# SGO Corporation Limited

**(Previously known as Smartmatic Limited)**

Annual Report and Consolidated financial statements
Registration number 07477910

31 December 2014

# Contents

# Strategic report

## Principal activities

The principle activity of SGO Corporation Limited (previously Smartmatic 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 2014 was US$103 million (2013: US$375 million), primarily generated from its subsidiaries in Venezuela, Haiti, Ecuador, and Belgium. Smartcities Solutions constituted the main source of these revenues. The consolidated revenue for 2014 decreased by $272 million from 2013. The decrease is a result of additional electoral services being undertaken in Venezuela and additional sale of electoral equipment in the Philippines in 2013. Total costs amounted to US$52 million (2013: US$182 million) resulting in a total gross profit of US$51 million (2013: US$193 million). Total consolidated net income for the Group amounted to US$2 million (2013: US$57 million). Electoral activity has was lower in 2014 due to the timing of election in countries in which the Group currently operate.

As at 31 December 2014 the Group has consolidated current net assets of US$125 million (2013: US$157 million) and net assets of US$154 million (2013: US$ 173 million).

The 2015 financial outlook shows higher increased revenues, consistent with higher electoral activity taking place in the marketplace (primarily Venezuela and the Philippines). 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 19 countries, with major operations in Venezuela, Philippines, and Haiti.

During 2014 the Group began operations in Estonia and achieved its second project in Brazil. Also during 2014 the Group incorporated new subsidiaries in the UK, Barbados, Mauritius, and South Africa to develop new business opportunities.

The Group delivers technology to clients in key divisions:

- 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

## Risks

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

The Company faces currency and credit risks as it operates in countries with hyperinflation and others with currency restrictions.

## Strategic report *(continued)*

**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, 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 Company maintains sufficient liquid assets ensuring debtors and creditors are actively monitored. There is an arrangement in place for funding from the ultimate Parent Company (Smartmatic International Group N.V.), if required.

**Key Performance Indicators**

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

By order of the board

**Antonio José Mugica Rivero**
*Director*

London UK, 105 Piccadilly London W1J7NJ

7 September, 2015

# Directors' report

The Board of Directors present their directors' report and financial statements for the year ended 31 December 2014.

## Change of Name

The company passed a special resolution on 24 November 2014 changing its name to SGO Corporation Limited from Smartmatic Limited.

## Dividend

The directors have declared and paid a final ordinary dividend in respect of the current financial year of US$ Nil (2013: US$134,700,000).

## Directors

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

Antonio Jose Mugica Rivero
Roger Alejandro Piñate Martinez
Sir Nigel Graham Knowles
David Anthony Giampaolo
Lord George Mark Malloch-Brown (Appointed 29 September 2014)

## Political Donations

Neither the Company nor any of its subsidiaries made any political donations during the year (2013: 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*

105 Piccadilly, London, W1J 7NJ

7 September 2015

# Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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 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).

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 judgments and estimates that are reasonable 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 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.

KPMG

# Independent auditor's report to the members of SGO Corporation Limited (Previously known as Smartmatic Limited)

We have audited the financial statements of SGO Corporation Limited and its subsidiaries for the year ended 31 December 2014 set out on pages 9 to 54. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

**Respective responsibilities of directors and auditor**
As explained more fully in the Directors' Responsibilities 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. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**
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 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

KPMG

## Independent auditor's report to the members of SGO Corporation Limited (Previously known as Smartmatic Limited) (continued)

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

R. M. Seale

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

16th September 2015

# Consolidated Income Statement
*for year ended 31 December 2014*

| | Note | 2014 US$000 | 2013 US$000 |
|---|---|---|---|
| **Revenue** | 3 | **102,641** | 374,807 |
| Cost of sales | | **(51,889)** | (181,742) |
| **Gross profit** | | **50,752** | 193,065 |
| Operating expenses | | **(57,806)** | (87,686) |
| Other income | 4 | **19,630** | 6,161 |
| Other expenses | 4 | **(4,060)** | (7,608) |
| Foreign exchange rate loss | | **(7,798)** | (24,881) |
| **Operating profit** | 5 | **718** | 79,051 |
| Financial income | 6 | **3,866** | 373 |
| Financial expenses | 6 | **(543)** | (3,802) |
| Foreign exchange loss | | **(2,878)** | (14,101) |
| **Net financing income / (expense)** | | **445** | (17,530) |
| Share of profit of equity-accounted investees | 11 | **1,262** | - |
| **Profit before tax** | | **2,425** | 61,521 |
| Taxation | 7 | **67** | (4,803) |
| **Profit for the year** | | **2,492** | 56,718 |
| **Attributable to:** | | | |
| Equity holders of the parent | | **2,766** | 56,192 |
| Non-controlling interest | | **(274)** | 526 |
| **Profit for the year** | | **2,492** | 56,718 |

The notes on pages 15 to 48 form an integral portion of these financial statements

# Consolidated Statement of Comprehensive Income
***for year ended 31 December 2014***

| | **2014** | 2013 |
|---|---|---|
| | **US$000** | US$000 |
| **Profit for the year** | **2,492** | 56,718 |
| **Other comprehensive income** | | |
| *Items that are or may be recycled subsequently to profit or loss:* | | |
| Foreign currency translation differences | **(22,356)** | (19,198) |
| | **(19,864)** | 37,520 |
| **Attributable to:** | | |
| Equity holders of the parent | **(19,590)** | 36,994 |
| Non-controlling interest | **(274)** | 526 |
| | **(19,864)** | 37,520 |

The notes on pages 15 to 48 form an integral portion of these financial statements

# Consolidated Balance Sheet
*at 31 December 2014*

| | Note | 2014 US$000 | 2013 US$000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **10,994** | 15,677 |
| Intangible assets | 9 | **3,223** | 1,932 |
| Other financial assets | 10 | **3,940** | - |
| Investments in equity-accounted investees | 11 | **1,262** | - |
| Trade and other receivables | 16 | **10,376** | 4,233 |
| Deferred tax assets | 13 | **2,126** | 17,859 |
| | | **31,921** | 39,701 |
| **Current assets** | | | |
| Inventories | 15 | **3,608** | 2,509 |
| Other financial assets | 10 | **3,300** | - |
| Trade and other receivables | 16 | **91,217** | 180,599 |
| Cash and cash equivalents | 17 | **104,239** | 100,357 |
| | | **202,364** | 283,465 |
| **Total assets** | | **234,285** | 323,166 |
| **Current liabilities** | | | |
| Other interest-bearing loans and borrowings | 18 | **673** | 673 |
| Trade and other payables | 19 | **60,349** | 86,553 |
| Deferred revenue | 21 | **13,541** | 32,448 |
| Income tax payable | | **2,775** | 6,882 |
| | | **77,338** | 126,556 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 13 | **21** | 8,942 |
| Other interest-bearing loans and borrowings | 18 | **3,241** | 3,916 |
| Provisions | 22 | **-** | 10,970 |
| | | **3,262** | 23,828 |
| **Total liabilities** | | **80,600** | 150,384 |
| **Net assets** | | **153,685** | 172,782 |

# Consolidated Balance Sheet *(continued)*

| | Note | 2014 US$000 | 2013 US$000 |
|---|---|---|---|
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 23 | **-** | - |
| Share premium | | **12,255** | 11,984 |
| Share based payment reserves | | **10,933** | 10,437 |
| Translation reserves | | **(55,372)** | (33,016) |
| Retained earnings | | **185,765** | 182,999 |
| **Non-controlling interest** | | **104** | 378 |
| **Total equity** | | **153,685** | 172,782 |

