SGO Corporation Limited

Annual Report and Consolidated financial statements
Registration number 07477910

31 December 2018

Contents

Strategic report

Principal activities

The principle activity of SGO Corporation Limited (the 'Company') is the provision of corporate governance to all its subsidiaries (the 'Group') and the issuance of policies and procedures, as well as the formulation of specific plans in areas such as strategic planning, corporate communications, tax, legal and financial matters. The Company incurs costs which are billed to fellow group companies.

Review of business and outlook

SGO Corporation Limited's total consolidated revenue for 2018 reached to US$119 million (2017: US$90 million), primarily generated from its subsidiaries in USA, Netherlands, and Philippines. The Smartmatic brand, which sells election products and services, constituted the main source of these revenues. The consolidated revenue for 2018 increased by $29 million from 2017. The main cause of increase came from the provision of electoral services, in particular, the new contract with Los Angeles County in the USA. Also, there were increased sales of equipment and transmission services in Philippines.

Total costs of sales amounted to US$68 million (2017: US$92 million) resulting in a total gross profit of US$51million (2017: gross loss of US$2 million). Total loss after tax for the Group amounted to US$11 million (2017: loss after tax of US$52 million). This was caused by the delay of certain projects in Europe and other locations, the impact of the devaluation on assets held in Venezuela and impairments to accounts receivable.

As at 31 December 2018 the Group has consolidated current assets of US$139 million (2017: US$128 million) and net assets of US$117 million (2017: US$ 127 million).

The 2019 financial outlook shows increased revenues, driven by increased electoral activity taking place in the marketplace. Primarily this will occur in the USA, Brazil and Argentina. There are also expected to be opportunities in other Latin American countries and in some European countries, such as Bulgaria and Denmark. New opportunities in other business lines are being pursued to help sustain the revenue growth in future years.

Review of operations

The Group has presence in 27 countries, with major operations in USA, Netherlands and the Philippines.

During 2018, the Group opened new operations in El Salvador, Bolivia, and Australia and completed some new projects in USA, Belgium, and El Salvador. The Group improved its operation in USA, Latin America and Asia Pacific to be able to compete widely in that electoral market in those regions. Also during 2018, the Group continued to invest in new lines of businesses to enhance new business opportunities and in the other start-ups: Infuser, Airlabs, Social Hunt and Folio. Smartmatic delivers technology to clients in key areas:

- Electronic and auditable voting systems
- Internet voting
- Intelligent and integrated security systems
- Identity registration and authentication of large population groups
- Public transportation systems
- Technology research and development, and consulting
- Deployment systems

The Group has investments in:

- Social Hunt: social media voting
- Folio: Digital identity
- Airlabs: Air pollution cleaning technologies for consumers and cities
- Infuser: Air pollution cleaning technologies for the industrial sector

Strategic report *(continued)*

Risks

The Company Directors review the capital structure of the Group on a regular basis and consider the cost of capital and the risks associated with each class of capital.

The Group faces currency and credit risks as it operates in countries with high inflation and others with currency restrictions. The Directors are also aware of the risks involved in taking on large long term projects and so mitigate these with careful management and maintaining high level management information to ensure that risks are identified and mitigated on a project by project basis.

Financial instruments

The financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade receivables and trade payables that arise directly from its operations. The Group's operations expose it to a variety of financial risks including market price risk, foreign exchange risk and credit risk and liquidity risk. Overall responsibility for the management of these risks is vested with management who monitor them on an ongoing basis.

Market price risk - the Group co-ordinates the handling of foreign exchange risk by creating natural hedges wherever possible.

Credit risk - the Group's client base is predominantly government authorities and the historical incidence of default is very low.

Liquidity risk – the Group maintains sufficient liquid assets ensuring debtors and creditors are actively monitored. There is an arrangement in place for funding from one of the Holding Companies (Smartmatic International Holding B.V.), if required.

Foreign exchange risk – the Group undertakes transactions denominated in foreign currencies and consequently is exposed to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters.

Key Performance Indicators

The Group uses a range of key performance indicators (KPIs) to monitor performance and progress towards strategic objectives. The principal financial KPIs include year on year analysis of revenue, gross profit, EBITDA and profit for the year. The non-financial KPIs for the group include headcount, customer base growth, development and deployment of new or enhanced technologies, and diversification of products and services provided.

By order of the board

Antonio Jose Mugica Rivero
Director

88 Baker Street, London, United Kingdom, W1U 6TQ

12 June 2019

Directors' report

The Board of Directors present their directors' report and financial statements for the year ended 31 December 2018.

Dividend

The directors have declared and paid a final ordinary dividend in respect of the current financial year of US$ nil (2017: $ nil).

Directors

The directors who held office during the year were as follows:

Antonio Jose Mugica Rivero
Roger Alejandro Piñate Martinez
Sir Nigel Graham Knowles
Lord George Mark Malloch-Brown

Political Donations

Neither the Company nor any of its subsidiaries made any political donations during the year (2017: US$ nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Antonio Jose Mugica Rivero
Director

88 Baker Street, London, United Kingdom, W1U 6TQ

12 June 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of SGO Corporation Limited

Opinion

We have audited the financial statements of SGO Corporation Limited ("the company") for the year ended 31 December 2018 which comprise the consolidated income statements, consolidated statement of comprehensive income, consolidated and company balance sheet, consolidated and company statement of changes in equity, consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of receivables and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

Independent auditor's report to the members of SGO Corporation Limited *(continued)*

Going concern *(continued)*

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent auditor's report to the members of SGO Corporation Limited (continued)

Auditor's responsibilities *(continued)*

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

R.M. Seale

Robert Seale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 June 2019

Consolidated Income Statement
for year ended 31 December 2018

	Note	2018 US$000	2017 US$000
Revenue	*3*	**119,227**	90,459
Cost of sales		**(67,802)**	(92,299)
Gross profit/(loss)		**51,425**	(1,840)
Operating expenses		**(46,960)**	(50,886)
Gain on disposal of a subsidiary	*13*	**5,248**	-
Other income	*4*	**563**	3,832
Other expenses	*4*	**(9,987)**	(2,698)
Foreign exchange rate loss		**(6,124)**	(1,829)
Operating loss	*5*	**(5,835)**	(53,421)
Financial income	*8*	**1,329**	1,660
Financial expenses	*8*	**(783)**	(492)
Foreign exchange (loss)/gain		**(122)**	32
Net financing income		**424**	1,200
Share of profit of joint venture	*14*	**-**	-
Loss before tax		**(5,411)**	(52,221)
Taxation	*9*	**(5,643)**	143
Loss for the year		**(11,054)**	(52,078)
Attributable to:			
Equity holders of the parent		**(10,900)**	(51,746)
Non-controlling interest		**(154)**	(332)
Loss for the year		**(11,054)**	(52,078)

The notes on pages 16 to 53 form an integral portion of these financial statements

Consolidated Statement of Comprehensive Income

for year ended 31 December 2018

	2018 US$000	2017 US$000
Loss for the year	**(11,054)**	(52,078)
Other comprehensive income		
Items that are or may be recycled subsequently to profit or loss:		
Foreign currency translation differences	**674**	956
	(10,380)	(51,122)
Attributable to:		
Equity holders of the parent	**(11,537)**	(50,790)
Non-controlling interest	**1,157**	(332)
	(10,380)	(51,122)

The notes on pages 16 to 53 form an integral portion of these financial statements

Consolidated Balance Sheet
at 31 December 2018

	Note	2018 US$000	2017 US$000
Non-current assets			
Property, plant and equipment	*10*	**7,972**	9,476
Intangible assets	*11*	**11,145**	8,602
Investment in equity-accounted investees	*12*	**5,007**	4,903
Investment in joint ventures	*14*	**-**	-
Other receivables	*17*	**5,186**	5,080
Deferred tax assets	*15*	**583**	6,435
		29,893	34,496
Current assets			
Inventories	*16*	**2,818**	2,185
Trade and other receivables	*17*	**64,345**	38,093
Cash and cash equivalents	*18*	**72,100**	70,390
Non-current assets held for sale	*19*	**-**	17,605
		139,263	128,273
Total assets		**169,156**	162,769
Current liabilities			
Other interest-bearing loans and borrowings	*20*	**870**	7,685
Trade and other payables	*21*	**40,338**	19,158
Deferred revenue	*23*	**6,589**	691
Income tax payable		**2,498**	972
Provisions	*24*	**1,214**	3,306
		51,509	31,812
Non-current liabilities			
Deferred tax liabilities	*15*	**1**	2,250
Other interest-bearing loans and borrowings	*20*	**541**	1,222
		542	3,472
Total liabilities		**52,051**	35,284
Net assets		**117,105**	127,485

