



RS2 Software p.l.c.
COMPANY ANNOUNCEMENT

The following is a company announcement issued by RS2 Software p.l.c. ("the Company") pursuant to the Malta Financial Services Listing Authority Rules.

Quote

At the meeting held on Friday 26 April 2019, the Board of Directors of RS2 Software p.l.c. approved the financial statements for the financial year ended 31 December 2018. The Board resolved that these financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Tuesday 18 June 2019.

Shareholders appearing on the shareholders' register as at the close of business on Friday 17 May 2019 will receive notice of the Annual General Meeting, together with the Annual Report and Financial Statements for the financial year ended 31 December 2018. The statement of results that is attached herewith was extracted from the financial statements that were audited by Deloitte.

In view of the investments contemplated by the Company, the Board of Directors resolved that it was not recommending a distribution of a dividend so as to utilise funds to expand the business of the Company.

The Board of Directors further resolved to recommend for approval at the Annual General Meeting the issue of one (1) Ordinary Share for each eight (8) Ordinary Shares held by the Shareholders ("the Bonus Issue") as at close of business on Friday, 17 May 2019 ("the Record Date") by the capitalisation of a sum not exceeding one million, two hundred eighty-six thousand, four hundred fifty-seven Euro (€1,286,457) being part of the amount standing to the credit of the Company's distributable reserves of the Retained earnings account. If the bonus issue is approved at the Annual General Meeting, such new shares are expected to be admitted to listing on Wednesday, 19 June 2019 and dealings are expected to commence on the said Exchange on Thursday, 20 June 2019.

Pursuant to the Malta Stock Exchange Bye-Laws, the shareholders' register as at close of business on Friday 17 May 2019 will include trades undertaken up to and including Wednesday 15 May 2019.

Unquote

A handwritten signature in black ink, appearing to read 'Ivan Gatt', written over a horizontal line.

Dr. Ivan Gatt
Company Secretary

29 April 2019



Annual Report

**For the year ended
31 December 2018**

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RS2 Software p.l.c.

Chairman's Statement

For the year ended 31 December 2018

RS2 Group's expansion strategy and product development continued to contribute to the sustainable growth of the Group during 2018. In the past year we continued to build up the Managed Services arm, now contributing positively to the Group's success in terms of our financial statements and our expanding client base.

The appointment of an internationally renowned Board of Directors in the US who are complemented by a knowledgeable sales team has allowed us to create a growing awareness of RS2 in the US, attracting top banks, PSPs, ISOs and ISVs. Meanwhile, our experienced technical team is continuously working to adapt our products to new markets. Worth mentioning is the migration of our Managed Services from physical datacenters to the Cloud, removing the geographical barrier from our offerings allowing the Group to take our services closer to our clients. Our investment into the global RS2 Team will ensure that the Group will further increase market share and maintain the first-rate reputation that is associated with the RS2 name.

The continuous improvement and development of our products and services have allowed us to attract leading financial organizations, processors and merchants. Following our success in the Managed Services business, we are looking to broaden our offerings to cater for new client segments. We are confident that the Group is well-prepared to handle these new customers backed by our state of the art platform, BankWORKS®, and supported by our Team.

To ensure that we continue to realize our growth strategy with strong strategic management competency, we will continue to strengthen our structure at all levels including our Board of Directors, our C-Executives and our highly trained group of multi-national developers and analysts.

Last but not least, please allow me to thank our Board of Directors for their guidance and support throughout the past year, our CEO who has worked untiringly to ensure that our global strategic objectives are achieved and to our management and staff for their continued commitment and diligence.

Mario Schembri
Chairman

26 April 2019

RS2 Software p.l.c.

Chief Executive Officer's Review

For the year ended 31 December 2018

Dear Friends and Partners,

2018 was a very positive year in terms of effectively realising the Group Strategy, expanding the operation in Latin America, APAC, Europe and North America by winning new businesses and mobilising our resources to deliver and increase the sales of our services across these regions.

Our continued investment in enhancing our products, technologies, and human resources have led to RS2 building a notable potential client pipeline whilst strengthening relationships with existing clients who are now processing more volumes, consolidating their business, and expanding into other territories on the platform. The Group continues to attract significant attention in the market, particularly due to the flexibility, performance, modularity and the deployment of a single platform globally, which is being recognized by large acquirers in the Market wishing to service their merchants worldwide using RS2 as their global partner.

Seeing the consolidation in the business and the constant demand of multi-national merchants requesting world-wide services from their Acquirers, the Group is very well positioned to provide a global product covering almost every region in one single platform. Our services provide clients with a wide range of APIs to consolidate the business of merchants covering their omni-channel businesses and issuers covering a wider range of products. This distinctive offering has secured the group substantial deals in APAC, LATAM and North America.

Accelerating the Managed Services

The Managed Services remains a thriving business with continuous increases in processing volumes, resulting in a profit for RS2's subsidiary company RS2 Smart Processing Ltd. As an integral part of the strategic plan for RS2, RS2 Smart Processing is constantly increasing its portfolio adding large businesses to the platform. These new clients will contribute to substantial volumes of transactions which are expected to exceed the 1 billion mark by 2021.

Single Platform running on the cloud

In order to be efficient and meet the demand of processing capacity, which is sometimes unpredictable in our business, our team has been working on moving our Managed Services to Amazon Cloud. This will allow us to scale up the service as required during the on-boarding of new clients and expanding into new regions. During the past year a number of processing agreements and letters of intent were signed which will result in a significant increase in volumes in the coming year, which was for the group an obvious decision to move to the cloud. In 2019 we will be further developing the Managed Services offerings with specific efforts to grow our presence in APAC, USA and Europe.

RS2 Software p.l.c.

Chief Executive Officer's Review

For the year ended 31 December 2018

Preparing for the Next Era – a Single Platform

RS2 today is well positioned in the Market to start new business pillar namely the acquiring of direct merchants. Backed by our state of the art BankWORKS® and the new talent joining the team, the Group will start offering merchants direct acquiring services. This will provide the Group with a significant revenue stream by getting a percentage of the transaction value and charging a merchant service charge in addition to other ancillary services.

Due to the fact that the Group owns the platform and is running the service efficiently, which will have a positive impact on the service, RS2 will provide the merchant with significant savings by consolidating their business and optimizing their pricing on one single platform. The platform will allow the merchants to have real-time access through a cross-platform portal, which is accessible via tablets, desktop computers or mobile phones. The information available in the portal will allow the merchants to take quick decisions in the management of their business and cash flow. The platform will also provide the merchants with tools to control their risk exposures; this is of particular interest to multi-national merchants, who will be able to generate real-time reports and rollout services in a matter of days instead of months.

The Group is also in the process of establishing its own financial institution license in Germany in order to manage the funding and the settlement of its clients and be able to enter the issuing services directly by providing both virtual and pre-paid cards.