The notes on pages 15 to 48 form an integral portion of these financial statements

These financial statements were approved by the board of directors on 7 September 2015 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 2014*

| | 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 2012 | - | **11,984** | **(13,818)** | **5,920** | **261,507** | **265,593** | **(148)** | **265,445** |
| **Total comprehensive income** | | | | | | | | |
| Profit or loss | - | - | - | - | 56,192 | **56,192** | 526 | **56,718** |
| Foreign currency translation differences | - | - | (19,198) | - | - | **(19,198)** | - | **(19,198)** |
| Total comprehensive income for the period | - | - | (19,198) | - | 56,192 | **36,994** | 526 | **37,520** |
| Equity-settled share based payment transactions | - | - | - | 4,517 | - | **4,517** | - | **4,517** |
| Dividends paid | - | - | - | - | (134,700) | **(134,700)** | - | **(134,700)** |
| **Balance at 31 December 2013** | - | **11,984** | **(33,016)** | **10,437** | **182,999** | **172,404** | **378** | **172,782** |
| **Total comprehensive income** | | | | | | | | |
| Profit or loss | - | - | - | - | 2,766 | **2,766** | (274) | **2,492** |
| Foreign currency translation differences | - | - | (22,356) | - | - | **(22,356)** | - | **(22,356)** |
| Total comprehensive income for the period | - | - | (22,356) | - | 2,766 | **(19,590)** | (274) | **(19,864)** |
| Equity-settled share based payment transactions | - | - | - | 173 | - | **173** | - | **173** |
| Other equity movement | - | 271 | - | 323 | - | **594** | - | **594** |
| **Balance at 31 December 2014** | - | **12,255** | **(55,372)** | **10,933** | **185,765** | **153,581** | **104** | **153,685** |

The notes on pages 15 to 48 form an integral portion of these financial statements

# Consolidated Cash Flow Statement
*for year ended 31 December 2014*

| | Note | 2014 US$000 | 2013 US$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **2,492** | 56,718 |
| *Adjustments for:* | | | |
| Depreciation, amortisation and impairment | 5 | **3,816** | 1,276 |
| Loss on disposal | | **(227)** | 1,624 |
| Share of profits from equity-accounted investees | 11 | **(1,262)** | - |
| Unrealised foreign exchange movements | | **(17,853)** | (22,799) |
| Loss on translation of deferred tax assets | 13 | **7,416** | 2,477 |
| Equity settled share-based payment expenses | 20 | **173** | 4,517 |
| Taxation | 7 | **(67)** | 4,803 |
| Finance income | 6 | **(3,866)** | (373) |
| Finance expense | 6 | **543** | 3,802 |
| Decrease / (increase) in trade and other receivables | 16 | **81,631** | (20,014) |
| (Increase) / decrease in inventories | 15 | **(1,099)** | 786 |
| (Decrease) / increase in trade and other payables | 19 | **(26,204)** | 20,779 |
| (Decrease) / increase in deferred revenue | 21 | **(18,907)** | 4,259 |
| (Decrease) / increase in provision | 22 | **(10,970)** | (2,000) |
| Interest paid | 6 | **(543)** | (778) |
| Tax paid | | **(4,644)** | (32,831) |
| **Net cash from operating activities** | | **10,429** | 22,246 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 8 | **(326)** | (5,543) |
| Proceeds of sale of property, plant and equipment | | **3,233** | - |
| Acquisition of other intangible assets | 9 | **(2,000)** | - |
| Acquisition of other financial assets | 10 | **(7,240)** | - |
| Interest received | 6 | **461** | 373 |
| **Net cash from investing activities** | | **(5,872)** | (5,170) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 18 | **(675)** | (673) |
| Dividends paid | 14 | **-** | (134,700) |
| **Net cash from financing activities** | | **(675)** | (135,373) |
| Net increase / (decrease) in cash and cash equivalents | | 3,882 | (118,297) |
| Cash and cash equivalents at 1 January | 17 | 100,357 | 218,654 |
| **Cash and cash equivalents at 31 December** | 17 | **104,239** | 100,357 |

The notes on pages 15 to 48 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.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2014. 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. and Smartmatic Labs, C.A. report their financial statements in the currency of a hyperinflationary economy. 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 (SICAD II) before they were included in the consolidated financial statements.

### *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 Operations (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.

There has been no impact of the adoption of IFRS 11 on the financial position, comprehensive income and the cash flows of the Group in any of the periods reported.

*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.

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. 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.

The group has significant operations in Venezuela with a functional currency of Venezuela Bolivar (VEB). In December 2013, and in addition to the official rate CENCOEX (formally known as CADIVI), the Venezuelan government permitted the Central

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *1.5 Foreign currency (continued)*

Bank of Venezuela to publish the rate in which some entities have been permitted to purchase limited amount of foreign currency under the Complementary System of Foreign Currency Acquirement (or SICAD). In the prior year, the Group elected to adopt the SICAD rate as the basis in which to translate foreign currency transactions for entities located in Venezuela and financial statements of foreign operations located in Venezuela with a VEB functional currency.

During 2014, Venezuelan Government significantly expanded the use of the SICAD rate. Firstly, enabling access to the CENCOEX process at the latest SICAD I rate, and secondly, creating a third currency exchange mechanism called SICAD II which may be used by all entities for all transactions. SICAD II came into effect on 24 March 2014. The Group has elected to adopt the SICAD II rate for the year ended 31 December 2014 on the basis that this is the rate which reflects the economic situation in which the Group operates in Venezuela.

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).

### *1.6 Classification of financial instruments issued by the Group*

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:

(a) 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

(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.

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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *1.7 Non-derivative financial instruments*

*Recognition of financial assets and financial liabilities*

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

*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.

*Held to maturity investments*

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

***Financial liabilities***

*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.

*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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *1.7 Non-derivative financial instruments (continued)*

*Equity instruments (continued)*

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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *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.

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 prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

### *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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *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.

*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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *1.16 Revenue*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

*Sale of goods*

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the 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.

*Rendering of services*

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

- Fees are recognized 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
- Revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

### *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.

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.

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *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.

### *1.20 Adopted IFRS not yet applied*

In the current year, the following new and revised Standards have been adopted but have not had any material impact on the amounts reported in these financial statements:

| | |
|---|---|
| IFRS 10 | *Consolidated financial statements* |
| IFRS 11 | *Joint arrangements* |
| IFRS 12 | *Disclosures of interests in other entities* |
| IFRS 13 | *Fair value measurement – short term receivables and payables* |
| IAS 27 (amended 2011) | *Separate financial statements* |
| IAS 28 (amended 2011) | *Investments in associates and joint ventures* |
| IAS 32 (amended 2013) | *Offsetting financial assets and financial liabilities* |
| IAS 36 | *Recoverable amount disclosures for non-financial assets* |

# Notes to the consolidated financial statements *(continued)*

## 1 Accounting policies *(continued)*

### *1.20 Adopted IFRS not yet applied (continued)*

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

| | |
|---|---|
| IFRS 9 | *Financial instruments* |
| IFRS 14 | *Regulatory deferral accounts* |
| IFRS 15 | *Revenue from contracts with customers* |
| Amendments to IAS 19 | *Defined benefit plan: employee contributions* |
| Amendments to IFRS 11 | *Accounting for acquisitions of interests in joint operations* |
| Amendments to IAS 16 and IAS 38 | *Clarification of acceptable methods of depreciation and amortisation* |
| Amendments to IAS 27 | *Equity method in separate financial statements* |
| Amendments to IFRS 10 and IAS 28 | *Sale of contribution of assets between an investor and its associates or joint venture* |

Annual improvements to IFRSs 2010-2012 cycle
Annual improvements to IFRSs 2011-2013 cycle
Annual improvements to IFRSs 2012-2014 cycle

The Directors do not expect that the adoption of these Standards or Interpretations in future periods will have a material impact on the financial statements of the Company or the Group.