Consolidated Balance Sheet *(continued)*

	Note	2018 US$000	2017 US$000
Equity attributable to equity holders of the parent			
Share capital	*25*	-	-
Share premium		**12,255**	12,255
Share based payment reserves		**16,879**	16,879
Translation reserves		**(62,117)**	(61,398)
Retained earnings		**148,240**	159,058
Non-controlling interest		**1,848**	691
Total equity		**117,105**	127,485

The notes on pages 16 to 53 form an integral portion of these financial statements

These financial statements were approved by the board of directors on 12 June 2019 and were signed on its behalf by:

Antonio José Mugica Rivero
Director

Company registration number 07477910

Consolidated Statement of Changes in Equity

for year ended 31 December 2018

	Share capital US$000	Share premium US$000	Translation reserve US$000	Share based payments reserve US$000	Retained earnings US$000	Total parent equity US$000	Non-controlling interest US$000	Total equity US$000
Balance at 31 December 2016	-	12,255	(61,542)	16,524	209,993	177,230	1,022	178,252
Total comprehensive income								
Loss for the year	-	-	-	-	(51,746)	(51,746)	(332)	(52,078)
Foreign currency translation differences	-	-	144	-	811	955	1	956
Total comprehensive income for the period	-	-	144	-	(50,935)	(50,791)	(331)	(51,122)
Equity-settled share based payment transactions	-	-	-	355	-	355	-	355
Balance at 31 December 2017	-	12,255	(61,398)	16,879	159,058	126,794	691	127,485
Total comprehensive income								
Loss for the year	-	-	-	-	(10,900)	(10,900)	(154)	(11,054)
Foreign currency translation differences	-	-	(719)	-	82	(637)	1,311	674
Total comprehensive income for the period	-	-	(719)	-	(10,818)	(11,537)	1,157	(10,380)
Equity-settled share based payment transactions	-	-	-	-	-	-	-	-
Balance at 31 December 2018	-	12,255	(62,117)	16,879	148,240	115,257	1,848	117,105

The notes on pages 16 to 53 form an integral portion of these financial statements

Consolidated Cash Flow Statement
for year ended 31 December 2018

	Note	2018 US$000	2017 US$000
Cash flows from operating activities			
Loss for the year		(11,054)	(52,078)
Adjustments for:			
Depreciation, amortisation and impairment	5	2,297	2,621
Bad debts allowance	5	1,711	3,710
Unrealised foreign exchange movements		3,866	(2,641)
Reversal of bad debts allowance	5	(222)	(70)
Loss on translation of deferred tax assets	15	32	16
Equity settled share-based payment expenses	22	-	355
Taxation	9	5,643	(143)
Finance income	8	(1,329)	(1,660)
Finance expense	8	783	492
Movement in trade and other receivables	17	(26,358)	92,708
Movement in inventories	16	(633)	4,397
Movement in trade and other payables	21	21,180	(155)
Movement in provision	24	(2,092)	(7,064)
Movement in deferred revenue	23	5,898	(2,768)
Interest paid	8	(583)	(492)
Tax paid		(5,047)	(3,463)
Net cash from operating activities		(5,908)	33,765
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,519	-
Proceeds from sale of other intangible assets		1,607	-
Acquisition of property, plant and equipment	10	(389)	(270)
Acquisition of other intangible assets	11	(5,444)	(3,531)
Increase in investment in subsidiary		(104)	-
Interest received	8	320	345
Decrease in assets held for sale		17,605	-
Net cash from investing activities		15,114	(3,456)
Cash flows from financing activities			
Issue of new debt	20	-	7,000
Repayment of borrowings	20	(7,496)	(670)
Repayment of promissory notes	20	-	(689)
Net cash from financing activities		(7,496)	5,641
Net decrease in cash and cash equivalents		1,710	35,950
Cash and cash equivalents at 1 January	18	70,390	34,440
Cash and cash equivalents at 31 December	18	72,100	70,390

The notes on pages 15 to 53 form an integral portion of these financial statements

Notes to the consolidated financial statements
(forming part of the financial statements)

1 Accounting policies

1.1 Basis of preparation

SGO Corporation Limited (the 'Company') is a company incorporated in the United Kingdom. SGO Corporation Limited's registered office is 88 Baker Street, London, United Kingdom, W1U 6TQ. The registered number is 07477910.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018. This privately owned multinational group designs and deploys end-to-end custom technology solutions to enable government agencies and large enterprises to fulfil their missions.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis except for certain assets and liabilities that are stated at their fair value, as explained in the accounting polices below.

The Venezuelan subsidiaries Tecnologia Smartmatic de Venezuela, C.A., Integradora Venezolana de Tecnologia y Automatizaciones and Smartmatic Labs, C.A. reported their financial statements in the currency of a hyperinflationary economy up to March 2018. In accordance with IAS 29 Financial Reporting in Hyperinflationary Economies, the financial statements of those subsidiaries were restated by applying a general price index and translated at closing rates (DICOM) before they were included in the consolidated financial statements. From April 2018 the functional currency was of these companies was changed to US dollars.

1.3 Going concern

Having reviewed the Group's current trading and forecasts, together with sensitivities and mitigating factors and the available facilities, the Board has reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing these financial statements.

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Joint Operations

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2014. The Group identifies joint arrangements as those arrangements in which two or more parties have joint control, where joint control is evidenced by the contractually agreed sharing of control of an arrangement, which exists where the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint operations are identified as those agreements whereby the parties have rights to the assets and obligations for liabilities relating to the arrangement. Joint operations are accounted for by recognising the operator's relevant share of assets, liabilities, revenues and expenses.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.4 Basis of consolidation (continued)

Joint ventures are identified as those agreements whereby the parties have rights to the net assets of the arrangement and are accounted for using equity accounting in accordance with IAS 28. Interest in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The Group has assessed the nature of its joint arrangements and determined them to be joint operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group has the power to participate in an entity's financial and operating policy decisions, but it is not in control or hold joint control of those policies.

Application of the equity method to associates

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

1.5 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Gains and losses on translation arising from the group operations are recorded within operating profits, those which arise from the group financial structure have been recorded as a gain or loss within the group's net financing income and expenses.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the translation reserve, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

On 9 March 2017, the National Government and the BCV, entered into Exchange Agreement N° 35, which establishes the new provisions that will regulate the operations of the foreign currency regime. Such agreement will be effective as of 10 March 2017. It eliminates SICAD and SIMADI and creates a dual exchange system that will consist of two new exchange rates for the purchase or sale of foreign currencies (a) The protected exchange rate (DIPRO, for its Spanish acronym) and (b) The market's supplementary floating exchange rate (DICOM, for its Spanish acronym). Dipro's exchange rate was fixed in 9,975 VEB per USD$1 for the purchase and 10 VEB per USD$1 for the sale. Dicom's exchange rate began at 215 VEB per USD$1 (SIMADI's exchange rate at 10 March 2017). SIMADI will continued functioning until substitution within a maximum term of 30 days. Until then, Dicom's exchange rate was the same as SIMADI's exchange rate published by the Central Bank of Venezuela on a daily basis. As the Company operations were not covered by Exchange Agreement N° 35, it will be processed through alternative foreign currency markets regulated by the exchanges laws, at Dicom's exchange rate. At 31 December 2017, SIMADI's (DICOM'S) exchange rate was 674 VEB per US$1 and the average rate across the year was 672 VEB.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.5 Foreign currency (continued)

Venezuela continues to be a hyperinflationary economy for the year ending 31 December 2018. The Central Bank of Venezuela has not published official inflation data since 2015. However, private sector estimates and reports indicate an accelerating rate of inflation and the IMF projects and inflation rate of 1,133% for the year ending 31 December 2018. DICOM's exchange rate was 3,345 VEF per US$1.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency (USD) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

When the functional currency of a foreign operation is the currency of a hyperinflationary economy, all assets, liabilities, equity items, income and expenses are translated using an official exchange rate prevailing at the end of each reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

At the date of presentation of the financial statements at 31 December 2018 and for the year then ended, no official information relating to the National Consumer Price Index ("NCPI") from January to December was available, as they have not been published by the BCV. Therefore, the NCPI at 31 December 2018 and from January to November 2018, used by the Company following the guidelines established in communications issued by the Venezuelan Federation of Public Accountants (FCCPV), have been determined by external and independent professionals of the Company, who are in charge of updating the information on a monthly basis based on the same methodology. Regarding the official 2018 NCPI the BCV might publish in the future, the impact of this estimate on the Company's financial statements at 31 December 2018 and for the year then ended is not expected to be significant and should any difference arise, they will be corrected in the financial statements of the next economic period. Below are the monthly index used and also the monthly and yearly variance.