Looking Forward

Following on the encouraging results in 2018, the Group aims to continue to strengthen our position in the market with strategic partnerships and clients. The Group is implementing its strategy of further international growth with focus on the Managed Service and Direct Acquiring solutions. To further enable our rapid expansion and growth, the Group continues to nurture its hub of internationally renowned C-Level Executives and industry specialists. Our vast network with Banks and Partners around the globe will aid the implementation of RS2's third business model and will facilitate the roll-out in Europe. The aim is to eventually leverage the Group's network to offer a truly global acquiring offering to our Direct Acquiring clients.

RS2's USA subsidiary is currently attracting some of the largest US acquirers to on-board as Managed Services clients. Winning such business will be tantamount to proving our exceptional international reputation highlighted in the US market. These opportunities will translate to significant revenue over the coming years.

In the Asia Pacific market, the Group is further promoting our services locally with potential clients for both the Licensed and Managed Services in several countries.

RS2 Software p.l.c.

Chief Executive Officer's Review

For the year ended 31 December 2018

Our research and development team together with outsourced consultants are designing a new offering of our solution to position the Group at the forefront of the FinTech sector, ready to embrace the considerable market developments and opportunities as they arise. This includes the use of new technologies that go beyond the blockchain and takes into consideration the legal and regulatory requirements to support these advances.

Financial highlights

During 2018, the Group recognised total revenues of €25m compared to €17.4m recorded last year. Based on the new implementation of IFRS15 Accounting Standard, the Group has been compliant with the new Standard, and provided the details in note 3.1 to these financial statements as, certain transitional provisions for the application of this new Standard have necessitated the need to reverse an amount of €5.6m from equity reserves, being revenue already accounted for up to 31 December 2017 in relation to a Term Licence contract with an option to convert to perpetuity. Such reversal was taken to revenue in 2018, together with an additional €1m in revenue consideration, when the option to which it related was exercised by the customer.

Licence fees amounted to 38.9% of total Group revenues. Maintenance fees increased by 47% in 2018. Processing and service fees earned from the managed service business increased by a further 33% this year, reflecting additional revenue from new and existing clients in the form of implementation and transaction processing fees. Service fees emanating from both the licensing and the processing business accounted for more than 84.7% of the revenue mix.

In its efforts to boost service and support delivery to its current client base and being at the forefront to take on potential new client opportunities across the globe, the Group continues to invest heavily in human resources and infrastructure. In line with this, the Group continued its expansion in the US mainly increasing the staff complement and building the infrastructure for the North American processing clients. Furthermore, the investment in human resources by the Group's subsidiary in Manila, Philippines supplemented the development and support services operations headquartered in Malta, but also to run the operation of the managed services clients in the region. To this effect, during the year under review the Group enhanced its operations staff complement by an average of 16% compared to the prior year. Consequently, cost of sales reached €12.6m, a rise of 17% when compared to 2017.

The Group's gross profit for the year stands at €12.4m against €6.6m recorded in the previous year taking into consideration the impact in implementing IFRS15 as detailed in the note 3.1 of these financial statements.

RS2 Software p.l.c.

Chief Executive Officer's Review

For the year ended 31 December 2018

Marketing and administrative expenses increased by 46% and 21% respectively. This has resulted from the Group's efforts in increasing the probability of securing significant businesses in the US, APAC and Europe for its managed services businesses.

The Group is aiming to secure such businesses during 2019 and 2020. Administrative expenses increased in line with the Group's drive to strengthen its administrative functions in support of the planned international growth. Such effort in engaging high profile professional officers is reaching its goals in enabling the Group to attract the right customers and strategic partners.

In order to sustain its leadership position in the market as one of the best technology Payments provider, the Group continues to invest in enhancing its flagship product known as BankWORKS®. An increase of 39% in investment cost in comparison to last year has been recorded building strong API's allowing the boarding and the processing of new customers seamlessly and efficiently.

During 2018, the Group managed for a second year running to curtail both its losses arising from fluctuations in foreign currency movements and to partially recoup past impairment losses amounting to €160k, which in the past had resulted from default on the recovery of trade receivables.

Group assets decreased from €29.6m to €28m with total equity decreasing from €20.7m to €17.2m. The Group closes the year with a cash balance of €3.4m, compared with €7.8m at end of 2017. This resulted after the payment of €0.9m in acquisition of property, plant and equipment, a payment of dividend of €2.5m and repayment of bank borrowings of €1m. Notwithstanding a year where the Group experienced an increase in staff and other costs relating mainly to expansion in the United States, the Group is still focused to continue with its strong growth strategy.

RS2 Software p.l.c.

Chief Executive Officer's Review

For the year ended 31 December 2018

Finally, I would like to take this opportunity to thank our superb team and management across the globe for their constant dedication. I would also like to show my gratitude to the Board of Directors and our shareholders for their continued trust – it is an honour to be part of this company and be able to serve as CEO to build the Group and its subsidiaries further. I look forward to seeing RS2 develop into a front-runner in the payments industry and beyond.

Thank you for your continued support and dedication.

Radi Abd El Haj
Chief Executive Officer

26 April 2019

Corporate Social Responsibility

For the year ended 31 December 2018

RS2 believes in giving back to the communities we form part of and pride ourselves in providing support to numerous philanthropic organisations as well as various sports and arts programmes. Some of these benefactors have continued to receive our ongoing for a number of years and have grown to consider RS2 as a loyal partner and contributor.

Due to the fact that the Company operates in an ever growing, evolving and innovative industry, we consider education to be an integral part of our core function and business. RS2 promotes various initiatives to give numerous young people the relevant exposure and the right training required to become the future contributors to the Fintech Industry.

To that effect, RS2 has once again worked with MITA on a student placement programme, offering invaluable hands-on work experience within the Technical, Project Delivery, and Managed Services departments. This opportunity allowed the students to unlock their potential with the continuous mentoring of team leaders and colleagues. The company also provides the possibility for full-time employment to the students upon completion of their course. In the past year, we have also collaborated with MCAST to provide their students with experience within the Technical Department and Project Delivery Team. The Company firmly believes that this program provides value to the local community while creating a gateway to the Company to gain prospective new employees with new talents.

The Group supports and encourages employees who engage in external fundraising activities for charitable institutions. The RS2 Events Committee comprises employees from different departments who volunteer their personal time in the efforts to create a variety of activities on behalf of the Company which include fundraising, teambuilding, and company get-togethers. These events help to promote a strong, healthy team relationship, which proves to be highly beneficial given the extensive growth the Company has experienced in the past couple of years. This year also included the introduction of awareness talks on various topics promoting physical and mental wellbeing.

Some of the organisations benefitting from this year's contributions are:

- Schola Cantorum Jubilate
- Lifecycle Challenge
- Pink October
- Kavallieri Handball Club
- Small Shareholders Union
- Cospicua Scout Group
- DLS Productions
- Istrina
- Dar tal-Providenza
- Puttinu Cares
- Dar Santa Rita

Corporate Social Responsibility

For the year ended 31 December 2018

The Group is confident that it will continue to achieve a balanced and holistic value for its shareholders and will strive continuously to promote sound CSR initiatives. RS2 is envisaging that CSR outreach will increase in coverage with the involvement of the regional offices as these strengthen in the company this year. RS2 will continue to positively affirm its efforts in becoming a sustainable company and a market leader within the FinTech Industry.