## 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.

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:

a. Revenue recognition.

b. Foreign currency transactions.

c. Impairment of assets.

d. Deferred taxes.

e. Provisions.

# Notes to the consolidated financial statements *(continued)*

## 3 Revenue

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Sale of goods | **37,877** | 22,892 |
| Rendering of services | **64,764** | 351,915 |
| Total revenue | **102,641** | 374,807 |

## 4 Other income and expense

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Other income | **19,630** | 6,161 |

Significant items within other income relates to a $9,695,000 reversal of an accrual due to Dominion case settlement, $3,500,000 from a reversal of accrual of the CNE purchase obligation that expired, and $2,873,000 from the reversal of other accruals including the bonus provision and others from the previous year (2013: $843,000 from a refund on claims made against the business in previous years and $452,000 from the reversal of a bonus provision from 2013).

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Other expense | **4,060** | 7,608 |

Significant items within other expenses relates to the contingency provision for negative equity in Venezuela for $1,839,000 and deferred and non-deductible expenses from previous years for $1,763,000 (2013: Provision for VAT expected to be non-recoverable for $2,884,000 and bad debt expense of $461,000).

# Notes to the consolidated financial statements *(continued)*

## 5 Expenses and auditor's remuneration

*Included in profit/loss are the following:*

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Impairment reversal trade receivables (see note 24) | **301** | 1,018 |
| Impairment of trade receivables (see note 24) | **(70)** | - |
| Depreciation expense | **(2,309)** | (1,338) |
| Amortisation expense | **(306)** | (341) |
| Impairment reversal / (expense) on intangible assets | **(403)** | 403 |
| Pre-contract costs amortisation expense | **(798)** | (905) |
| Gain on disposal of plant, property and expenses | **227** | - |
| Operating lease expense | **(2,055)** | (2,456) |
| Research and development expenditure | **(1,497)** | (2,592) |

*Auditor's remuneration:*

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Audit of these financial statements | **12** | 12 |
| *Amounts receivable by the company's auditor and its associates in respect of:* | | |
| Audit of financial statements of subsidiaries of the company | **714** | 721 |
| Tax advisory and compliance services | **511** | 542 |

## 6 Finance income and expense

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| **Finance income** | | |
| Interest income | **461** | 373 |
| Gain on monetary position | **3,405** | - |
| Total finance income | **3,866** | 373 |

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| **Finance expense** | | |
| Total interest expense on financial liabilities measured at amortised cost | **(543)** | (778) |
| Loss on monetary position | **-** | (3,024) |
| Total finance expense | **(543)** | (3,802) |

The Group has entities domiciled in the Bolivarian Republic of Venezuela, which is classified as a hyperinflationary economy. The functional currency of these entities is the Bolivar, and with this currency being exposed to a hyperinflationary economy, it generates gain/loss for exposure to inflation, which has been classified as financial income or expense (monetary position).

# Notes to the consolidated financial statements *(continued)*

## 7 Taxation

**Recognised in the income statement**

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| *Current tax expense* | | |
| Current year | (1,410) | (10,962) |
| Adjustments for prior years | 873 | - |
| Current tax expense | (537) | (10,962) |
| *Deferred tax expense* | | |
| Origination and reversal of temporary differences | 2,307 | (4,546) |
| Recognition of previously unrecognised tax losses | (1,703) | 10,705 |
| Deferred tax credit | 604 | 6,159 |
| **Total tax expense** | 67 | (4,803) |

**Reconciliation of effective tax rate**

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Profit before tax | 2,425 | 61,521 |
| Income tax expense calculated at 21.5% *(2013: 23.25%)* | 521 | 14,304 |
| Effect of permanent adjustments and transfer pricing | (16,826) | (19,232) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (12,671) | (8,746) |
| Unrecognised losses brought forward utilised and tax losses carried forward utilised | 6,821 | (2,055) |
| Timing differences not recognised for deferred tax purposes | 16,597 | 17,785 |
| Current year exchange movement on deferred tax | 4,702 | 2,477 |
| Effect of prior year adjustments | (873) | - |
| Unrecognised deferred tax now recognised | 1,662 | 270 |
| **Total tax expense** | (67) | 4,803 |

The tax rate used for the 2014 (21.5%) and 2013 (23.25%) reconciliations above is the corporate tax rate payable by corporate entities in The United Kingdom on taxable profits under tax law in that jurisdiction.

A reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. In the Budget on 8 July 2015, the Chancellor announced additional planned reductions to 18% by 2020. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

# Notes to the consolidated financial statements *(continued)*

## 8 Property, plant and equipment

**Group**

| | 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 1 January 2013 | 9,174 | 6,739 | 3,246 | 862 | 1,273 | 733 | 22,027 |
| Additions | - | 3,139 | 703 | - | 193 | 1,508 | 5,543 |
| Disposals | - | (1,367) | (22) | (56) | (211) | (55) | (1,711) |
| Effect of movements in foreign exchange | - | (1,301) | (1,153) | (650) | (342) | - | (3,446) |
| Balance at 31 December 2013 & 1 January 2014 | 9,174 | 7,210 | 2,774 | 156 | 913 | 2,186 | 22,413 |
| Additions | - | - | 278 | 48 | - | - | 326 |
| Disposals | - | (3,553) | - | 3 | - | (112) | (3,662) |
| Reclassification | - | 248 | 1,565 | - | 254 | (2,067) | - |
| Effect of movements in foreign exchange | - | (261) | (484) | (108) | (19) | - | (872) |
| Balance at 31 December 2014 | 9,174 | 3,644 | 4,133 | 99 | 1,148 | 7 | 18,205 |
| **Depreciation and impairment** | | | | | | | |
| Balance at 1 January 2013 | (579) | (2,455) | (824) | (844) | (604) | - | (5,306) |
| Depreciation charge for the year | (306) | (455) | (458) | (17) | (102) | | (1,338) |
| Disposals | - | - | 22 | 56 | 9 | - | 87 |
| Effect of movements in foreign exchange | - | (441) | (280) | 649 | (107) | - | (179) |
| Balance at 31 December 2013 & 1 January 2014 | (885) | (3,351) | (1,540) | (156) | (804) | - | (6,736) |
| Depreciation charge for the year | (437) | (825) | (727) | (4) | (316) | - | (2,309) |
| Disposals | - | 666 | - | 1 | - | - | 667 |
| Effect of movements in foreign exchange | - | 181 | 830 | 69 | 87 | - | 1,167 |
| Balance at 31 December 2014 | (1,322) | (3,329) | (1,437) | (90) | (1,033) | - | (7,211) |

# Notes to the consolidated financial statements *(continued)*

## 8 Property, plant and equipment (continued)

| | 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 |
|---|---|---|---|---|---|---|---|
| **Net book value** | | | | | | | |
| At 1 January 2013 | 8,595 | 4,284 | 2,422 | 18 | 669 | 733 | 16,721 |
| At 31 December 2013 and 1 January 2014 | 8,289 | 3,859 | 1,234 | - | 109 | 2,186 | 15,677 |
| **At 31 December 2014** | **7,852** | **315** | **2,696** | **9** | **115** | **7** | **10,994** |

Construction in progress mainly includes improvements of the Group's offices in Panama.