NCPI		
	Index	**Monthly variance**
		2018
March	238,010	30%
February	183,085	30%
January	140,834	30%

1.6 Classification of financial instruments issued by the Group

Policy effective from period beginning 1 January 2018

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.6 Classification of financial instruments issued by the Group (continued)

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment or accounted for using the equity method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.6 Classification of financial instruments issued by the Group (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

(iii) **Impairment**

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.7 Classification of financial instruments issued by the Group – policy up to 31 December 2017

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(c) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and

(d) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expired.

Financial assets

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Available for sale financial assets

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. Investments are recorded at cost. Any other financial assets within this category are measured subsequently at fair value, with changes in value recognised in equity, through other comprehensive income. Gains and losses arising from investments classified as available for sale are recognised in the consolidated statement of comprehensive income when they are sold or when the investment is impaired. In the case of impairment of available for sale assets, any loss previously recognised in equity is transferred to the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.7 Classification of financial instruments issued by the Group – policy up to 31 December 2017 (continued)

Financial liabilities

Other financial liabilities are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

1.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

Commercial office units and improvements	30 years
Equipment	3 - 5 years
Leasehold improvements	3 years
Furniture and fittings	3 -10 years
Vehicles	3 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.9 Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

1.10 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Where the Group has been developing new product lines the costs of the software to deliver these have been capitalised once it has met the requirements as per IAS 38. It will then start to be amortised from the period the product is ready for use.

Software which is not integral to a related item of hardware are also recognised as intangible assets. Capitalised internal-use software include external direct costs of materials and services consumed in the development or purchase, use of dedicated contractors, and payroll and related costs for employees who are directly associated with or who devote substantial time to the project. Capitalisation of these costs ceases when the project is substantially complete and ready for its internal purpose. These costs are amortised over their expected useful life deemed to be three to five years once the asset is put into use.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.10 Intangible assets (continued)

prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. The policies applied to the Group's Intangible assets are summarised as follows:

- Acquired Anoto IP – Straight line basis with a maximum life of 4 years, with no residual value.

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. Obsolete, defective or slow-moving inventories have been written down to estimated net realisable value. The recoverable amount of inventory is calculated based on inventory age and turnover.

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.13 Employee benefits (continued)

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or incentive plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity-settled.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the management best estimate of the expenditure required to settle the Group's obligation.

1.15 Pre-contract costs

Where the group incurs significant costs related to a contract before the contract commences these are recognised within receivables as pre contract costs. Such costs are only capitalised if they are necessary to both render and improve the future service to the client and relating to future activity on the contract. These costs are then expensed through the income statement over the life of the contract that these costs relate to.

1.16 Revenue

The Group recognises revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In accordance with IFRS 15 the company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group recognises revenue from the following major sources:

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.16 Revenue (continued)

Provision of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Fees are recognised by reference to the stage of completion, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- Servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and

Sale of goods and equipment

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership, not effective control over goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

Revenue from both the sale of goods, and the provision of services, is recognised over time to the extent that:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, and another entity would not need to substantially re-perform the work that the entity has completed to date (routine or recurring services).
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date (building a specialised asset that only the customer can use, or building an asset to a customer order).

If the above criteria are not considered to be met, then the Group recognises revenue at the point in time of which the transfer of control is transferred to the customer.

1.17 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.17 Expenses (continued)

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Research and development

Research is expense as the costs are incurred. Where the expenditure reaches the requirements for IAS 38 for development the amounts are capitalised as an intangible asset.

1.18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.19 Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Notes to the consolidated financial statements *(continued)*

1 Accounting policies *(continued)*

1.20 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 16 Leases (effective date 1 January 2019).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective date to be confirmed).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (effective date to be confirmed).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective date to be confirmed).
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective date to be confirmed).
- The Directors are considering the impact of these newly issued standards upon the results of the Group.

IFRS 16

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- The Group has not finalised the testing and assessment of controls over its systems to capture and record all data in line with the standard requirements
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its rights to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases for club and office property and equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

Adoption of the standard will not impact the Group's ability to comply with its banking facility covenants.

Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, the Group expects that there will be no change to the carrying value of receivables relating to sub leases on adoption of the standard. However, the carrying value of the receivable will be reclassified from provisions to finance lease receivable.

Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information.

Notes to the consolidated financial statements *(continued)*

2 Accounting estimates and judgements

In the application of the Group's accounting policies, which are described in Note 1, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

Capitalisation of development costs

Capitalisation of development costs relates to capitalisation of costs used for the development of software not yet ready for use across some of the subsidiaries of the Group. The Group exercises judgement regarding the appropriateness of capitalisation of development costs based upon the Group's ability to meet the recognition criteria prescribed by IFRS. Owing to the inherent uncertainty of forecasting future cash flows within an entity with no contracted future revenue, the ultimate valuation of the resulting intangible assets is subject to material uncertainty in the financial statements.

Estimates

The following are the critical judgments and key sources of estimation uncertainty, apart from those that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue recognition in long-term contracts

Long term contract accounting requires the Group, at the outset of the contract, to make an estimate of total expected costs, which then drives revenue recognition over time. Currently the Group is only operating with one such contract, whereby the Group regularly assesses actual costs to date against budgeted costs. As at year end, no significant variations from the original budget have been identified, and the Group continues to expect that the contract will remain profitable. However, given the length of time over which long-term contracts span, where markets are susceptible to change following national elections which may give rise to new laws and regulations, this is considered to be a significant estimate to the Group.

Impairment of trade and other receivables

The group allocates its exposure to credit risk based on data determined to be predictive of the risk of loss and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to the external sources. A provision is made for all ECLs and assessed regularly based upon changes to the risk of default. Refer to note 26 for further detail regarding impairments recognised during the year.

Notes to the consolidated financial statements *(continued)*

3 Revenue

	2018 US$000	2017 US$000
Sale of goods	**104,177**	13,040
Provision of services	**15,050**	77,419
Total revenue	**119,227**	90,459

Revenue by geographical location is as follows:

	2018 US$000	2017 US$000
Asia	**43,286**	6,191
North America	**33,830**	-
South America	**20,378**	55,151
Europe	**18,898**	21,901
Central America	**2,835**	-
Africa	**-**	7,216
Total revenue	**119,227**	90,459

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	2018 US$000	2017 US$000
Trade receivables from customers (see note 17)	**34,580**	4,608
Contract assets (accrued income) (see note 17)	**7,210**	13,319
Contract liabilities (deferred income) (see note 23)	**6,589**	691

Contract assets represent revenue recognised but not yet invoiced. All contract assets as of 31 December 2017 (US$13,319,000) were invoiced during the year ended 31 December 2018. The same is expected to be true for all contract assets at the year ended 31 December 2018.

Contract liabilities represent the Group's obligation to transfer goods or services to customers, for which the Group has already received consideration from the customer. All of the contract liability balance as of 31 December 2017 (US$691,000) has been recognised as revenue during the year ended 31 December 2018. The same is expected to be true for all contract liabilities at the year ended 31 December 2018.

Notes to the consolidated financial statements *(continued)*

4 Other income and expenses

	2018	2017
	US$000	US$000
Other income	**563**	3,832

In 2018 significant items within other income includes the sale of office equipment and furniture for US$219,000 and other non-significant items. In 2017 significant items relate to payments received for the settlement of a US legal claim ($1,596,000), the sale of office equipment and batteries (US$670,000) and a refund of tax payable (US$401,000).

	2018	2017
	US$000	*US$000*
Other expenses	**9,987**	2,698

In 2018 significant items within other expenses relate to the impairment of amounts due from related parties of $5,198,000 (refer to note 29), additional tax penalties and permits of US$1,402,000 and a write off of advances and deferred charges of US$744,000. In 2017 significant items within other expenses relates to prior year advances agreed not to be reimbursed for US$2,000,000.

5 Expenses and auditor's remuneration

Included in operating profit are the following (credits)/expenses:

	2018	2017
	US$000	US$000
Loss on disposal of intangible assets	**1,644**	-
Impairment of PPE (see note 10)	**-**	657
Impairment reversal of trade receivables (see note 26)	**(222)**	(70)
Impairment of trade receivables (see note 26)	**1,711**	3,710
Depreciation expense (see note 10)	**635**	877
Amortisation expense (see note 11)	**1,348**	773
Pre-contract costs amortisation expense (see note 17)	**314**	314
Operating lease expense (see note 27)	**1,389**	2,295
Research and development expenditure	**2,133**	941
Gain on disposal of joint venture (see note 13)	**5,248**	-
Impairment of amounts due from related parties (see note 29)	**5,198**	-

Auditor's remuneration:

	2018	2017
	US$000	US$000
Audit of these financial statements	**21**	20
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	**577**	696
Tax advisory and compliance services	**382**	864

In addition to the audit fees payable to KPMG LLP and it associates, certain Group subsidiaries are audited by other firms. Fees payable to those firms amounts to US$76,250 (2017: US$54,000).