RS2 Software p.l.c.

Directors' Report

For the year ended 31 December 2018

The directors present their report, together with the financial statements of RS2 Software p.l.c. (the "Company") and its subsidiaries, RS2 Smart Processing Ltd, RS2 Software INC, RS2 Software LAC LTDA, RS2 Germany GmbH and RS2 Software APAC Inc. (collectively referred to the "Group"), for the year ended 31 December 2018.

Board of Directors

Mr Mario Schembri (Chairman)

Mr Radi Abd El Haj (CEO)

Dr Robert Tufigno

Mr Franco Azzopardi

Mr Christopher Wood

Mr John Elkins

Prof. Raša Karapandža

Principal activities

The Company and the Group are principally engaged in the development, installation, implementation and marketing of computer software for financial institutions under the trade mark of BANKWORKS®. Through one of its subsidiaries, the Group is also engaged in processing of payment transactions with the use of BANKWORKS®. Consistent with previous years, there was no significant changes in the activity of the Group.

Business review and future developments

Following the opening of new offices in Colorado, US and Manila, Philippines in 2014 and 2016 respectively, the Group has continued to build up on the strengths of the established footholds and extending its global outreach across the globe. In line with this strategy, the Group opened new offices in Germany to solidify its base in Europe mainland, further attract potential clients and talent from the industry to serve current and potential clients in the region.

The Group is in the process of applying for its Financial institution license in Germany under the BaFin to start its new Acquiring Services, which will be provided to local and Multi-National merchants in 2020-2021.

During the year under review, the Company registered revenues from its principal activities, excluding any IFRS15 impact, of €16m (2017: €14.8m) and a profit before tax of €3.1m (2017: €1.8m). The managed services arm of the Group, RS2 Smart Processing Ltd which is principally engaged in the processing of payment transactions with the use of BankWORKS® recorded revenues of €3.8m (2017: €2.9m) and a profit before tax of €0.6m (2017: profit before tax of €0.1m). RS2 Software APAC Inc. whilst continuing to support the Company in product development and its expansion in the Asia Pacific region, has also commenced to source clients of its own and providing managed services Operations to Group clients located in the Region. RS2 Software Inc. (formerly RS2 Software LLC) serves as the US arm of the Group with specific focus on the provision of managed services and Merchant Acquiring and Issuing in North America. During 2018, RS2 Software Inc. has focused on getting BankWORKS® certified and integrated in the local infrastructure to operate in the US market and through the building of its sales force, has commenced to engage significant clients and negotiate with potential others, ranging from small medium ISV and Payfacs to Tier 1 banks.

The Group also signed its first client and started the boarding of its merchant in the first quarter of 2019. At the same time the new client is sponsoring the Merchant Business that the Group is directly acquiring.

During the year under review, on consolidation of all of its activities and after excluding any IFRS 15 implications, the Group generated revenues of €19.3m (2017: €17.4m) and registered profit before tax of €0.9m (2017: €1.2m). At 31 December 2018, the Group's total assets amounted to €28m (2017: €29.6m).

A comprehensive review of the business and performance of the Group during the year under review, and an indication of future developments are given in the Chief Executive Officer's Statement set out on pages 2 to 6 of this Annual Report.

Principal risks and uncertainties

In its operations, the Group has exposure to credit risk, liquidity risk and market risk. The Group's objectives, policies and processes target to mitigate the effect of such risk by constant measuring and managing such risk, whilst proactively managing its capital. A more comprehensive outlook of such risk exposure and the Group's response can be viewed in notes 7 and 28 to these financial statements.

RS2 Software p.l.c.

Directors' Report

For the year ended 31 December 2018

Dividends

No dividends are being recommended for the year ending 31 December 2018.

Reserves

Retained earnings amounting to €15,166,809 for the Company and €8,529,949 for the Group are being carried forward.

Important events since end of the accounting period

In 2018, the Group continued to engage with the potential pipeline of US managed services clients and currently is in contract negotiation with 4 customers to be boarded this year and in very advanced stages of negotiations with another 5 potential customers.

Managed Services customers in the APAC region will be rolling out the service on the platform this year during the second and third quarter. Our team in APAC is also engaged in advanced negotiation with other customers in the region mainly for the managed services. The Group also signed an LOI with one of the largest Money transfer companies in the Philippines to partner on issuing of remittance pre-paid card for its customers in the region and globally.

In 2019, the Group will be using its new offices in Germany to solidify its standing in mainland Europe and serve as an attraction to potential new clients in the region. Through these offices, the Group is preparing its application to apply for a financial institution license in order to carry out its acquiring services in Europe working very closely in partnership with its clients utilizing their relationship with the scheme to provide whitelabel acquiring services, where the Group will be providing direct services to Merchants acquiring and servicing its acquiring business and provide pre-paid services to consumer. To start conducting these Services the Group has signed a sponsorship agreement with a European Acquirer to start rolling out the services, which is planned for the first quarter of 2020.

The Group is also preparing to launch the services with its Alliance partner for the travel industry during quarter three of this year, starting in Europe and following up in LATAM.

Pursuant to Listing Rule 5.62

Upon due consideration of the Company's profitability, balance sheet, capital adequacy and solvency, the directors are satisfied that at the time of approving the financial statements, the Company has adequate resources to continue operating as a going concern for the foreseeable future.

Pursuant to Listing Rule 5.64

Rule 5.64.1 - Share capital structure

The Company's issued share capital is of €10,291,657.14 divided into 171,527,619 ordinary shares of €0.06 each, each ordinary share being fully paid up. All of the issued shares of the Company form part of one class of Ordinary Shares in the Company, which shares are listed on the Malta Stock Exchange. All of the Shares have the same rights and entitlement and rank *pari passu* between themselves. The following are highlights attaching to the Ordinary Shares:

Dividends:

The shares carry equal right to participate in any distribution of dividends declared by the Company;

Voting rights:

Each share shall be entitled to one vote at the meetings of the shareholders;

Pre-emption rights:

Subject to the limitations contained in the Memorandum and Articles of Association, shareholders are entitled to be offered any new shares to be issued by the Company, in proportion to their current shareholding, before such shares are offered to the public or to any person not being a shareholder;

RS2 Software p.l.c.

Directors' Report

For the year ended 31 December 2018

Capital distributions:

The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;

Transferability:

The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange applicable from time to time;

Other:

The shares are not redeemable.

Rule 5.64.3 - Holding in excess of 5% of the share capital

On the basis of the information available to the Company as at 31 December 2018, Information Technology Management Holding Limited ("ITM") and Barclays Bank Plc ("Barclays") hold 85,837,812 and 31,303,819 shares respectively, equivalent to 50.04% and 18.25% of the Company's total issued share capital. In his capacity as ultimate shareholder of ITM, Radi Abd El Haj indirectly holds 50.04% of the issued share capital of the Company. As far as the Company is aware, no other person holds an indirect shareholding in excess of 5% of its total issued share capital.

Rule 5.64.5 – Employee share option scheme

The Company's share option scheme is administered by the Board of Directors. The decision of the Board on all disputes concerning share options is final.