The cost of fully depreciated assets included in operations as of 31 December 2014 and 2013 amounts to US$1,960,000 and US$1,060,264, respectively.

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 (Note 18). The Group is not allowed to plege these assets as security for other borrowings or to sell them to another entity

# Notes to the consolidated financial statements *(continued)*

## 9 Intangible assets

| | Patents and trade- marks US$000 | Total US$000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 January 2013 | 2,423 | 2,423 |
| Other acquisitions – externally purchased | - | - |
| Balance at 31 December 2013 and 1 January 2014 | 2,423 | 2,423 |
| Additions | 2,000 | 2,000 |
| Balance at 31 December 2014 | 4,423 | 4,423 |
| **Amortisation and impairment** | | |
| Balance at 1 January 2013 | (553) | (553) |
| Amortisation for the year | (341) | (341) |
| Impairment reversal | 403 | 403 |
| Balance at 31 December 2013 and 1 January 2014 | (491) | (491) |
| Amortisation for the year | (306) | (306) |
| Impairment | (403) | (403) |
| Balance at 31 December 2014 | (1,200) | (1,200) |
| **Net book value** | | |
| At 1 January 2013 | 1,870 | 1,870 |
| At 31 December 2013 and 1 January 2014 | 1,932 | 1,932 |
| **At 31 December 2014** | **3,223** | **3,223** |

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

On 12 September 2013, the Group entered into a World Strategic Partnership Agreement with Anoto AB Group ("Anoto") which grants the Group the exclusive right to design, develop, manufacture, use and/or distribute digital pens, software and/or paper products embodying and implementing Anoto functionality for use of third parties as part of the Group's operations and services.

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. The product, which remains under development, is expected to be completed in the second half of 2015 at which point amortisation will be charged.

# Notes to the consolidated financial statements *(continued)*

## 10 Other financial assets

| Non-current | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Available for sale financial assets | **3,940** | - |
| **Current** | | |
| Held to maturity investment | **3,300** | - |

The non-current available for sale financial assets represents the cost of the Group's investment into Anoto Group AB and Infuser ApS.

*Anoto Group AB*
Anoto Group AB ("Anoto"), a company listed on NASDAQ OMX Nordic small cap list and registered in Sweden. The company is focused on digital writing solutions. The investment was made on 21 March 2014 and represents 1.5% of the share capital of Anoto which is held for investment purposes (this has been classified as a level 1 financial instrument as per note 24).

*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. 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 24).

The held to maturity investment relates to term deposits totalling US$3,300,000 which earn interest at a rate of 7% - 7.25% per annum and has a maturity dates between May and June 2015.

# Notes to the non-statutory consolidated financial statements *(continued)*

## 11 Investments in joint arrangements

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Consorcio Smartitec | **1,262** | - |

In 2014 the Group entered into a consortium agreement with Engetec Technologia, S.A. The terms of this agreement created a Joint Venture Agreement ('JVA') between Smartmatic Brazil and Engetec Technologia, S.A., with each partner holding a 50 per cent interest. The JVA established an agreed sharing of control with decisions about the relevant activities requiring the unanimous consent of Smartmatic Brazil and Engetec Technologia, S.A. The parties have rights to the assets and obligations for liabilities relating to the arrangement and the JVA has, therefore, been accounted for as a joint operation recognising the Group's relevant share of assets, liabilities, revenues and expenses as appropriate. The Smartitec JVA combined interests in the consortium under the name of Consorcio Smartitec is to provide services to the Tribunal Superior Electoral (TSE) in Brazil.

The following tables summarise the financial information of the joint operation as included in their own financial statements, adjusted for differences in accounting policies.

**Summarised statement of financial position**

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Current assets | **2,825** | - |
| Current liabilities | **(301)** | - |
| **Net assets (100%)** | **2,524** | - |
| Groups portion of ownership | **50%** | - |
| **Carrying amount of Investment in Joint Venture** | **1,262** | - |

**Summarised statement of Profit and Loss**

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Sales | **3,151** | - |
| Cost of sales including finance costs | **(627)** | - |
| **Profit for the period (100%)** | **2,524** | - |
| Groups portion of ownership | **50%** | - |
| **Share of profit of equity-accounted investees** | **1,262** | - |

# Notes to the consolidated financial statements *(continued)*

## 12 Investments in subsidiaries controlled entities

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

| | Country of Incorporation | Class of shares held | Ownership 2014 | Ownership 2013 |
|---|---|---|---|---|
| **Group Subsidiary** | | | | |
| Smartmatic International Holding B.V. | The Netherlands | Ordinary | 100% | 100% |
| Smartmatic Holding N.V. | The Netherlands | Ordinary | - | 100% |
| Smartmatic Holding USA Corporation | United States of America | Ordinary | - | 100% |
| Smartmatic USA Corporation | United States of America | Ordinary | 100% | 100% |
| Smartmatic International Corporation | Barbados | Ordinary | 100% | 100% |
| Smartmatic International Corporation (Panama Branch) | Panama | Ordinary | 100% | 100% |
| 1920 Business Inc. | Republic of the Philippines | Ordinary | 90% | 90% |
| Smartmatic Taiwan Corporation | Republic of China | Ordinary | 100% | 100% |
| Smartmatic Services Corporation | Barbados | Ordinary | 100% | 100% |
| Smartmatic Labs, C.A. | Bolivarian Republic of Venezuela | Ordinary | 100% | 100% |
| Tecnologia Smartmatic de Venezuela, C.A. | Bolivarian Republic of Venezuela | Ordinary | 100% | 100% |
| Smartmatic Project Management Corporation | Barbados | Ordinary | 100% | 100% |
| Smartmatic Deployment Corporation | Barbados | Ordinary | - | 100% |
| Smartmatic Latam Corporation | Barbados | Ordinary | 100% | 100% |
| Smartmatic Panama, S. A. | Panama | Ordinary | 100% | 100% |
| Albatross Technologies Corporation | Barbados | Ordinary | 100% | 100% |
| Integradora Venezolana de Tecnologia y Automatizacion (INVENTA, C.A.) | Bolivarian Republic of Venezuela | Ordinary | 100% | 100% |
| Smartmatic Philippines, Inc. | Republic of the Philippines | Ordinary | 100% | 100% |
| Smartmatic Mexico, S.A. de C.V. | Mexico | Ordinary | 100% | 100% |
| Smartmatic UK Limited | United Kingdom | Ordinary | 100% | 100% |
| Smartmatic Netherlands B.V. | The Netherlands | Ordinary | 100% | 100% |
| Smartmatic Ecuador, S.A. | Ecuador | Ordinary | 100% | 100% |
| Smartmatic Brazil LTDA | Brazil | Ordinary | 100% | 100% |
| Smartmatic Brazil LTDA (Branch Ilheus) | Brazil | Ordinary | 100% | 100% |
| Smartmatic Biometrics India (Former APR Biometric ID Services, Pvt Ltd.) | India | Ordinary | 100% | 100% |
| Smartmatic Technology, Pvt Ltd. | India | Ordinary | 100% | 100% |
| Smartmatic Biometric, Pvt Ltd. | India | Ordinary | 100% | 100% |
| Smartmatic International Holding B.V. (Colombia Branch) | Colombia | Ordinary | 100% | 100% |
| Smartmatic Belgium SPRL | Belgium | Ordinary | 100% | 100% |
| Smartmatic of Haiti, S.A. | Haiti | Ordinary | 100% | 100% |
| Smartmatic Asia Pacific Limited | Republic of China | Ordinary | 100% | 100% |
| HiSoft Panama, S.A. | Panama | Ordinary | 100% | 100% |
| HiSoft Panama, S.A. (Venezuela Branch) | Bolivarian Republic of Venezuela | Ordinary | 100% | 100% |
| Smartmatic TIM Corporation | Republic of the Philippines | Ordinary | 100% | 100% |
| Consorcio COLCARD de Recaudo y Gestion de Flotas de Trasporte Público (non-incorporated) | Colombia | Ordinary | 100% | 100% |
| Abacus Partners Limited (formerly Smart Abacus Parters Limited) | United Kingdom | Ordinary | 100% | 100% |
| Smartmatic Optics Corporation | Barbados | Ordinary | 100% | 100% |
| Smartmatic Optics Corporation (Branch Panama) | Panama | Ordinary | 100% | 100% |
| ID Bank Limited | United Kingdom | Ordinary | 100% | - |
| Smartmatic Air Limited | United Kingdom | Ordinary | 100% | - |
| Smartmatic Africa | Mauritius | Ordinary | 100% | - |
| Smartmatic South Afirca | South Africa | Ordinary | 100% | - |
| Air B.V. | Netherlands | Ordinary | 100% | - |
| Hisoft Corporation | Barbados | Ordinary | 100% | - |
| Smartmatic Elecciones de Mexico S.A. de C.V. | Mexico | Ordinary | 100% | - |
| Smartmatic Mauritius | Mauritius | Ordinary | 100% | - |