Notes to the consolidated financial statements *(continued)*

6 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2018	2017
Number of employees	**403**	448

The aggregate payroll costs of these persons were as follows:

	US$000	US$000
Wages and salaries	**24,650**	22,702
Share based payments (See note 22)	**-**	355
Social security costs	**3,342**	3,179
Contributions to defined contribution plans	**108**	131
	28,100	26,367

7 Directors' remuneration

	2018	2017
	$000	$000
Remuneration paid to or receivable by directors in respect of qualifying services	**634**	2,629
	634	2,629

The total remuneration and amounts receivable under long term incentive schemes of the highest paid director was US$430,000 *(2017: US$1,862,000)*. One of the directors was not paid for his services to the group.

Notes to the consolidated financial statements *(continued)*

8 Finance income and expense

	2018 US$000	2017 US$000
Finance income		
Interest income	**320**	345
Gain on monetary position	**1,009**	1,315
Total finance income	**1,329**	1,660

	2018 US$000	2017 US$000
Finance expense		
Interest expense	**583**	492
Loss on monetary position	**200**	-
Total finance expense	**783**	492

The Group has entities domiciled in the Bolivarian Republic of Venezuela, which is classified as a hyperinflationary economy. The functional currency of these entities was the Bolivar, up to 31 March 2018 - from 1 April 2019 the functional currency of these entities changed to USD, and with this currency being exposed to a hyperinflationary economy, it generates gains/losses for exposure to inflation, which has been classified as financial income or expense (monetary position).

Notes to the consolidated financial statements *(continued)*

9 Taxation

Recognised in the income statement

	2018 US$000	2017 US$000
Current tax expense		
Current year tax charge	(1,958)	(1,035)
Adjustments for prior years	(160)	130
Current tax expense	(2,118)	(905)
Deferred tax expense		
Origination and reversal of temporary differences	(4,022)	438
Recognition of previously unrecognised tax losses	507	14
Rate Change	(10)	596
Deferred tax (expense)/credit	(3,525)	1,048
Total tax (expense)/credit	(5,643)	143

Reconciliation of effective tax rate

	2018 US$000	2017 US$000
Loss before tax	(5,411)	(52,221)
Income tax (credit)/expense calculated at 19.00% *(2017:19.25%)*	(1,028)	(10,053)
Effect of expenses that are not deductible in determining taxable profit	409	1,304
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,779	353
Effect of tax losses not recognised as deferred tax assets	2,740	2,667
Timing differences not recognised for deferred tax purposes	888	84
Effect of different exchange rates translation on subsidiaries	295	6,260
Effect of prior year adjustments	57	(147)
Unrecognised deferred tax now recognised	(507)	(15)
Effect of changes in tax rates	10	(596)
Total tax expense/(credit)	5,643	(143)

The tax rate used for the 2018 reconciliation above is the corporate tax rate of 19% payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The 2017 reconciliation is based on the corporate tax rate of 19.25%.

Notes to the consolidated financial statements *(continued)*

10 Property, plant and equipment

	Commercial office units and improvements US$000	Equipment US$000	Leasehold Improvements US$000	Vehicles US$000	Furniture and fixtures US$000	Under construction US$000	Total US$000
Cost							
Balance at 31 December 2016	9,174	4,562	3,068	486	961	23	18,274
Additions	-	13	25	-	-	232	270
Effect of movements in foreign exchange	-	169	1,218	752	353	-	2,492
Balance at 31 December 2017	9,174	4,744	4,311	1,238	1,314	255	21,036
Balance at 31 December 2017	9,174	4,744	4,311	1,238	1,314	255	21,036
Additions	157	33	199	-	-	-	389
Disposals	-	(2,381)	(1,236)	(681)	(6)		(4,304)
Reclassification to expenses	-	-	-	-	-	(254)	(254)
Effect of movements in foreign exchange	-	(48)	(627)	(386)	(524)	(1)	(1,586)
Balance at 31 December 2018	**9,331**	**2,348**	**2,647**	**171**	**784**	**-**	**15,281**
Depreciation and impairment							
Balance at 31 December 2016	(1,868)	(3,143)	(2,159)	(326)	(887)	-	(8,383)
Depreciation charge for the year	(306)	(224)	(104)	(173)	(70)	-	(877)
Impairment	-	(495)	-	-	(162)	-	(657)
Effect of movements in foreign exchange	-	372	(1,229)	(598)	(188)	-	(1,643)
Balance at 31 December 2017	(2,174)	(3,490)	(3,492)	(1,097)	(1,307)	-	(11,560)
Balance at 31 December 2017	(2,174)	(3,490)	(3,492)	(1,097)	(1,307)	-	(11,560)
Depreciation charge for the year	(307)	(201)	(101)	(21)	(5)	-	(635)
Disposals	-	720	1,236	-	364	-	2,320
Impairment	-	-	-	-	-	-	-
Effect of movements in foreign exchange	-	827	628	947	164	-	2,566
Balance at 31 December 2018	**(2,481)**	**(2,144)**	**(1,729)**	**(171)**	**(784)**	**-**	**(7,309)**
Net book value							
At 31 December 2017	7,000	1,254	819	141	7	255	9,476
At 31 December 2018	**6,850**	**204**	**918**	**-**	**-**	**-**	**7,972**

Commercial office units with a carrying amount of approximately US$ 6,750,000 have been pledged to secure borrowings of the Group under a mortgage up to US$ 8,639,000. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Notes to the consolidated financial statements *(continued)*

11 Intangible assets

	Patents and trade- marks US$000	Software US$000	Total US$000
Cost			
Balance at 1 January 2017	5,891	2,753	8,644
Additions	1,406	2,125	3,531
Balance at 31 December 2017	7,297	4,878	12,175
Balance at 31 December 2017	7,297	4,878	12,175
Additions	-	5,444	5,444
Disposals	(1,581)	(26)	(1,607)
Balance at 31 December 2018	**5,716**	**10,296**	**16,012**
Amortisation and impairment			
Balance at 1 January 2017	(2,800)	-	(2,800)
Amortisation for the year	(773)	-	(773)
Balance at 31 December 2017	(3,573)	-	(3,573)
Balance at 31 December 2017	(3,573)	-	(3,573)
Amortisation for the year	(1,348)	-	(1,348)
Disposals	54	-	54
Balance at 31 December 2018	**(4,867)**	**-**	**(4,867)**
Net book value			
Balance at 31 December 2017	3,724	4,878	8,602
At 31 December 2018	**849**	**10,296**	**11,145**

The amortisation charge is recognised in other operating expenses in the income statement.

During 2014, the Group entered into an agreement for the purchase of intellectual property relating to a lottery ticket scanner at a cost of US$2,000,000. Amortisation of the intellectual property commenced in October 2015 when it was available for use.

In 2016 the Group chose to revise its accounting policy in respect to the capitalization of intangibles to better reflect the business results and strategy. This resulted in costs which had been expensed, which related to the development of new platforms and products, being capitalised. As at 31 December 2018 $10,296,000 *(2017: $4,878,000)* of development costs have been capitalised. These items are not yet use and so no amortisation charge has been incurred.

Notes to the consolidated financial statements *(continued)*

12 Other financial assets

Non-current	2018 US$000	2017 US$000
Available for sale financial assets	**5,007**	4,903

The non-current available for sale financial assets held during the year by the Group was Infuser ApS.

Infuser ApS
On 7 April 2014, the Group acquired 33% of the share capital of Infuser ApS ("Infuser"), a legal entity registered in Denmark. While the Group holds 33% of the Company's share capital, it does not participate in the Company's financial and operating policy decisions, does not control or have joint control in any capacity. In 2017, the group increased the value of its investment in Infuser. This was matched by the other shareholders and so the value of the Group's share of Infuser remained at 33%. In 2018 the Group further increased the value of its investment to 35.38%. On this basis the Group has deemed it does not hold significant influence and therefore accounted for this investment as an available for sale financial investment (this has been classified as a level 2 financial instrument as per note 26).