Rule 5.64.7 – Restrictions on transfer of securities

By virtue of an agreement entered between ITM and Barclays, ITM undertook that, for so long as it holds more than 10% of the issued share capital of the Company, upon receiving any offer from third parties to acquire securities it holds in the Company, it is required to offer any such shares that it is desirous to transfer to Barclays.

Rule 5.64.8 - Appointment and replacement of directors

The Memorandum and Articles of the Company regulates the appointment of directors. Article 55.1 of the Articles of Association provides that a member holding not less than 0.5% of the issued share capital of the Company having voting rights or a number of members who in the aggregate hold not less than 0.5% of the issued share capital of the Company having voting rights shall be entitled to nominate fit and proper persons for appointment as directors of the Company. In addition, the directors themselves or a committee appointed for the purpose by the directors may make recommendations and nominations to the shareholders for the appointment of directors at the next annual general meeting.

Furthermore, in accordance with the provisions of Article 55.1(d) of the Articles of Association, the Board of Directors, may, at any time, appoint a director if it believes that the appointment would be beneficial to the Company due to the skill, expertise and knowledge of such person.

Article 55.3 of the Articles of Association of the Company also provides that in the event that the Board is of the opinion that none of the Directors appointed or elected in accordance with the provisions of these Articles is a non-executive independent Director competent in accounting and/or auditing as required by the Listing Rules relating to the composition of the Audit Committee, the Board shall, during the first board meeting after the annual general meeting appoint a person, who is independent and competent in accounting and/or auditing as a non-executive Director and shall appoint such person to the Audit Committee.

Unless they resign or are removed, directors shall hold office for a period of one year. Directors whose term of office expires or who resign or are removed are eligible for re-appointment.

Any director may be removed at any time by the Company in a General Meeting, provided that the director who is to be removed shall be given the opportunity of making representations. A resolution for the appointment and/or removal of a director shall be considered to be adopted if it received the assent of more than fifty percent of the members present and voting at the general meeting.

Rule 5.64.8 - Amendments to the Memorandum and Articles of Association

Amendments to the Memorandum and Articles of Association of the Company are regulated by the Companies Act, 1995 (Chapter 386, Laws of Malta). Subject to the provisions of Article 79 of the Act, and the Approval of the Listing Authority, the Company may by extraordinary resolution alter or add to its Memorandum and Articles of Association.

Rule 5.64.9 - Powers of the board members

The directors are vested with the management of the Company, and their powers of management and administration emanate directly from the Memorandum and Articles of Association and the law. The directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts and sue and be sued in representation of the Company. In terms of the Memorandum and Articles of Association they may do all such things that are not by the Memorandum and Articles of Association reserved for the Company in general meeting.

By virtue of a resolution of the shareholders dated 20 June 2017, the Company resolved to increase the authorised share capital previously consisting of 166,666,667 Ordinary Shares of €0.06 each to 200,000,000 Ordinary Shares of €0.06 each.

By virtue of extraordinary resolution of the shareholders dated 2 May 2008, the Board of Directors is authorised to issue any share capital of the Company which is unissued, which authority is valid for a maximum period of five (5) years, renewable for further periods of five (5) years each. As at 31 December 2018, the Company had twenty eight million four hundred seventy two thousand three hundred eighty one (28,472,381) Ordinary Shares in unissued share capital.

Rule 5.64.11 – Agreements with employees

The Company and one of its subsidiaries, have agreements with employees holding senior management positions and directors providing for compensation upon termination based on either an agreed fixed amount or the then applicable annual salary. Such agreements include a non-competition clause, precluding such employees from competing with the Company and one of its subsidiaries, in the event that their employment is terminated. In order for these non-competition clauses to be enforceable, the Company and one of its subsidiaries, are bound to grant these individuals a sum based on an agreed fixed amount or the then applicable annual salary.

In 2017, the Company has entered into an agreement with a newly recruited employee holding a senior management position whereby should the employee achieve a pre-set percentage over the agreed performance target linked to net profit over three consecutive calendar years commencing from date of employment, the Company, may at its absolute discretion, grant to the particular employee a one-time assignment of shares to the equivalence of a pre-agreed Euro amount.

During 2018, one of the newly formed Company's subsidiaries entered into an agreement with a new senior member of the management team, to the effect of allocating 11% of the subsidiary's authorised share capital, with vesting taking place over 36 months during which the employee must be in office. The grant took place during 2018, however the actual vesting of shares has commenced on a monthly pro-rata basis on 16 February 2018. Should this newly formed subsidiary's operations and assets be either merged into another surviving entity or disposed of or dissolved, all unvested Award Shares will automatically accelerate and become fully vested. Otherwise, depending on how and when employment is terminated, award shares that have not vested shall be either automatically forfeited or accelerated.

Other disclosures pursuant to Rule 5.64

No disclosures are being made pursuant to Rules 5.64.2, 5.64.4, 5.64.6, 5.64.10 as these are not applicable to the Company.

Pursuant to Listing Rule 5.70

The Company is party to an agreement for subcontracted services with RS Consult GmbH, which is partly (24%) owned by a Director of the Company. Services provided by RS Consult GmbH to the Company during 2018 amounted to €1,228,263 (2017: €1,443,729).

Approved by the Board of Directors on 26 April 2019 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

Pursuant to the Malta Financial Services Authority Listing Rules 5.94 and 5.97, RS2 Software p.l.c. (“the Company”) is hereby presenting a statement of compliance with the Code of Principles of Good Corporate Governance (“the Principles” or “the Code”) for the year ended 31 December 2018, which details the extent to which the Principles have been adopted, as well as the effective measures taken by the Company to ensure compliance with these Principles.

Good corporate governance is the responsibility of the Board of Directors (“the Board”), which therefore adopts the Principles and endorses them accordingly. The Board believes that adoption of the Principles is evidence of the Company’s commitment to a more transparent governance structure in the best interest of its shareholders and the market as a whole.

As demonstrated by the information set out on this statement, together with the information contained in the Remuneration Report, the Company believes that it has, save as indicated in the section entitled “Non-Compliance with the Code”, throughout the accounting period under review, applied the Principles and complied with the provision of the Code. In the Non-Compliance Section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code, as allowed by the Code.

Part 1: Compliance with the Code

Principle One: The Board

The Board is composed of one (1) executive director and six (6) non-executive directors.

All the directors, individually and collectively, are of the appropriate calibre with the necessary skills, diversity of knowledge and experience to assist them in providing leadership, integrity and judgement in directing the Company.

The Board is entrusted with establishing the long-term strategy, objectives and policies of the Company and ensuring that these are pursued within the parameters of the relevant laws and regulations and best business practices.

Further detail in relation to the Committees and the responsibilities of the Board may be found in Principle four of this statement.

Principle Two: Chairman and Chief Executive

In line with the Principles, the roles of the Chairman and the Chief Executive Officer are kept separate. The Company adopts a structure of clear division of responsibilities between the running of the Board and the management of the Company’s business.