The following subsidiaries have a different reporting period to that of the Company and the Group:

| | |
|---|---|
| Smartmatic Biometric Services PVT LTD | 31 March |
| Smartmatic Technology PVT LTD | 31 March |
| Smartmatic Biometrics India (Former APR Biometric ID Services) | 31 March |

# Notes to the consolidated financial statements *(continued)*

## 13 Deferred tax assets and liabilities

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Allowance for doubtful accounts | **-** | 3 |
| Provisions | **135** | 3 |
| Property, plant and equipment | **12** | 2 |
| Intangible assets | **-** | 671 |
| Other liabilities | **(21)** | (3,913) |
| Tax losses | **1,979** | 12,151 |
| Deferred tax assets | **2,105** | 8,917 |

*Movement in deferred tax during the year*

| | **1 January 2014 US$000** | **Translation differences US$000** | **Recognised in year US$000** | **31 December 2014 US$000** |
|---|---|---|---|---|
| Allowance for doubtful accounts | 3 | (2) | (1) | **-** |
| Provisions | 3 | (2) | 134 | **135** |
| Property, plant and equipment | 2 | (2) | 12 | **12** |
| Intangible assets | 671 | (223) | (448) | **-** |
| Other liabilities | 5,029 | (4,394) | (635) | **-** |
| | 5,708 | (4,623) | (938) | **147** |
| Temporary differences: | | | | |
| Tax losses | 12,151 | (8,469) | (1,703) | **1,979** |
| **Deferred tax asset** | 17,859 | (13,092) | (2,641) | **2,126** |
| Deferred tax liabilities: | | | | |
| Other liabilities | (8,942) | 5,676 | 3,245 | **(21)** |
| **Deferred tax liability** | (8,942) | 5,676 | 3,245 | **(21)** |
| **Net deferred tax asset** | 8,917 | (7,416) | 604 | **2,105** |

# Notes to the consolidated financial statements *(continued)*

## 13 Deferred tax assets and liabilities *(continued)*

*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:

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Charitable donations | **2,566** | 3,606 |
| Tax losses | **1,924** | 6,357 |
| Other liabilities | **23,211** | 17,466 |
| Deferred tax assets | **27,701** | 27,429 |

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 recover such assets. The Group reviews the recovery of these amounts based on the projection of expected future tax results.

## 14 Dividend

The following dividends were recognised and paid during the year:

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Final dividend declared and paid | **-** | 134,700 |

# Notes to the consolidated financial statements *(continued)*

## 15 Inventories

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Raw materials and consumables | **345** | 494 |
| Finished goods, net | **3,263** | 2,015 |
| | **3,608** | 2,509 |

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 (2013: US$ nil).

## 16 Trade and other receivables

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Trade receivables | **58,774** | 113,239 |
| Amounts due from parent | **1,585** | 5,214 |
| Other trade receivables | **3,667** | 4,301 |
| Advance to vendors | **13,313** | 29,170 |
| Prepayments | **473** | 364 |
| Guarantee deposits | **1,506** | 1,579 |
| Other taxes receivable | **18,840** | 26,732 |
| Pre-contract costs | **3,435** | 4,233 |
| | **101,593** | 184,832 |
| Non-current | **10,376** | 4,233 |
| Current | **91,217** | 180,599 |

*Advance to vendors*
The Group grants advances to its suppliers to acquire goods and services during the course of business. As of 31 December 2014 and 2013, the Group has granted advances for US$13,313,000 and US$29,170,000 respectively, for the purchase of electoral machines, runtime licenses, digital pens and logistics services.

*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 a result, as of 31 December 2014 and 2013, the Group maintains non-interest bearing loans receivable from employees for approximately US$199,000 and US$251,000 respectively, classified under other trade receivables.

*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 2014 and 2013, both the VAT and withholding tax are mainly generated by operations in Venezuela and the Philippines.

# Notes to the consolidated financial statements *(continued)*

## 16 Trade and other receivables (continued)

*Pre-contract costs*
Pre-contract costs for US$3,435,000 *(2013: US$4,233,000)* 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 the year ended 31 December 2014 a total of $798,000 was amortised *(2013: $905,000).*

## 17 Cash and cash equivalents

| | **2014** | 2013 |
|---|---|---|
| | **US$000** | US$000 |
| Cash and cash equivalents | **101,423** | 98,059 |
| Restricted cash | **2,816** | 2,298 |
| Total cash and cash equivalents | **104,239** | 100,357 |

Cash and cash equivalents include:

- Term deposit for PHP nil (2013: PHP 55,234,000), equivalent to US$ nil (2013: US$1,248,000), which earns interest at a rate of 1.2% per annum and has a maturity of seven days.
- Term deposit for US$2,000,000 which earns interest at a rate of 0.875% per annum and has a maturity date of 33 days
- Term deposit for US$5,000,000 which earns interest at a rate of 1.25% per annum and has a maturity date of 1 day
- Term deposit for US$1,300,000 which earns interest at a rate of 7.0% per annum and has a maturity date of greater than 3 months (this has been included in cash and cash equivalents as maturity is within 3 months of year end)
- Term deposit for US$2,000,000 which earns interest at a rate of 7.25% per annum and has a maturity date of greater than 3 months (this has been included in cash and cash equivalents as maturity is within 3 months of year end)
- Term deposit for US$478,520 which earns interest at a market value in Panama per annum and has a daily maturity date
- Term deposit for GBP£8,506,000 equivalent to US$13,214,500, which earns interest at a rate of LIBOR plus 0.15% and has a withdrawal notice period of 35 days

As of 31 December 2014 and 2013, 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.