Notes to the consolidated financial statements *(continued)*

13 Investments in subsidiaries controlled entities

The Group has the following investments in subsidiaries, controlled entities:

	Registered address	Registered Number	Class of shares held	Ownership 2018	2017
Group Subsidiary					
Smartmatic International Holding B.V.ˣ	Gustav Mahlerplein 25C, 1082 MS Amsterdam, The Netherlands	7477910	Ordinary	100%	100%
Hisoft Limited ˣ	Unit 1001, 10/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong	8704199	Ordinary	100%	100%
E-Vote UK Limited ˣ*	88 Baker Street, London, W1U 6TQ, United Kingdom	2237991	Ordinary	100%	100%
Airlabs Limited*	88 Baker Street, London, W1U 6TQ, United Kingdom	9722206	Ordinary	100%	100%
Folio Technologies ˣ*	88 Baker Street, London, W1U 6TQ, United Kingdom	8953917	Ordinary	100%	100%
E-Vote USA Corporation ⁺	Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801, USA	9035601	Ordinary	100%	100%
Airlabs B.V (formerly Air B.V.)	Gustav Mahlerplein 25C, 1082 MS Amsterdam, The Netherlands	5797455	Ordinary	100%	100%
Airlabs Denmark, filial of Air BV	c/o Citco (Denmark) ApS, Holbergsgade 14, Denmark	60448059	Ordinary	100%	100%
Airlabs Holdings Limited ˣ*	88 Baker Street, London, W1U 6TQ, United Kingdom	11067981	Ordinary	47%	-
Smartmatic UK Limited ˣ*	88 Baker Street, London, W1U 6TQ, United Kingdom	36736348	Ordinary	100%	100%
Smartmatic of Haiti, S.A. ⁺	#7, Rue Lechaud, Bourdon, Port au Prince, Haiti	1607063756	Ordinary	100%	100%
Smartmatic Philippines, Inc.	16th floor, Accralaw Tower, Second Avenue Corner 30th Street, Crescent Park West, Bonifacio Global City, 0399 Taguig Metro Manila, Philippines	CS201001745	Ordinary	100%	100%
Smartmatic Belgium SPRL	9th Floor, Rue Belliar 4/6, 1040 Brussels, Belgium	0835516626	Ordinary	100%	100%
Smartmatic USA Corporation	160 Greentree Drive, Suite 101, City of Dover, County of Kent, Delaware, USA	4959658	Ordinary	100%	100%
Albatross Technologies Corporation	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	31402	Ordinary	100%	100%
Smartmatic South Africa PTY Limited⁺	Ground Floor Stadium Building, Lion Match Office Park, Umgeni Road, Durban, South Africa	2014/274662/07	Ordinary	100%	51%
Integradora Venezolana de Tecnologia y Automatizacion (INVENTA, C.A.) ⁺	Centro Banaven (Cubo Negro), Torre C, Piso 6 Ofic. B-63-01, Avenida La Estancia, Chuao, Caracas 1060-RB Venezuela 1A	Registro 4° DTTO CAP No.25 Tomo 63 A Cto 2009.	Ordinary	100%	100%
Smartmatic Netherlands B.V.	Gustav Mahlerplein 25C, 1082 MS Amsterdam, The Netherlands	34320515	Ordinary	100%	100%
Smartmatic Australia PTY Ltd⁺	SE 3 L 23, 19-29 Martin Pl, Sydney, NSW 2000	98 622 894 704	Ordinary	100%	100%
Smartmatic Singapore Pte Ltd	8 Temasek Boulevard, #42-19, Suntec Tower Three, Singapore (038988)	201705304W	Ordinary	100%	100%

Notes to the consolidated financial statements *(continued)*

13. Investments in subsidiaries controlled entities (continued)

	Registered address	Registered Number	Class of shares held	Ownership 2018	Ownership 2017
Group Subsidiary					
Smartmatic Mexico, S.A. de C.V.	Berna No. 6, Piso 6, Colonia Juarez, Delegacion Cuauhtemoc, Distrito Federal, CP 06600	415220	Ordinary	**100%**	100%
Smartmatic Ecuador, S.A.	Coop Union y Progreso Mz B, Numero 3, Guayaquil, Ecuador.	06-G-IJ-0003588	Ordinary	**100%**	100%
Smartmatic Elecciones de Mexico S.A. de C.V.	Berna No. 6, Piso 6, Colonia Juarez, Delegacion Cuauhtemoc, Distrito Federal, CP 06600	U74900DL 2010PTC20 4111	Ordinary	**60%**	60%
SC Centre of Excellence for Internet Voting OU	Ülikool tn 2, Tartu city, Tarty County, 51003, Estonia	12679959	Ordinary	**60%**	60%
HS Software Corporation⁺	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	41933	Ordinary	**100%**	100%
Smartmatic Latam Corporation	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	36714	Ordinary	**100%**	100%
Smartmatic Panama, S. A.	Torre de las Americas, Torre A, Piso 19, calles Punta Darien y Punta Coronado, Urb. Punta Pacifica, Distrito Panama, Republica de Panama.	750640	Ordinary	**100%**	100%
HiSoft Panama, S.A.	Torre de las Americas, Torre A, Piso 19, calles Punta Darien y Punta Coronado, Urb. Punta Pacifica, Distrito Panama, Republica de Panama	750640	Ordinary	**100%**	100%
Tecnologia Smartmatic de Venezuela, C.A.	Centro Banaven (Cubo Negro), Torre C, Piso 6 Ofic. B-63-01, Avenida La Estancia, Chuao, Caracas 1060-RB Venezuela 1A	Registro 4° OTTO CAP No.25 Torno 63 A Cto 2009.	Ordinary	**100%**	100%
Smartmatic Labs, C.A. ⁺	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	25239	Ordinary	**100%**	100%
Smartmatic Services Corporation	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	24285	Ordinary	**100%**	100%
Smartmatic International Corporation	Pine Lodge, #26 Pine Road, St. Michael, Barbados, W.I. BB 11112	29152146	Ordinary	**100%**	100%
Smartmatic Taiwan Corporation	7F., No.276, Jianguo Rd., Sindian City, Taipei County, Taiwan (R.O.C.)	CS2009123 59	Ordinary	**100%**	100%
1920 Business Inc.	16th floor, Accralaw Tower, Second Avenue Corner 30th Street, Crescent Park West, Bonifacio Global City, 0399 Taguig Metro Manila, Philippines	CS2009104 29	Ordinary	**100%**	90%
Smartmatic TIM Corporation	16th floor, Accralaw Tower, Second Avenue Corner 30th Street, Crescent Park West, Bonifacio Global City, 0399 Taguig Metro Manila, Philippines	CS2015160 97	Ordinary	**40%**	40%
SMMT-TIM 2016 Inc	Avenue Corner 30th Street. Crescent Park West, Bonifacio Global City, 0399 Taguig Metro Manila, Philippines	12679959	Ordinary	**40%**	40%
Smartmatic Elections UK Limited	88 Baker Street, London, W1U 6TQ, United Kingdom	08704199	Ordinary	**100%**	100%
Smartmatic Brazil LTDA	Av. Dr Guilherme Dumon Villares 1410, cj 101, Sao Paolo, Brazil	093906377 0001-06	Ordinary	**100%**	100%

Notes to the consolidated financial statements *(continued)*

13. Investments in subsidiaries controlled entities *(continued)*

*The subsidiaries of SGO Corporation Limited, below, all of which are domiciled and registered in the UK, are exempt from the audit of their individual accounts (Section 479a of the Companies Act 2006) due to the existence of a parental guarantee given by this parent undertaking of this group which prepares these consolidated accounts.

[x] These entities are all 100% directly owned by SGO Corporation Limited. All other investments are indirect.

[+] These entities represent all dormant entities.

During the year the Group reduced its participating interest in Consorcio COLCARD de Recaudo y Gestion de Flotas de Trasporte Público. The Group now holds a 50% interest in the entity, and as such, the entity is treated as a joint venture in the financial statements.

Effect of gain on change in participating interest

	2018
	US$000
Proceeds	-
Net assets disposed of:	
Property, plant and equipment	1,134
Intangible assets	27
Trade and other receivables	837
Trade and other creditors	(7,246)
Net liabilities disposed of	(5,248)
Total gain on change in participating interest	**5,248**

14. Investments in joint ventures

As per note 13, during 2018 the Group reduced its participating interest in Consorcio COLCARD de Recaudo y Gestion de Flotas de Trasporte Público. The Group now holds a 50% interest in the entity, and as such, the entity is treated as a joint venture in the financial statements.