The Chairman is responsible to lead and set the agenda of the Board. The Chairman ensures that the Board’s members are all actively engaged in discussions and receive precise, timely and objective information so that the directors can take judicious and rigorous decisions to be able to effectively monitor the performance of the Company. The Chairman is also responsible for communicating with shareholders. During 2018, the position of Chairman was occupied by Mr Mario Schembri.

The delegation of specific responsibilities to appropriate Committees, namely the Audit Committee and the Remuneration Committee is taken care of by the Board. On the other hand, the Chief Executive Officer takes care of the day to day running of the Company’s business. During 2018, the position was occupied by Mr Radi Abd El Haj.

Principle Three: Composition of the Board

The number of directors shall be not less than three (3) and not more than eight (8) individuals. This range provides diversity of thought and experience without hindering effective discussion or diminishing individual accountability. Members of the senior management also attend meetings, albeit without a vote, at the request of the Board, as and when necessary.

The Board is currently composed of one (1) executive director (Chief Executive Officer) and six (6) non-executive independent directors. In determining the independence or otherwise of its directors, the Board has considered, amongst others, the Principles relating to independence contained in the Code, the Company's own practice as well as general good practice.

In accordance with Code Provision 3.2 of the Code, the Board has taken the view that the business relationship existing between the Company and one of its directors, Dr Robert Tufigno is not significant and thus does not undermine the said director's ability to consider appropriately the issues which are brought before the Board. Apart from possessing valuable experience, the Board feels that the director in question is able to exercise independent judgment and is free from any relationship which can hinder his objectivity.

The appointment of directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy on the Board or to comply with the provision of the Listing Rules, relating to the members of the Audit Committee. Prior to being appointed as directors, nominees undergo a due diligence process by the Company, to establish that they are fit and proper persons.

Principle Four: The Responsibilities of the Board

The Board has the first level responsibility of executing the four basic roles of corporate governance namely accountability, monitoring, strategy formulation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and the performance of the Company. The Board has a formal schedule of matters reserved for it to discuss and includes a review of the management's implementation of corporate strategy and corporate objectives, assessment of the Company's present and future operations, opportunities, risks and threats emanating from the external environment as well as current and future strengths and weaknesses.

Board Committees

The Board has established the Audit Committee and the Remuneration Committee.

Audit Committee

The Audit Committee's terms of reference, which have been approved by the Listing Authority, are modelled on the provisions of the Listing Rules, primarily to monitor the financial reporting process and the effectiveness of the Company's internal control procedures. Whilst the Committee vets and approves related party transactions, it also considers the materiality and the nature of related party transactions to ensure that the arm's length principle is adhered to.

The Audit Committee is responsible for managing the Board's relationship with the external auditors, for monitoring the audit of the annual and consolidated accounts, making recommendations to the Board on their appointment and monitoring their independence, especially with respect to non-audit services.

Mr Franco Azzopardi, an independent non-executive director appointed by the Board acts and serves as Chairman, whilst Dr Robert Tufigno and Prof. Raša Karapandža, both independent non-executive directors act as members. As of 19 June 2018, Prof. Raša Karapandža was appointed as an Audit Committee member instead of Mr Maurice Xuereb. No further changes in the composition of the committee took place since that date. The Company Secretary, Dr Ivan Gatt acts as secretary to the Committee.

RS2 Software p.l.c.

Corporate Governance Statement of Compliance

For the year ended 31 December 2018

Mr Franco Azzopardi is a qualified accountant and auditor who the Board considers as the person competent in accounting and auditing. Prof. Raša Karapandža is a professor of finance and serves as an academic director of Master in Finance program and is deemed to be a competent member of the Audit Committee. Dr Robert Tufigno has practiced in the fields of general commercial law, property law and litigation and due to his legal expertise, Dr Robert Tufigno is deemed a competent member of the Audit Committee by the Board. The Board of Directors of the Company considers that the Audit Committee as a whole has the required competence relevant to the payment software industry. In fact, each member has an individual skill set which complements the skills required in this industry.

The members of the Audit Committee are free from any business, family or other relationship with the Company, its controlling shareholder and the management of either. Dr Robert Tufigno is a partner in GTG Advocates (legal advisors to the Company), however such relationship is not considered to be significant and does not create a conflict of interest such as to jeopardise exercise of his free judgement.

The executive directors, members of senior management and the external auditors are invited to attend meetings at the request of the Committee, as and when required.

	Meetings held: 7 Attended
Mr Franco Azzopardi	7
Dr Robert Tufigno	6
Mr Maurice Xuereb*	4
Prof. Raša Karapandža **	2

*Maurice Xuereb did not submit his nomination for re-election and hence he no longer held his post on the Audit Committee as at the 19th June 2018.

**Raša Karapandža was elected as a director of the Company on the 19th June 2018 and was subsequently selected to be part of the Audit Committee.

Principle Five: Board Meetings

Meetings of the Board are held as frequently as necessary and are notified by the Company Secretary with appropriate notice before the meeting. Each agenda for the forthcoming meeting is accompanied by such papers and documents as are necessary to make directors informed of the issues to be discussed and in particular the decisions they are expected to take. Meetings may also include presentations by management, whilst other information and documentation is made available for perusal by the directors, at their request. After each Board meeting and before the next, minutes that faithfully record attendance and decisions are circulated to all directors. Members of senior management attend meetings at the request of the Board, as and when necessary.

The Board meetings were attended as follows:

	Meetings held: 6 Attended
<u>Executive Directors</u>	
Mr Radi Abd El Haj (Chief Executive Officer)	6
<u>Non-executive Directors</u>	
Mr Mario Schembri (Chairman)	6
Mr Maurice Xuereb*	2
Dr Robert Tufigno	6
Mr Franco Azzopardi	6
Mr Christopher Wood	2
Mr John Elkins	6
Prof. Raša Karapandža **	2

Dr Ivan Gatt occupies the position of Company Secretary.

*Maurice Xuereb did not submit his nomination for re-election and hence he no longer held his post as director as at the 19th June 2018

**Raša Karapandža was elected as a director on the 19th June 2018.

Principle Six: Information and professional development

The Chief Executive Officer is appointed by the Board and enjoys the full confidence of the Board. The Chief Executive Officer, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and the Board on the appointment of, and on a succession plan for senior management.

As part of the Company's succession planning, the Board implements appropriate schemes to recruit, motivate and retain highly qualified individuals by creating the right environment and opportunities to move forward within the organisation.

On their appointment new directors are, provided with briefings by the Chief Executive Officer and the other Chief Officers on the activities of their respective business area. Ongoing-training of directors, management and employees is seen as very important.

The directors have access to the advice and services of the Company Secretary and supporting legal advice and are entitled, as members of the Board, to take independent professional advice on any matter relating to their duties, at the Company's expense. The directors are fully aware of their responsibility to act always in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed them to the Board.

Principle Seven: Evaluation of the Board

During the year under review, the Board undertook an evaluation of its own performance. The Board appointed a sub-committee, comprised of Dr Robert Tufigno and Mr Franco Azzopardi to carry out the performance evaluation of the Board and its Committees. The evaluation exercise was conducted through a Board effectiveness questionnaire. The results were communicated to the Chairman and then discussed at board level and there were no material changes in the Company's governance structures and organisation to report.