# Notes to the consolidated financial statements *(continued)*

## 18 Other interest-bearing 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 24 for more information about the Group's exposure to interest rate and foreign currency risk.

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| **Non-current liabilities** | | |
| Secured bank loans | **3,241** | 3,916 |
| **Current liabilities** | | |
| Current portion of secured bank loans | **673** | 673 |

*Terms and debt repayment schedule*

| | Currency | Nominal interest rate | Year of maturity | Face value 2014 US$000 | Carrying amount 2014 US$000 | Face value 2013 US$000 | Carrying amount 2013 US$000 |
|---|---|---|---|---|---|---|---|
| Banistmo loan | US$ | LIBOR +4 | 2020 | **2,453** | **2,453** | 2,896 | 2,896 |
| Banistmo loan | US$ | LIBOR +4 | 2016 | **1,461** | **1,461** | 1,693 | 1,693 |
| | | | | **3,914** | **3,914** | 4,589 | 4,589 |

The original loan was with HSBC Panama but the loan was transferred to Banistmo (a subsidiary of Bancolombia) in 2013.

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

## 19 Trade and other payables

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| **Current** | | |
| Trade payables and other payables | **23,095** | 15,433 |
| Amount due to parent | **2,291** | 7,376 |
| Employee benefits (refer to note 20) | **4,211** | 9,542 |
| Social security and other taxes | **711** | 2,130 |
| Accrued expenses | **30,041** | 52,072 |
| | **60,349** | 86,553 |

# Notes to the consolidated financial statements *(continued)*

## 20 Employee benefits

**Share-based payments**

On 26 May 2008 and effective since 1 January 2008, the company and group's ultimate parent, Smartmatic International Group N.V., 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 Smartmatic International Group N.V.is as follows:

| **Grant date** | **Method of settlement accounting** | **Number of instruments** | **Vesting conditions** | **Contractual life of options** | **Fair value at grant date** |
|---|---|---|---|---|---|
| 14 March 2008 | Equity | 12,039,770 | Mixed vesting conditions | 1 January 2011 | 0.87 |
| 25 June 2010 | Equity | 54,002 | 100% vested at grant date | 25 June 2010 | 0.87 |
| 1 December 2010 | Equity | 388,310 | Partial vesting by year (30%, 30% & 40%) | 1 January 2011 | 0.87 |
| 1 January 2012 | Equity | 600,074 | 100% vested at grant date | 1 May 2013 | 0.88 |
| 1 May 2013 | Equity | 1,250,000 | 100% vested at grant date | 1 May 2013 | 3.50 |
| 9 July 2014 | Equity | 41,703 | 100% vested at grant date | 9 July 2014 | 3.50 |

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

| | **Weighted average exercise price 2014** | **Number of options 2014** | Weighted average exercise price 2013 | Number of options 2013 |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **0.01** | **295,867** | 0.01 | 630,924 |
| Forfeited during the year | **-** | **(6,298)** | - | (30,733) |
| Exercised during the year | **-** | **(185,415)** | - | (1,554,324) |
| Granted during the year | **0.01** | **41,703** | 0.01 | 1,250,000 |
| Lapsed during the year | **-** | **-** | - | - |
| Outstanding at the end of the year | **0.01** | **145,857** | 0.01 | 295,867 |
| Exercisable at the end of the year | **0.01** | **360,044** | 0.01 | 180,022 |

The weighted average share price at the date of exercise of share options exercised during the year was US$0.01 *(2013: 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)*

## 20 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 Smartmatic International Group N.V. The fair of Smartmatic International Group N.V.'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:

| | **2014** | 2013 |
|---|---|---|
| Fair value at grant date | **3.50** | 3.50 |
| Weighted average share price | **-** | - |
| Exercise price | **nil** | nil |
| Expected volatility | * | * |
| Option life | **-** | - |
| Expected dividends | **nil** | nil |
| Risk-free interest rate | **3%** | 3% |

* The impact of expected volatility is incorporated into the discounted cash flow analysis used in determining the fair value of the Smartmatic International Group N.V. 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 in SGO Corporation Limited and its subsidiaries for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Equity settled share based payment expense | **173** | 4,517 |

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.

## 21 Deferred revenue

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| **Current** | | |
| Venezuela | **6,596** | 22,173 |
| Haiti | **6,942** | 10,275 |
| Brazil | **3** | - |
| | **13,541** | 32,448 |

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)*

## 22 Provisions

| | CNE re-purchase US$000 | Dominion Provision US$000 | Total US$000 |
|---|---|---|---|
| Balance at 1 January 2014 | 3,500 | 7,470 | 10,970 |
| Provisions released during the year | (3,500) | (7,470) | (10,970) |
| **Balance at 31 December 2014** | - | - | - |
| Non-current | - | - | - |
| Current | - | - | - |
| | - | - | - |

*CNE re-purchase provision*
As at 31 December 2013, the Group maintained a provision for the re-purchase of a series of electoral machines from the National Electoral Council (CNE) of the Bolivarian Republic of Venezuela for US$3,500,000. The provision has been released and recognised in other income in 2014 as the statute of limitations for ordinary commercial obligations in Venezuela is 10 years. The agreement was dated March 15 2004 and therefore the 10 year period has passed and the obligation to the company no longer exists.

*Dominion provision*
On 9 October 2009, the Company, through its subsidiary Smartmatic International Corporation, entered into a Framework License Agreement with Dominion Voting Systems International Corporation. This set the conditions for the acquisition of licenses installed on the voting machines used during the elections held in the Philippines in May 2010. The agreement with Dominion specified that if Commission on Election (COMELEC) exercised its option to purchases the voting machines, then Smartmatic International Corporation shall pay Dominion an additional license fee in the amount of US$ 121.66 per unit. As at 31 December 2013, the Group maintained a provision for the additional license fee.

During 2014, as part of the settlement of a series of claims and counter claims detailed in note 26, Dominion agreed to forego the license fee payable for the use of their technology in the in the 2010 elections and to a perpetual license for the use of that technology going forward. Consequently, the provision has been released and recognised in other income.

## 23 Capital and reserves

**Share capital**

| | **2014 US$000** | 2013 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.

*Equity-settled employee benefits reserve*

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

# Notes to the consolidated financial statements *(continued)*

## 24 Financial instruments

***24 (a) Fair values of financial instruments***

*Trade and other receivables*

The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Trade and other payables*

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

*Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

*Interest-bearing borrowings*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

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** | **Fair value** | **Carrying amount** | **Fair value** |
|---|---|---|---|---|
| | **2014 US$000** | **2014 US$000** | 2013 US$000 | 2013 US$000 |
| **Loans and receivables** | | | | |
| Cash and cash equivalents (note 17) | **104,239** | **104,239** | 100,357 | 100,357 |
| Trade and other receivables (note 16) | **101,593** | **101,593** | 184,832 | 184,832 |
| **Held to maturity investments** | | | | |
| Other financial assets (note 10) – Level 2 | **3,300** | **3,300** | - | - |
| **Available for sale investments** | | | | |
| Other financial assets (note 10) – Level 1 | **1,500** | **1,500** | - | - |
| Other financial assets (note 10) – Level 2 | **2,440** | **2,440** | - | - |
| Total financial assets | **213,072** | **213,072** | 285,189 | 285,189 |
| **Financial liabilities measured at amortised cost** | | | | |
| Other interest-bearing loans and borrowings (note 18) | **3,914** | **3,914** | 4,590 | 4,589 |
| Trade and other payables (note 19) | **60,349** | **60,349** | 86,553 | 86,53 |
| Total financial liabilities | **64,263** | **64,263** | 91,142 | 91,142 |
| Total financial instruments | **148,809** | **148,809** | 194,047 | 194,047 |