	2018
	US$000
Carrying amount of joint venture	-

	2018
Percentage ownership interest	**50%**
	US$000
Non-current assets	1,873
Current assets	995
Non-current liabilities	(7,505)
Current liabilities	(695)
Net liabilities (100%)	**(5,332)**

Notes to the consolidated financial statements *(continued)*

14. Investments in joint ventures *(continued)*

Group's share of net liabilities	(2,666)
Carrying amount of interest in joint venture	-
Revenue	2,008
Costs and Operating Expenses	(2,523)
Interest income	400
Other income	155
Profit from continuing operations	40
Group's share of profit	**20**

The Group's share of the profit from the joint venture has not been recognised in the Income Statement as the joint venture still has overall net liabilities.

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:	**2018 US$000**	2017 US$000
Intra-group profit	**(1)**	5,371
Provisions	**61**	20
Property, plant and equipment	**21**	14
Unrealised foreign exchange gains	**32**	(2,188)
Other assets/(liabilities)	**393**	(62)
Tax losses	**76**	1,030
Deferred tax assets	**582**	4,185

	2018	2017
	US$000	US$000
Total deferred tax assets	**583**	6,435
Total deferred tax liabilities	**(1)**	(2,250)
Net deferred tax assets	**582**	4,185

Notes to the consolidated financial statements *(continued)*

15 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the year

	1 January 2018 US$000	Translation differences US$000	Rate Change US$000	Recognised in year US$000	31 December 2018 US$000
Provisions	20	-	(6)	47	61
Property, plant and equipment	14	-	(2)	9	21
Intra-group profit	5,371	-		(5,372)	(1)
Temporary differences:					
Tax losses	1,030	(13)	11	(952)	76
Deferred tax liabilities:					
Other liabilities	(62)	(38)	(15)	508	393
Unrealised foreign exchange gains	(2,188)	(28)	-	2,248	32
Net deferred tax balance	4,185	(79)	(12)	(3,512)	582

Unrecognised deferred temporary differences

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2018 US$000	2017 US$000
Charitable donations	190	1,151
Tax losses	61,748	53,464
Deferred tax assets	61,938	54,615

The carrying value of deferred tax assets is reviewed at each closing date and reduced to the extent that it is not likely that the Group would generate sufficient future tax gains to totally or partially. There was a reduction in the tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted on 6 September 2016.

The Group does not recognise any deferred tax liability on temporary differences relating to potentially taxable unremitted earnings of overseas subsidiaries totalling US$10,000,000 because it is able to control the timing of reversal of these differences. It is probable that no reversal will take place in the foreseeable future.

Notes to the consolidated financial statements *(continued)*

16 Inventories

	2018 US$000	2017 US$000
Raw materials and consumables	399	384
Finished goods, net	2,419	1,801
	2,818	2,185

Management estimates that inventories will be realised or utilised in short-term. There are no significant differences between the resale or fair value and the carrying value of stocks. There were no write offs or write downs of stocks in current period (2017: US$ nil). The cost of inventories recognised as an expense during the year in respect of continuing operations was US$353m (2017: US$40m).

17 Trade and other receivables

	2018 US$000	2017 US$000
Trade receivables	34,580	4,608
Amounts due from parent	462	47
Other receivables	2,106	4,625
Advance to vendors	2,143	3,511
Prepayments	11,776	409
Accrued income	7,210	13,319
Guarantee deposits	363	331
Pre-contract costs	2,179	2,493
Other taxes receivable	8,712	13,830
	69,531	43,173
Non-current	5,186	5,080
Current	64,345	38,093

Advance to vendors
The Group grants advances to its suppliers to acquire goods and services during the course of business. As of 31 December 2018, the Group has granted advances for US$2,143,000 (2017: US$3,511,000) for the purchase of electoral machines, runtime licenses, digital pens, logistics services and others.

Employee loans
The Group entered into various employment agreements with certain key employees to provide an incentive to relocate them from Venezuela to Panama and continue employment relationship with the Group. The employment agreements provide certain benefits to the employees if certain contingencies are met, including continued employment in the Group for at least three consecutive years from the time the employment contract is signed. As of 31 December 2018, the Group maintains non-interest bearing loans receivable from employees for approximately US$310,000 (2017: US$10,000).

Other taxes receivable
Certain of the Group's operations are subject to Value-Added Tax (VAT) and withholding tax. Management considers that the current amounts receivable in respect to VAT and withholding tax are fully recoverable from tax authorities. As of 31 December 2018, both the VAT and withholding tax are mainly generated by operations in Venezuela and the Philippines.

Pre-contract costs

Pre-contract costs are represented by costs incurred by the Group in order to secure a contract to provide electoral services in Belgium. Pre-contract costs are amortised over the contract term. During 2017 and 2018 a total of $314,000 was amortised.

Notes to the consolidated financial statements *(continued)*

18 Cash and cash equivalents

	2018 US$000	2017 US$000
Cash and cash equivalents	66,609	70,360
Restricted cash	5,491	30
Total cash and cash equivalents	72,100	70,390

As of 31 December 2018 and 2017, restricted cash is represented by deposits held in financial institutions for the purpose of guaranteeing certain projects in progress, bid processes and local employee related obligations in certain jurisdictions.

19 Assets available for sale

	2018 US$000	2017 US$000
Assets classified as held for sale		
Inventory	-	17,605

Assets held for sale includes equipment for which there was an option to sell in relation to the COMELEC contract. This sale completed in 2018.

20 Other loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. Refer to note 26 for more information about the Group's exposure to interest rate and foreign currency risk.

	2018 US$000	2017 US$000
Non-current liabilities		
Secured bank loans	541	1,222
Current liabilities		
Current portion of secured bank loans	870	7,685

Notes to the consolidated financial statements *(continued)*

20. Other loans and borrowings *(continued)*

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2018 US$000	Carrying amount 2018 US$000	Face value 2017 US$000	Carrying amount 2017 US$000
Banismo loan	US$	LIBOR +4	2020	695	695	1,136	1,136
Banistmo loan	US$	LIBOR +4	2021	519	519	759	759
European Commission	EUR	NA	2019	197	197	-	-
Banco del Tesoro	VEB	24%	2019	-	-	12	12
Santander UK Plc	US$	LIBOR+ 2.27%	2018	-	-	7,000	7,000
				1,411	1,411	8,907	8,907

The loans are secured by pledged over commercial office units with a carrying amount of approximately US$ 6,750,000.

Santander UK Plc is a revolving credit facility for US$15,000,000. As of 31 December 2018 the total drawdown is US$ nil.

Barclays Plc is a revolving credit facility to US$15,000,000. As of 31 December 2018, the total draw down amounts to US$ nil.

21. Trade and other payables

	2018 US$000	2017 US$000
Current		
Trade and other payables	10,472	5,526
Amount due to parent	-	128
Employee benefits	4,094	4,072
Social security and other taxes	4,905	2,842
Accrued expenses	14,867	6,590
Advance from vendor	6,000	-
	40,338	19,158

Notes to the consolidated financial statements *(continued)*

22. Employee benefits

Share-based payments

On 26 May 2008 and effective since 1 January 2008, the company and group's ultimate parent, SGO Corporation S.A. entered into an agreement with its subsidiaries through its 2007 Stock Incentive Plan ("the Plan") to grant shares and Restricted Stock Units ("RSUs") to employees of Group and its subsidiaries. The Plan provides for the RSU's to commence on the date granted and are subject to employment, contract and other restrictions considered appropriate by the Group's management. The purpose of the Plan is to advance the interests of the Group by allowing the Group to attract, retain, reward and motivate eligible individuals by providing them with an opportunity to participate in the Plan and incentives to expend maximum effort for the growth and success of the Group. Each employee share option converts into one ordinary share of the Group on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The total number of RSU's granted and vested by the Group is as follows:

Grant date	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options	Fair value at grant date
1 September 2015	Equity	113,931	Partial vesting by year (30%, 30% & 40%)	1 September 2018	1.05
25 February 2017	Equity	446,373	100% vested at grant date	25 February 2017	1.05
31 December 2017	Equity	4,750,000	100% vested at grant date	31 December 2017	1.05
31 December 2018	Equity	332,724	100% vested at grant date	31 December 2018	1.05

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2018	Number of options 2018	Weighted average exercise price 2017	Number of options 2017
Outstanding at the beginning of the year	0.01	4,459,905	0.01	4,792,629
Expired during the year	(0.01)	(4,459,905)	-	-
Granted during the year	-	-	0.01	332,724
Outstanding at the end of the year	-	-	0.01	4,459,905
Exercisable at the end of the year	-	-	0.01	4,459,905

The weighted average share price at the date of exercise of share options exercised during the year was US$0.01 *(2017: US$0.01)*. The options outstanding at the year-end have an exercise price of $0.01 and a weighted average contractual life of 3 years.