Principle Eight: Committees

The Remuneration Committee is dealt with under a separate section in the Annual Report entitled "Remuneration Committee Report" which can be found on pages 20 to 21. This section also includes a "Remuneration Statement" which deals with the remuneration of directors and senior management.

Principles Nine and Ten: Relations with Shareholders, with Market, and Institutional Shareholders

The Company is highly committed to having an open and communicative relationship with its shareholders and investors. At the Company's Annual General Meeting (AGM), the Board ensures that information is communicated to the shareholders in a transparent and accountable manner. The ordinary business at the AGM is to consider the financial statements of the Company, the directors' and auditors' report for the period, to approve any dividend recommendation by the directors, to elect the directors and to appoint the auditors. The Chairman ensures that all directors of the Board who include the Chairmen of the Audit and Remuneration Committees are available at the AGM in order to answer questions.

The Board also considers the Annual Report to be an effective document which, in addition to statutory disclosures, contains detailed information about the Company and its performance. At the time of the AGM or whenever there are any significant events affecting the Company, meetings are held with institutional investors, financial intermediaries and stockbrokers.

The Board recognises the importance of providing the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed decisions. Periodic Company announcements are issued in accordance with the Listing Rules to maintain a fair and informed market in the Company's equity securities. The Board discharges its obligations under the Memorandum and Articles of Association, legislation, rules and regulations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in this regard. These procedures are incorporated in an Internal Code of Dealing which is drawn up in accordance with the requirements of the Listing Rules and which applies to all directors and key employees of the Company.

The Board believes that shareholders should have an opportunity to send communications to the Board. Any communication from a shareholder to the Board generally or a particular director should be in writing, signed, contain the number of shares held in the sender's name and should be delivered to the attention of the Company Secretary at the principal offices of the Company.

Any two members of the Company holding at least five per cent (5%) of the shares conferring a right to attend and vote at general meetings of the Company, may convene an Extraordinary General Meeting in accordance with the provisions of the Articles of Association.

The Company's presence is also on the worldwide web through its website at www.rs2.com, which contains information and news about the Company, its products, developments and activities, as well as an investors' section.

Principle Eleven: Conflicts of Interest

The directors are strongly aware of their responsibility to act at all times in the interest of the Company and its shareholders as a whole and of their obligation to avoid conflicts of interest, irrespective of whoever appointed them to the Board.

The Board has approved an Internal Code of Dealing that details the obligations of the directors, as well as those of senior management and other individuals having access to sensitive information, on dealings in the equity of the Company within the parameters of the law and the Principles.

Each director has declared his interest in the share capital of the Company distinguishing between beneficial and non-beneficial interest.

In accordance with the provisions of the Articles of Association of the Company, any actual, potential or perceived conflict of interest must be immediately declared by a director to the other members of the Board, who then (also possibly through a referral to the Audit Committee) decide on whether such a conflict exists. In the event that the Board perceives such interest to be conflicting with the director's duties, the conflicted director is required to leave the meeting and both the discussion on the matter and the vote, if any, on the matter concerned are conducted in the absence of the conflicted director.

Principle Twelve: Corporate Social Responsibility

The Company understands that it has an obligation towards society at large to put into practice sound principles of Corporate Social Responsibility (CSR). It is therefore committed to embark on initiatives which support the community, the environment, as well as sports and the arts.

The Company recognises the importance of good CSR principles in its dealings with its employees. In this regard, it actively encourages open communication, teamwork, training and personal development, whilst creating opportunities based on performance, creativity and initiative. The Company is committed towards social investment and the quality of life of its work force and their families, and of the local community in which it operates.

Part 2: Non Compliance with the Code

Principle Four : The Responsibilities of the Board

Principle 4.2.7: The Code recommends the development of a succession policy for the future composition of the Board of Directors. The Company does not consider this principle to be applicable to it on the basis that appointment of directors is a matter which is reserved exclusively to the Company's shareholders (except as specified herein).

Principle Eight B: Nomination Committee

The Memorandum and Articles of Association of the Company regulates the appointment of directors. Article 55.1 of the Articles of Association provides that a member holding not less than 0.5% of the issued share capital of the Company having voting rights or a number of members who in the aggregate hold not less than 0.5% of the issued share capital of the Company having voting rights shall be entitled to nominate fit and proper persons for appointment as directors of the Company. In addition, the directors themselves or a committee appointed for the purpose by the Board may make recommendations and nominations to the shareholders for the appointment of directors at the next Annual General Meeting.

Within this context, the Board believes that the setting up of a Nomination Committee is currently not suited to the Company since it will not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code. Notwithstanding this, the Board will retain under review the issue relating to the setting up of a Nomination Committee.

Principle Nine (Code provision 9.3): Relations with shareholders and with the market

The Company firmly believes that shareholder participation is an essential precondition for effective corporate governance.

The Company has fully implemented the Shareholders Rights Directive (Directive 2007/36/EC) as transposed in Maltese Law and to this regard has introduced a number of measures aimed at facilitating the exercise of shareholders' rights and protecting the shareholders' interests.

The measures currently available for shareholders notably the right to put items on the agenda of the Annual General Meeting and to table draft resolutions and the right to ask questions, provide the necessary safeguards for the protection of the shareholder's interests. To this regard, the Company does not believe that the current corporate structure requires it to introduce (a) procedures to resolve conflicts between minority shareholders and controlling shareholders and/or (b) the possibility for minority shareholders to formally present an issue to the Board.

Pursuant to Listing Rule 5.97

Rule 5.97.4 – Internal Control and Risk Management Systems in relation to the Financial Reporting Process

The Board is ultimately responsible for the Group's system of internal control and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable as opposed to absolute assurance against material misstatement or loss.

The management is responsible for the identification and evaluation of key risks applicable to the different areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed.

Financial reporting standards are applicable to all entities of the Group. Systems and procedures are in place to identify, control and to report on the major risks. The Board and the Audit Committee receive monthly management information giving an analysis of financial and business performance and position including variances against budgets.

On a quarterly basis, a discussion is held with the Audit Committee on the processes in place to generate this financial information. A discussion on the results is also held on a quarterly basis with the Board of Directors.

Rule 5.97.6 – General Meetings

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set their remuneration, and other special business, are proposed and approved at the Company's AGM. The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders. The AGM is conducted in accordance with Articles of the Company and has the powers therein defined. The Shareholders' rights can be exercised in accordance with the Articles of the Company.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution (as defined in the Articles) of the Company during general meetings.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Company and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least twenty one (21) days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Company. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the directors or such persons as the directors may delegate for that purpose.

Mario Schembri
Chairman

Radi Abd El Haj
Director

26 April 2019

RS2 Software p.l.c.