# Notes to the consolidated financial statements *(continued)*

## 24 Financial instruments *(continued)*

***24 (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:

| | **2014 US$000** | 2013 US$000 |
|---|---|---|
| Venezuela | **47,375** | 84,923 |
| Philippines | **7,552** | 12,978 |
| Belgium | **1** | 1,511 |
| Bolivia | **161** | - |
| Brazil | **634** | 849 |
| Argentina | **-** | 144 |
| USA | **-** | 201 |
| Haiti | **10,250** | 20,063 |
| | **65,973** | 120,669 |

*Credit quality of financial assets and impairment losses*

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

| | **Gross 2014 US$000** | **Impairment 2014 US$000** | Gross 2013 US$000 | Impairment 2013 US$000 |
|---|---|---|---|---|
| Not past due (0 – 30 days) | **52,401** | **-** | 98,990 | - |
| Past due 31- 60 days | **-** | **-** | 125 | - |
| Past due 61- 90 days | **1** | **-** | 403 | - |
| More than 91 days | **13,571** | **(7,199)** | 21,151 | (7,430) |
| | **65,973** | **(7,199)** | 120,669 | (7,430) |

# Notes to the consolidated financial statements *(continued)*

## 24 Financial instruments *(continued)*

***24 (b) Credit risk (continued)***

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

| | 2014 US$000 | 2013 US$000 |
|---|---|---|
| Balance at 1 January | **7,430** | 8,448 |
| Impairment loss recognised | **70** | - |
| Impairment loss reversed | **(301)** | (1,018) |
| Balance at 31 December | **7,199** | 7,430 |

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.

***24 (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.

**Liquidity risk**

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

| **2014** | **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 18) | **3,914** | **4,552** | **874** | **834** | **2,280** | **564** |
| Trade and other payables (note 19) | **60,349** | **60,349** | **60,349** | **-** | **-** | **-** |
| | | **64,901** | **61,223** | **834** | **2,280** | **564** |

| 2013 | 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 18) | 4,589 | 5,456 | 907 | 871 | 2,391 | 1,287 |
| Trade and other payables (note 19) | 86,553 | 86,553 | 86,553 | - | - | - |
| | | 92,009 | 87,460 | 871 | 2,391 | 1,287 |

# Notes to the consolidated financial statements *(continued)*

## 24 Financial instruments *(continued)*

*24 (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 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Venezuelan Bolivars | **3,303,214,815** | 1,896,832,565 | **8,238,673,551** | 2,209,797,904 |
| Philippine Pesos | **399,562,372** | 40,075,357 | **2,391,734,394** | 2,329,544,449 |
| Euros | **808,417** | 42,553,196 | **4,007,923** | 1,996,925 |
| Mexican Pesos | **233,482** | 43,356,062 | **1,056,674** | 15,326,977 |
| Sterling Pound | **2,052,737** | 1,134,402 | **12,911,731** | 4,886,594 |
| Colombian Pesos | **930,396** | 1,994,069,338 | **944,330** | 2,039,800,203 |
| Taiwanese dollars | **595,803** | 31,884,009 | **3,986,266** | 129,693,425 |
| Hong Kong dollars | **13,915** | 49,008 | **3,199** | 24,814 |
| Rupees | **109,557** | 3,996,297 | **373,389** | 15,114,345 |
| Brazilian Reais | **306,698** | 7,055,121 | **2,991,065** | 15,681,064 |
| Haitian Gourdes | **2,951,374** | 83,926,747 | **12,604,897** | 25,808,020 |

*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 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.

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Impact original currency** | **Impact in US$** | **% of change in exchange rate** | Impact original currency | Impact in US$ | % of change in exchange rate |
| Sterling Pound | **(7,112,611)** | **(10,865,283)** | **1.76%** | (2,329,584) | (3,931,423) | 2.39% |
| Rupees | **6,540** | **107** | **-2.52%** | (164,411) | (2,549) | 2.58% |
| Taiwanese dollars | **(108,362)** | **(3,391)** | **-2.72%** | (3,172,216) | (96,421) | -2.69% |
| Euros | **(1,323,780)** | **(1,471,050)** | **-8.66%** | 1,231,330 | 908,077 | -0.84% |
| Brazilian Reais | **(958,571)** | **(320,944)** | **4.78%** | (3,715,153) | (1,637,941) | -0.87% |
| Mexican Pesos | **(59,175)** | **(3,697)** | **1.54%** | (132,717) | (10,075) | 0.51% |
| Philippine Pesos | **51,982,807** | **1,194,312** | **2.22%** | 141,385,280 | 3,198,689 | 0.15% |
| Colombian Pesos | **181,647** | **80** | **1.59%** | 3,296,619 | 1,593 | 2.30% |
| Hong Kong dollars | **1,416** | **183** | **-0.19%** | 42,048 | 5,425 | -0.04% |
| Venezuelan Bolivars | **4,140,946** | **16,831** | **293.05%** | 40,019,456 | 500,932 | 422.43% |
| Haitian Gourdes | **(199,586)** | **(4,301)** | **-0.08%** | 1,351,312 | 28,949 | -1.62% |

# Notes to the consolidated financial statements *(continued)*

## 24 Financial instruments *(continued)*

***24 (d) Market risk** (continued)*

**Market risk – Interest rate risk**

*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:

a. Profit for the year ended 31 December 2014 would increase by US$ 59,000 (2013: US$ 101,000). 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 2014 would increase in the same amounts for both years.

***24 (e) Capital management***

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 2013.

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.

## 25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | **2014** | 2013 |
|---|---|---|
| | **US$000** | US$000 |
| Less than one year | **2,250** | 2,137 |
| Between one and five years | **2,795** | 2,121 |
| More than five years | **1,527** | 588 |
| | **6,572** | 4,846 |

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$2,055,000 was recognised as an expense in the income statement in respect of operating leases *(2013: US$2,456,000).*

# Notes to the consolidated financial statements *(continued)*

## 26 Commitments and contingencies

The Group may be affected by certain claims during the normal course of its business activities. Also there are certain criteria used by the Group's management related to the tax rate applicable to income generated by operations in Venezuela, United States of America and other countries. Despite the existing uncertainty relating to the juridical dispute itself, in the opinion of management and its legal counsels and advisors, the final outcome of these cases and criteria will not have any significant impact on the consolidated financial statements since the legal grounds favor the Group and the criteria they have taken are supported adequately due to the actions taken.

***Dominion Technologies software agreement***

In September 2012, Smartmatic filed a complaint against Dominion Voting Systems Inc, in the Court of Chancery in the State of Delaware. The Group was seeking damages arising from Dominion's failure to honor its contractual commitments under a Technology License Agreement executed in 2009, a consequence of which the Group incurred significant rectification costs and reputational damage arising out of a near catastrophic failure of Dominion's Licensed Technology shortly before the Philippine National Elections of May 2010. Furthermore, when settlement negotiations failed to reach a successful conclusion, Dominion purported to terminate the License Agreement (alleging breach of a non-competition covenant). The Group also pursued related claims against Dominion arising out of their intentional interference with the Group's business relationships (including prospective business relationships) in the Philippines, Mongolia and Puerto Rico.