Notes to the consolidated financial statements (continued)

22. Employee benefits *(continued)*

Share-based payments *(continued)*

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of employee share options is measured by reference to the fair value of the issued share capital of SGO Corporation S.A. The fair of SGO Corporation S.A.'s share capital has been determined using an income based discounted cash flow analysis, together with a market based enterprise value multiple approach. Both are well established and recognised valuation methodologies.

Measurement inputs and assumptions are as follows:

	2018	2017
Fair value at grant date	1.05	1.05
Exercise price	Nil	Nil
Expected volatility	*	*
Expected dividends	Nil	Nil
Risk-free interest rate	1.9%	1.9%

* The impact of expected volatility is incorporated into the discounted cash flow analysis used in determining the fair value of the SGO Corporation S.A. share capital.

Share options are granted under a service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received.

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2018 US$000	2017 US$000
Equity settled share based payment expense	-	355

The expense and associated increase in reserves recognised in the year represents the fair value of the services provided to SGO Corporation Limited (and its subsidiaries) by its employees.

23. Deferred revenue

	2018 US$000	2017 US$000
Current		
Philippines	6,257	-
Rest of the world	332	691
	6,589	691

All deferred revenue represents advance billings on contracts where the work had not been performed at the year end. The geographical allocation shown here is based on the location where the sales of goods and services will take place.

Notes to the consolidated financial statements *(continued)*

24. Provisions

Provisions are made in respect of warranties for existing revenue contracts, and are offered for 12 months after the end of the associated contract.

	2018 US$000	2017 US$000
Balance at 1 January 2018	3,306	10,910
Provisions made during the year	467	2,731
Provisions reversed during the year	(2,559)	(10,335)
Balance at 31 December 2018	1,214	3,306

25. Capital and reserves

Share capital

	2018 US$000	2017 US$000
Allotted, called up and fully paid		
3 ordinary shares of £1 each	-	-

Reserves

Translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Share based payment reserve: The equity-settled employee benefits reserve comprises the equity component of the Company's share based payment charges.

26. Financial Instruments

26 (a) Fair values of financial instruments

Level 1 fair value measurements have been determined by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements have been determined by reference to observable data in quoted markets at the balance sheet dates.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2018 US$000	Fair value 2018 US$000	Carrying amount 2017 US$000	Fair value 2017 US$000
Loans and receivables				
Cash and cash equivalents (note 18)	72,100	72,100	70,390	70,390
Trade and other receivables (note 17)	69,531	69,531	43,173	43,173
Available for sale investments				
Other financial assets (note 12) – Level 2	5,007	5,007	4,903	4,903
Total financial assets	146,638	146,638	118,466	118,46
Financial liabilities measured at amortised cost				
Other loans and borrowings (note 20)	1,411	1,411	8,907	8,907
Trade and other payables (note 21)	40,338	40,338	19,158	19,158
Income tax payable	2,498	2,498	972	972
Provisions (note 24)	1,214	1,214	3,306	3,306
Total financial liabilities	45,461	45,461	32,343	32,343
Total financial instruments	101,177	101,177	86,123	86,123

Notes to the consolidated financial statements *(continued)*

26 Financial instruments *(continued)*

26 (b) Credit risk

Financial risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above, This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

Exposure to credit risk

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2018 US$000	2017 US$000
Venezuela	-	1,574
Philippines	15,937	5,131
Brazil		514
Haiti		1,800
Mexico	180	180
Argentina	4,814	1,395
Pakistan		647
Belgium	3,709	-
USA	13,708	-
Rest of the World	748	1,897
	39,096	13,138

Credit quality of financial assets and impairment losses

The aging of trade receivables at the balance sheet date was:

	Gross 2018 US$000	Impairment 2018 US$000	Gross 2017 US$000	Impairment 2017 US$000
Not past due (0 – 30 days)	30,213	-	869	-
Past due 31- 60 days	3,015	-	1,146	-
Past due 61- 90 days	66	-	288	-
More than 91 days	5,802	(4,519)	10,835	(8,530)
	39,096	(4,519)	13,138	(8,530)

Notes to the consolidated financial statements *(continued)*

26 Financial instruments *(continued)*

26 (b) Credit risk (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 US$000	2017 US$000
Balance at 1 January	8,530	4,890
Impairment loss recognised	1,711	3,710
Impairment loss reversed	(222)	(70)
Trade receivables written off during the year	(5,500)	-
Balance at 31 December	4,519	8,530

The Group maintains an allowance for doubtful debts at a level that is considered by management as in line with the potential risk of bad debts. Aging of accounts receivable and clients' conditions are constantly monitored to ensure fairness of the allowance in the consolidated financial statements. Consequently, management considers that no further provisions, in excess of the allowance for doubtful accounts, are required.

26 (c) Liquidity risk

Financial risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

2018	**Carrying amount US$000**	**Contractual cash flows US$000**	**1 year or less US$000**	**1 to <2 years US$000**	**2 to <5 years US$000**	**5 years and over US$000**
Non-derivative financial liabilities						
Secured bank loans (note 20)	1,411	1,411	541	870	-	-
Trade and other payables (note 21)	40,338	40,338	40,338	-	-	-
Provisions (note 24)	1,214	1,214	1,214	-	-	-
		42,963	42,093	870	-	-

2017	Carrying amount US$000	Contractual cash flows US$000	1 year or less US$000	1 to <2 years US$000	2 to <5 years US$000	5 years and over US$000
Non-derivative financial liabilities						
Secured bank loans (note 20)	8,907	8,907	7,685	673	549	-
Trade and other payables (note 21)	19,158	9,158	9,158	-	-	-
Provisions (note 24)	3,306	3,306	3,306	-	-	-
		21,371	20,149	673	549	

Notes to the consolidated financial statements *(continued)*

26 (d) Market risk

Financial risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured. The Group is dependent on renewing existing contracts and obtaining new contracts.

Market risk - Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	2018	2017	**2018**	2017
Venezuelan Bolivars	**927,119**	71,105,031,713	**91,919**	61,913,007,177
Philippine Pesos	**594,678,360**	652,547,134	**2,193,127,518**	1,660,696,045
Euros	**8,321,103**	9,731,114	**7,005,603**	24,381,970
Mexican Pesos	**2,544,827**	6,353,938	**5,324,521**	17,266,163
Sterling Pound	**5,962,926**	8,025,796	**7,948,698**	12,421,487
Colombian Pesos	**4,798,511,740**	12,117,709,076	**19,157,401,480**	12,521,747,108
Taiwanese Dollars	**12,632,325**	8,506,849	**22,752,228**	46,535,636
Hong Kong Dollars	**-**	45,000	**-**	24,814
Rupees	**-**	664,768	**-**	15,229,490
Brazilian Reais	**147,973**	111,443	**767,371**	1,457,499
Haitian Gourdes	**1,002,760**	52,641,666	**12,631,865**	14,884,281
Pesos Argentinos	**678,951**	10,939,699	**12,328,071**	35,554,332
Dirham de los Emiratos Arabes Unidos	**-**	323,059	**-**	161,032
Singapore dollars	**107,950**	102,789	**2,143,949**	10,178
Pakistani Rupee	**38,951,909**	48,525,895	**63,856,554**	78,360,254
Danish Kroner	**473,028**	-	**58,531**	-
Australian Dollars	**3,741**	-	**386**	-
Bolivars	**12,075**	-	**50,810**	-

Sensitivity analysis

The Group is mainly exposed to the currency of Venezuela, Mexico, Colombia and Philippines.

The following table details the Group's sensitivity to increase and decrease in the dollar of the United States of America against the relevant foreign currencies, 1% is the sensitivity rates determined by key management personnel and represents management's assessment of the reasonably possible change in exchange rates. The sensitivity analysis includes the monetary assets and monetary liabilities foreign currency denominated, mentioned previously. A positive number below indicates an

Notes to the consolidated financial statements *(continued)*

26 Financial instruments *(continued)*

increase in profit or equity where in the dollar of the United States of America, there would be a comparable impact on the profit or equity, and the balances below would be negative.