Remuneration Committee Report

For the year ended 31 December 2018

Remuneration Report

Terms of Reference and Membership

The remit of the Remuneration Committee (the "Committee") is set out in the Terms of Reference adopted by the Board of Directors. The Committee is composed of three (3) non-executive directors, Dr Robert Tufigno (Chairman), Mr Franco Azzopardi and Mr Mario Schembri. The Chief Executive Officer is invited to attend meetings of the Committee where appropriate. The Chairman of the Committee, Dr Robert Tufigno is independent in accordance with Code Provision 8.A.1.

Meetings

The Committee held one (1) meeting during the period under review.

Remuneration Statement

Remuneration Policy - Directors

The determination of the remuneration arrangements for Board members is determined by the Committee. The Committee is primarily responsible for devising appropriate packages needed to attract, retain and motivate executive and non-executive directors with the right qualities and skills for the proper management of the Company and for ensuring compliance with the relevant provisions and regulations of good corporate governance on remuneration and related matters.

The Company has agreements with directors providing for compensation upon termination based on either an agreed fixed amount or the then applicable annual salary.

These agreements include a non-competition clause, precluding such employees from competing with the Company in the event that their employment is terminated. Upon termination of employment of the said directors, the Company is bound to grant these individuals a sum based on either an agreed fixed amount or on their annual salary as compensation.

During the year, there were no director contracts which were terminated.

Remuneration Statement – Senior Management

The Committee also makes recommendations on the remuneration of senior management. In making such recommendations, it considers that members of the senior management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

There have been no significant changes in the Company's remuneration policy during the financial year under review and no significant changes are intended to be effected during 2019.

In addition, the Committee is responsible for authorising all remuneration arrangements involving share options. During the year under review, no share options were allocated. There were 1,460 share options outstanding at 31 December 2018.

In the case of the CEO and the Chief Officers, the Committee is of the view that the link between remuneration and performance is reasonable and appropriate.

RS2 Software p.l.c.

Remuneration Committee Report

For the year ended 31 December 2018

Non-cash benefits to which the CEO and Chief Officers are entitled are the use of a company car, rental of residential property and health insurance. The death-in-service benefit also forms part of the contract of employment of senior management personnel on the same terms applicable to all other Company employees.

The Company has agreements with employees holding senior management positions providing for compensation upon termination based either on an agreed fixed amount or on the then applicable annual salary.

These agreements include a non-competition clause, precluding such employees from competing with the Company in the event that their employment is terminated. Upon termination of employment of senior management, the Company is bound to grant these individuals a sum based on their annual salary as compensation. The Company has opted not to disclose further information regarding the remuneration to be paid to its senior executives pursuant to its non-competition clause on the basis that it is commercially sensitive.

Code Provision 8.A.5

Directors

For the financial period under review, the aggregate remuneration of the directors of the Group and the Company was as follows:

Fixed Remuneration	€ 173,340
Variable Remuneration	Nil
Fixed Remuneration as full time employees of the Group	€ 701,288
Others	€ 50,593

Senior Management personnel

For the financial period under review, the aggregate remuneration of the senior management personnel of the Group and the Company, other than those that serve as directors was as follows:

Fixed Remuneration	€ 1,066,224
Variable Remuneration	€ 271,673
Share-based Payments	€ 681,970
Share Options	Nil
Others	Nil

Dr Robert Tufigno
Chairman, Remuneration Committee

26 April 2019

RS2 Software p.l.c.

Statement of the Directors pursuant to Listing Rule 5.55.2

For the year ended 31 December 2018

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 25 to 101 are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group and that the Directors' Report includes a fair view of the performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of directors on 26 April 2019 by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

RS2 Software p.l.c.

Company Information

For the year ended 31 December 2018

Directors	Mr Mario Schembri (Chairman) Mr Radi Abd El Haj (CEO) Dr Robert Tufigno Mr Franco Azzopardi Mr Christopher Wood Mr John Elkins Prof. Raša Karapandža
Company Secretary	Dr Ivan Gatt
Registered Office	RS2 Buildings Fort Road, Mosta MST 1859 Malta
Country of Incorporation	Malta
Company Registration Number	C 25829
Auditors	Deloitte Malta Deloitte Place Mriehel Bypass Mriehel BKR3000 Malta
Legal Advisors	Gatt Tufigno Gauci Advocates 66, Old Bakery Street Valletta VLT 1454 Malta

RS2 Software p.l.c.

Directors' Responsibility for the Financial Statements

For the year ended 31 December 2018

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of RS2 Software p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

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

The directors, through oversight of management, are responsible to ensure that the Group establishes and maintains internal control to provide reasonable assurance with regards to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Group's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, directors consider the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 26 April 2019 by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

RS2 Software p.l.c.

Statements of Financial Position

As at 31 December 2018

	Note	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
Assets					
Property, plant and equipment	9	9,357,510	8,903,559	8,369,225	8,615,205
Intangible assets	10	7,503,459	6,892,988	6,133,721	5,585,264
Investments in subsidiaries	11	-	-	9,836,399	6,819,753
Other investment	12	217,105	131,785	217,105	131,785
Loans receivables	13	775,722	-	810,592	20,810
Accrued income and contract costs	14	-	-	-	844,369
Trade and other receivables	13	-	40,018	-	-
Total non-current assets		17,853,796	15,968,350	25,367,042	22,017,186
Trade and other receivables	13	1,555,170	3,526,402	1,140,058	3,630,957
Loans receivables	13	7,438	774,546	7,438	774,546
Prepayments		544,301	509,784	364,075	416,076
Accrued income and contract costs	14	4,653,542	1,069,624	4,689,437	1,645,795
Cash at bank and in hand	15	3,402,972	7,789,159	2,798,944	7,083,067
Total current assets		10,163,423	13,669,515	8,999,952	13,550,441
Total assets		28,017,219	29,637,865	34,366,994	35,567,627

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

Approved and authorised for issue by the Board of Directors on 26 April 2019 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

RS2 Software p.l.c.

Statements of Financial Position

As at 31 December 2018

	Note	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
Equity					
Share capital	16	10,291,657	10,291,657	10,291,657	10,291,657
Reserves	16	(253,291)	68,189	(135,723)	162,733
Retained earnings	16	8,529,949	10,718,444	15,166,809	16,453,444
Total equity attributable to equity holders of the Company		18,568,315	21,078,290	25,322,743	26,907,834
Non-controlling interest		(1,336,130)	(357,876)	-	-
Total equity		17,232,185	20,720,414	25,322,743	26,907,834
Liabilities					
Bank borrowings	17	199,820	835,369	199,820	835,369
Employee benefits	27,29	2,418,494	1,994,164	1,812,485	1,397,218
Deferred tax liability	18	1,004,937	902,039	1,136,156	1,593,281
Derivatives	17	27,677	48,108	27,677	48,108
Total non-current liabilities		3,650,928	3,779,680	3,176,138	3,873,976
Bank borrowings	17	634,197	1,022,016	634,196	1,022,016
Trade and other payables	19	1,452,006	1,197,427	1,451,888	1,193,139
Current tax payable		1,049,342	458,723	1,049,342	458,723
Accruals	20	1,208,419	651,806	569,699	460,840
Employee benefits	27,29	693,392	111,422	111,422	111,422
Deferred income	20	2,096,750	1,696,377	2,051,566	1,539,677
Total current liabilities		7,134,106	5,137,771	5,868,113	4,785,817
Total liabilities		10,785,034	8,917,451	9,044,251	8,659,793
Total equity and liabilities		28,017,219	29,637,865	34,366,994	35,567,627