The claim was settled during the year and all claims and counter claims were withdrawn. Dominion agreed to forego the license fee payable for the use of their technology in the 2010 elections and to a perpetual license for the use of that technology going forward. In addition, in consideration for Dominion agreeing not to compete in the Philippines, a license fee is payable by Smartmatic to Dominion on the manufacture and sale of any further PCOS machines for use in the Philippines which embody the licensed technology. The settlement of this claim resulted in the release of a provision for $7,470,000 as well as further income of $2,225,000 relating to the settlement of this case

***Other contingencies***

A person from Philippines filed a civil action for damages against the Group joining in his complaint some officers of the Group. This person claims that there was widespread inaccuracy and lack of integrity in the 10 May 2010 automated elections in the city of San José del Monte, Bulacan, Philippines. This person claims that the Group are liable to pay him the total of US$658,000 as actual damages, moral damages, exemplary damages and attorney's fees and costs of litigation. In February 2014, the court issued a notice of hearing resetting the pre-trial conference to 29 May 2014 and requiring the parties to file and serve copies of their judicial affidavits on or before 24 May 2014.

# Notes to the consolidated financial statements *(continued)*

## 27 Related parties

*Transactions with key management personnel*

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

| | **2014** **US$000** | 2013 US$000 |
|---|---|---|
| Key management emoluments | **1,216** | 1,557 |
| Share related awards | **146** | 4,375 |
| | **1,362** | 5,932 |

*Other related party transactions*

The subsidiary Smartmatic Brasil LTDA jointly provides maintenance services to the Superior Electoral Court (Tribunal Superior Eleitoral) in Brazil with Engetec Tecnologia S.A In 2012 Smartmatic Brasil LTDA loaned Engetec R$11,600,000, equivalent to $5,667,000. At 31 December 2014 the balance loan to Engetec Tecnologia S.A was $1,123,000 all of which has been provided for. (2013: $1,282,000). This loan has no guarantee and bears interests at an annual interest rate of 2%, as agreed upon between the parties.

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 $685,000 (2013:$482,000) in the current year.

The group lease office premises from Antonio José Mugica Rivero, a director of the company. The lease rental amounts to $1,000 (2013: $23,000) during the current year and is leases on an arm's length commercial basis.

## 28 Ultimate parent company

The ultimate parent company is Smartmatic International Group N.V., a company incorporated in Curacao.

The largest group into which the company's results are consolidated is that headed by Smartmatic International Group N.V., incorporated in Curacao. 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.

# Company Balance Sheet
*at 31 December 2014*

| | *Note* | **2014** **£000** | **2014** **£000** | 2013 £000 | 2013 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible Assets | *3* | | **218** | | 164 |
| Investments | *4* | | **106,643** | | 106,643 |
| | | | **106,861** | | 106,807 |
| **Current assets** | | | | | |
| Debtors | 5 | **6,726** | | 3,516 | |
| Cash at bank and in hand | | **297** | | 92 | |
| | | **7,023** | | 3,608 | |
| **Creditors:** amounts falling due within one year | *6* | **(34,232)** | | (29,796) | |
| **Net current liabilities** | | | **(27,209)** | | (26,188) |
| **Total assets less current liabilities** | | | **79,652** | | 80,619 |
| Provision for liabilities | *7* | | **(11)** | | (11) |
| **Net assets** | | | **79,641** | | 80,608 |
| **Capital and reserves** | | | | | |
| Called up share capital | *8* | | **-** | | - |
| Share Premium | | | **68** | | 68 |
| Merger Reserve | | | **80,414** | | 80,414 |
| Share based payments reserves | | | **121** | | 23 |
| Profit and loss account | *9* | | **(962)** | | 103 |
| **Shareholder's funds** | | | **79,641** | | 80,608 |

The notes on pages 51 to 54 form part of these financial statements.

These financial statements were approved by the board of directors on 7 September 2015 and were signed on its behalf by:

**Antonio Jose Mugica Rivero**
*Director*
*Company registered number: 07477910*

# Company Reconciliation of Movements in Shareholder's Funds
*for the year ended 31 December 2014*

| | 2014 | 2013 |
|---|---|---|
| | **£000** | £000 |
| **(Loss) / profit for the financial year** | **(1,065)** | 82,392 |
| Equity-settled share based payment transactions | **98** | - |
| Dividends paid | **-** | (82,283) |
| **Net addition to shareholder's funds** | **(967)** | 109 |
| Opening shareholder's funds at the beginning of the year | **80,608** | 80,499 |
| **Closing shareholder's funds** | **79,641** | 80,608 |

The notes on pages 51 to 54 form part of these financial statements.

# 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 financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Smartmatic International Group N.V., the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

***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.

***Dividends on shares presented within shareholder's funds***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

***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).

# Notes to the Company financial statements (continued)

## 2 Remuneration of directors

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Directors' emoluments | **309** | 149 |

## 3 Tangible fixed assets

| | Leasehold Improvements £000 | Furniture & Fixtures £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At beginning of year | 166 | 19 | 185 |
| Additions | 91 | 31 | 122 |
| At end of year | 257 | 50 | 307 |
| **Depreciation** | | | |
| At beginning of year | 12 | 9 | 21 |
| Charge for year | 27 | 41 | 68 |
| At end of year | 39 | 50 | 89 |
| **Net book value** | | | |
| **At 31 December 2014** | **218** | **-** | **218** |
| At 31 December 2013 | 154 | 10 | 164 |

# Notes to the Company financial statements (continued)

## 4 Fixed asset investments

| | Shares in group undertakings £000 | Total £000 |
|---|---|---|
| **Cost and Net book value** | | |
| **At 31 December 2014** | **106,643** | **106,643** |
| At 31 December 2013 | 106,643 | 106,643 |

| Subsidiary Undertakings | Country of registration or incorporation | Holding |
|---|---|---|
| Smartmatic Holding N.V. | The Netherlands | 100% |

## 5 Debtors

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Prepayments | 92 | 77 |
| Amounts owed by group undertakings | 6,562 | 3,421 |
| Advance to vendors | 13 | 6 |
| Prepaid Taxes | 59 | 12 |
| | 6,726 | 3,516 |

## 6 Creditors: amounts falling due within one year

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Trade creditors | 42 | 86 |
| Amounts owed to group undertakings | 34,007 | 29,442 |
| Taxation and social security | 4 | 11 |
| Accruals | 179 | 257 |
| | 34, 232 | 29,796 |

# Notes to the Company financial statements (continued)

## 7 Provisions for liabilities

| | Deferred taxation £000 | Total £000 |
|---|---|---|
| At beginning of year | 11 | 11 |
| At end of year | **11** | 11 |

The elements of deferred taxation are as follows:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Difference between accumulated depreciation and amortisation and capital allowances | **11** | 11 |

## 8 Called up share capital

| | 2014 £000 | 2013 £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 3 Ordinary shares of £1 each | - | - |

## 9 Share premium and reserves

| | Share premium account £000 | Merger Reserve £000 | Share based payments reserve £000 | Profit and loss account £000 |
|---|---|---|---|---|
| At 1 January 2014 | 68 | 80,414 | 23 | 103 |
| Profit for the year | - | - | - | (1,065) |
| Equity-settled share based payment transactions | - | - | 98 | - |
| **At 31 December 2014** | **68** | **80,414** | **121** | **(962)** |

## 10 Ultimate parent company

The Company is a wholly subsidiary of Smartmatic International Group N.V. a company incorporated in Curacao.