

Amendment to IAS 24 "Related Party Disclosures" – Amendment to IAS 24 to revise the definition of a related party and to additionally include specific guidance for government related entities;

Amendments to IAS 32 "Financial Instruments: Presentation", on classification of rights issues – The amendment allows rights issues denominated in foreign currency, that are issued to all shareholders, to be classified as equity. This amendment therefore creates an exception to the "fixed for fixed" rule in IAS 32;

Amendment to IFRIC 14 "IAS 19" – The limit on a defined benefit asset, minimum funding requirements and their interaction; and

IFRS improvements – In developing IFRS, the IASB follows a due process handbook with allows for fast track annual improvements. Under this process amendments are made to existing IFRS to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. A number of annual improvements to IFRSs are effective from 2012, however, none of these had or expected to have a material effect of the annual Group financial statements.

28. Recent accounting pronouncements continued

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods but which the Group has not early adopted, as follows:

Amendment to IFRS 7, Financial Instruments: Derecognition (effective for annual periods on or after 1 July 2011);

Amendment to IAS 12 'Income taxes' Recovery of underlying assets (effective for annual periods on or after 1 January 2012);

IAS 1, 'Financial statement presentation', on other comprehensive income (effective for annual periods on or after 1 July 2012);

IAS 19 'Employee Benefits' (effective for annual periods on or after 1 January 2013);

IAS 27 (revised), 'Separate Financial Statements', (effective for annual periods on or after 1 January 2013);

IAS 28 (revised), 'Investments in associates and joint ventures', (effective for annual periods on or after 1 January 2013);

IFRS 9 'Financial instruments (effective for annual periods on or after 1 January 2013);

IFRS 10, 'Consolidated Financial Statements', (effective for annual periods on or after 1 January 2013);

IFRS 11, 'Joint Arrangements', (effective for annual periods on or after 1 January 2013);

IFRS 12,'Disclosure of interests in other entities', (effective for annual periods on or after 1 January 2013); and

IFRS 13, 'Fair Value measurement', (effective for annual periods on or after 1 January 2013).

None of these new standards, amendments and interpretations are expected to have a material impact on the Group.

29. Approval of financial statements

These Group and parent company financial statements were authorised for issue by the Board of Directors on 12 April 2012.

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