26 (d) Market risk (continued)

	2018 Impact original currency	Impact in US$	% of change in exchange rate	2017 Impact original currency	Impact in US$	% of change in exchange rate
Sterling Pound	(2,528,104)	(2,907,319)	(4.99%)	(6,033,250)	(8,225,130)	(27%)
Rupees	-	-	-	302,319	4,456	6,685%
Taiwanese dollars	(310,171)	(9,091)	6.58%	(1,233,535)	(38,484)	3,105%
Euros	159,794	181,414	(1.27%)	11,043,185	13,235,257	(17%)
Brazilian Reals	(154,536)	(37,630)	3.44%	(378,415)	(101,850)	2,72%
Mexican Pesos	(144,866)	(7,310)	(2.65%)	(561,489)	(27,513)	1,941%
Philippine Pesos	16,668,317	221,049	(13.75%)	45,254,640	769,860	5,778%
Colombian Pesos	7,615,524	2,292	0.48%	9,286,013	3,230	28,7393%
Hong Kong dollars	-	-	-	8,741	1,107	690%
Venezuelan Bolivars	-	-	-	145,845	2	7,292,150%
Haitian Gourdes	(121,406)	(1,214)	20.86%	632,240	9,796	6,354%
Argentinian Pesos	(267,161)	(5,920)	15.99%	(1,002,892)	(33,208)	2,920%
Dirham	-	-	-	665,170	178,389	273%
Pakistan Rupees	13,207	89	4.88%	(243,970)	(2,107)	1,1479%
Singapore dollars	(1,333,816)	(770,320)	11.80%	69,735	51,656	35%
Australian dollars	2,345	1,620	1.25%	-	-	-
Bolivars	(5,548)	(797)	(0.19%)	-	-	-

Profile

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 1.5 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1.5 basis points higher and all other variables were held constant, the Group's:

Notes to the consolidated financial statements *(continued)*

26 Financial instruments *(continued)*

26 (d) Market risk (continued)

a. Profit for the year ended 31 December 2018 would decrease by US$ 2,000 (2017: US$ 29,000). This is mainly attributable to the Group 's exposure to interest rates on its variable rate borrowings; and

b. Other comprehensive income for the year ended 31 December 2018 would decrease in the same amounts for both years.

26 (e) Capital management

a. The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholder through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2014.

b. The capital structure of the Group consists of net debt and equity of the Group.

The Group's directors review the capital structure of the Group on a regular basis. As part of this review, directors consider the cost of capital and the risks associated with each class of capital.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 US$000	2017 US$000
Less than one year	2,396	1,921
Between one and five years	3,521	989
More than five years	-	-
	5,917	2,910

The Group leases a number of warehouse and factory facilities under operating leases. Land and buildings have been considered separately for lease classification.

During the year US$1,389,000 was recognised as an expense in the income statement in respect of operating leases (2017: US$2,295,000).

28. Commitments and contingencies

In 2016, the Dutch Tax Authorities raised an assessment of EUR2.5m income tax on Smartmatic International Holdings BV relating to matters including the remuneration of the company for the year ended 31 December 2012. The group continues to vigorously object to this assessment and is appealing. Discussions covering the accounting years ended 31 December 2011 to 2016 are ongoing with Dutch tax authorities including constructive meetings in the Netherlands during April 2019. The range of potential outcomes of this matter following further discussions with the Dutch tax authorities remains uncertain. The Group does not consider it appropriate to make provision for these amounts at this stage nor for any potential further amounts which may be assessed in relation to these matters in subsequent years.

Notes to the consolidated financial statements *(continued)*

29. Related parties

Transactions with key management personnel

The compensation of key management personnel (including the directors) is as follows:

	2018 US$000	2017 US$000
Key management emoluments	**2,108**	6,528
	2,108	6,528

Other related party transactions

Certain family members of Antonio José Mugica Rivero and Roger Alejandro Piñate, directors of the company are employed by the Group. The salary paid to these family members is based on an arm's length basis and amounted to $865,000 (2017: US$652,000).

Consorcio COLCARD de Recaudo y Gestion de Flotas de Trasporte Público is a joint venture of the Group (see note 14), at the year end there was a receivable due to the Group from the joint venture of $5,198,000 (2017: not a related party) which has been fully provided for.

30. Ultimate parent company

The ultimate parent company is SGO Corporation S.A., a company incorporated in Luxembourg.

The largest group into which the company's results are consolidated is that headed by SGO Corporation S.A.. The registered address of SGO Corporation S.A. is 1 Rue de Glacis, 44 Schottegatweg Oost, 1628 Luxembourg, Luxembourg. The smallest group into which the company's results are consolidated is that headed by SGO Corporation Limited, a company incorporated in the United Kingdom.

31 Post balance sheet events

As of 27 March 2019, SGO Corporation Limited merged with its ultimate parent company, SGO Corporation S.A. From this date the two companies will operate as a single entity called SGO Corporation Limited.

As of 15 March 2019 there was a redenomination in Ordinary Share Capital, whereby 109,375,088 shares were revalued from GBP0.01 to USD 0.0133.

In February 2019 the Santander credit facility, as per note 20, was extended to $24,000,000.

Company Balance Sheet
at 31 December 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Fixed assets					
Tangible Assets	2	104			172
Investments	3	115,890			109,174
			115,994		109,346
Current assets					
Debtors	4	4,746		18,604	
Cash at bank and in hand		245		514	
		4,991		19,118	
Creditors: amounts falling due within one year	5	(14,377)		(21,245)	
Net current liabilities			(9,386)		(2,127)
Total assets less current liabilities			106,608		107,219
Net assets			106,608		107,219
Capital and reserves					
Called up share capital	6		-		-
Share Premium			68		68
Merger Reserve			80,414		80,414
Share based payments reserves			432		432
Profit and loss account			25,694		26,305
Shareholder's funds			106,608		107,219

The notes on pages 56 to 59 form part of these financial statements.

These financial statements were approved by the board of directors on 12 June 2019 and were signed on its behalf by:

Antonio Jose Mugica Rivero
Director
Company registered number: 07477910

Statement of Changes in Equity
for year ended 31 December 2018

	Called up Share capital	Share Premium account	Merger reserve	Share based premium reserves	Profit and loss account	Shareholder's funds
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2017	-	68	80,414	432	26,171	107,085
Profit for the year	-	-	-	-	134	134
Balance at 31 December 2017	-	68	80,414	432	26,305	107,219
Loss for the year	-	-	-	-	(611)	(611)
Balance at 31 December 2018	-	**68**	**80,414**	**432**	**25,694**	**106,608**

The notes on pages 56 to 59 form part of these financial statement

Notes to the Company financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The Company financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").* The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In these financial statements, the Company has applied the exemptions under FRS 101 in respect of the following disclosures:

- Comparative year reconciliation for share capital
- A cash flow statement and related notes
- Disclosures in respect of wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of SGO Corporation Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 in respect of the following disclosures:

- IFRS 2 "Share-based payment" in respect of Group-settled Share-based payment
- Certain disclosures required by IAS 36 Impairment of Assets in respect of the impairment of investments
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the company in the current and prior years
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 "Financial Instruments Disclosures."

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

A separate profit and loss account or statement of total recognised gains and losses dealing with the results of the Company only has not been presented as permitted under section 408 of the Companies Act.

Tangible Assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives all tangible assets. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	Up to life of lease

Investments

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes to the Company financial statements *(continued)*

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

2 Tangible fixed assets

	Leasehold Improvements £000	Furniture & Fixtures £000	Assets under construction £000	Total £000
Cost				
At 1 January 2017	257	50	-	307
Additions	-	-	170	170
At 31 December 2017	257	50	170	477
At 1 January 2018	257	50	170	477
Additions	149	-	-	149
Reclassification to expenses	-	-	(170)	(170)
At 31 December 2018	406	50	-	456
Depreciation				
At 1 January 2017	(233)	(50)	-	(283)
Charge for the year	(22)	-	-	(22)
At 31 December 2017	(255)	(50)	-	(305)
At 1 January 2018	(255)	(50)	-	(305)
Charge for year	(47)	-	-	(47)
At 31 December 2018	(302)	(50)	-	(352)
Net book value				
At 31 December 2018	**104**	-	-	**104**
At 31 December 2017	2	-	170	172

Notes to the Company financial statements *(continued)*

3 Fixed asset investments

	Shares in group undertakings £000
Cost and Net book value	
At 31 December 2018	**115,890**
At 31 December 2017	109,174

The entities subsidiaries are listed in the Group accounts see page 37-39.

The above value contains an impairment for £1.6m of the investment in Smartmatic UK Limited.

4 Debtors

	2018 £000	2017 £000
Prepayments	**51**	34
Amounts owed by group undertakings	**4,291**	18,248
Advance to vendors	**-**	12
Other debtors	**404**	310
	4,746	18,604

All intercompany balances are repayable on demand, with no interest charge.

5 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	**353**	98
Amounts owed to group undertakings	**13,578**	15,602
Other creditors	**58**	5,252
Accruals	**388**	293
	14,377	21,245

All intercompany balances are repayable on demand, with no interest charge.

Notes to the Company financial statements (continued)

6 Called up share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
3 Ordinary shares of £1 each	-	-