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

Approved and authorised for issue by the Board of Directors on 26 April 2019 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

THE GROUP

Attributable to equity holders of the Company

Note	Share capital €	Share premium €	Translation reserve €	Fair Value Reserve €	Employee Benefits Reserve €	Other reserves €	Share option reserve €	Retained earnings €	Total €	Non- controlling interest €	Total equity €
Balance at 1 January 2017	9,499,991	792,743	109,771	-	-	-	98,396	11,506,618	22,007,519	(142,187)	21,865,332
Comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	793,033	793,033	(178,237)	614,796
Other comprehensive income											
Foreign currency translation differences	-	-	(204,315)	-	-	-	-	-	(204,315)	(37,452)	(241,767)
Total other comprehensive income for the year	-	-	(204,315)	-	-	-	-	-	(204,315)	(37,452)	(241,767)
Total comprehensive income for the year	-	-	(204,315)	-	-	-	-	793,033	588,718	(215,689)	373,029
Transactions recorded directly in Equity											
Employee Share Benefits	-	-	-	-	-	65,385	-	-	65,385	-	65,385
	-	-	-	-	-	65,385	-	-	65,385	-	65,385
Transactions with owners of the Company											
Bonus issue	791,666	(791,666)	-	-	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	-	(1,583,332)	(1,583,332)	-	(1,583,332)
	791,666	(791,666)	-	-	-	-	-	(1,583,332)	(1,583,332)	-	(1,583,332)
Share options exercised	-	-	-	-	-	-	(2,125)	2,125	-	-	-
Balance at 31 December 2017	10,291,657	1,077	(94,544)	-	-	65,385	96,271	10,718,444	21,078,290	(357,876)	20,720,414
Balance at 1 January 2018 as previously reported	10,291,657	1,077	(94,544)	-	-	65,385	96,271	10,718,444	21,078,290	(357,876)	20,720,414
Adjustment on initial application of IFRS 15 (net of tax)	3	-	-	-	-	-	-	(3,961,537)	(3,961,537)	282	(3,961,255)
Adjustment on initial application of IFRS 9 (net of tax)	3	-	-	(87,193)	-	-	-	18,943	(68,250)	-	(68,250)
Adjusted balance at 1 January 2018	10,291,657	1,077	(94,544)	(87,193)	-	65,385	96,271	6,775,850	17,048,503	(357,594)	16,690,909
Comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	4,247,289	4,247,289	(1,005,988)	3,241,301
Other comprehensive income											
Foreign currency translation differences	-	-	(22,499)	-	-	-	-	-	(22,499)	27,452	4,953
Remeasurement in net defined benefit liability	-	-	-	-	(385,995)	-	-	-	(385,995)	-	(385,995)
Net change in fair value of investment in equity instruments	-	-	-	85,320	-	-	-	-	85,320	-	85,320
Total other comprehensive income for the year	-	-	(22,499)	85,320	(385,995)	-	-	-	(323,174)	27,452	(295,722)
Total comprehensive income for the year	-	-	(22,499)	85,320	(385,995)	-	-	4,247,289	3,924,115	(978,536)	2,945,579
Transactions recorded directly in equity											
Employee share benefits	-	-	-	-	-	100,000	-	-	100,000	-	100,000
	-	-	-	-	-	100,000	-	-	100,000	-	100,000
Transactions with owners of the Company											
Dividend to equity holders	-	-	-	-	-	-	-	(2,504,303)	(2,504,303)	-	(2,504,303)
	-	-	-	-	-	-	-	(2,504,303)	(2,504,303)	-	(2,504,303)
Share options exercised	-	-	-	-	-	-	(11,113)	11,113	-	-	-
Balance at 31 December 2018	10,291,657	1,077	(117,043)	(1,873)	(385,995)	165,385	85,158	8,529,949	18,568,315	(1,336,130)	17,232,185

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

THE COMPANY

Note	Share capital €	Share premium €	Fair value reserve €	Other reserves €	Share option reserve €	Employee Benefits Reserve €	Retained earnings €	Total €
Balance at 1 January 2017	9,499,991	792,743	-	-	98,396	-	16,791,843	27,182,973
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	1,300,814	1,300,814
Total comprehensive income for the year	-	-	-	-	-	-	1,300,814	1,300,814
Transactions recorded directly in equity								
Employee share benefits	-	-	-	65,385	-	-	-	65,385
Discount unwind	-	-	-	-	-	-	(58,006)	(58,006)
	-	-	-	65,385	-	-	(58,006)	7,379
Transactions with owners of the Company								
Bonus issue	791,666	(791,666)	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	(1,583,332)	(1,583,332)
Share options exercised	-	-	-	-	(2,125)	-	2,125	-
	791,666	(791,666)	-	-	(2,125)	-	(1,581,207)	(1,583,332)
Balance at 31 December 2017	10,291,657	1,077	-	65,385	96,271	-	16,453,444	26,907,834
Balance at 1 January 2018 as previously reported	10,291,657	1,077	-	65,385	96,271	-	16,453,444	26,907,834
Adjustment on initial application of IFRS 15 (net of tax)	3	-	-	-	-	-	(4,585,681)	(4,585,681)
Adjustment on initial application of IFRS 9 (net of tax)	3	-	(87,193)	-	-	-	18,943	(68,250)
Adjusted balance at 1 January 2018	10,291,657	1,077	(87,193)	65,385	96,271	-	11,886,706	22,253,903
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	5,815,734	5,815,734
Other comprehensive income								
Remeasurement in net defined benefit liability	-	-	-	-	-	(385,470)	-	(385,470)
Net change in fair value of investment in equity instruments	-	-	85,320	-	-	-	-	85,320
Total other comprehensive income for the year	-	-	85,320	-	-	(385,470)	-	(300,150)
Transactions recorded directly in equity								
Employee share benefits	-	-	-	100,000	-	-	-	100,000
Discount unwind	-	-	-	-	-	-	(42,441)	(42,441)
	-	-	-	100,000	-	-	(42,441)	57,559
Transactions with owners of the Company								
Dividend to equity holders	-	-	-	-	-	-	(2,504,303)	(2,504,303)
	-	-	-	-	-	-	(2,504,303)	(2,504,303)
Share options exercised	-	-	-	-	(11,113)	-	11,113	-
	-	-	-	-	(11,113)	-	(2,493,190)	(5,008,606)
Balance at 31 December 2018	10,291,657	1,077	(1,873)	165,385	85,158	(385,470)	15,166,809	25,322,743

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

RS2 Software p.l.c.

Statements of Comprehensive Income

For the year ended 31 December 2018

	Note	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
Continuing Operations					
Revenue	21	25,008,395	17,380,026	21,753,198	14,809,148
Cost of sales		(12,611,558)	(10,740,655)	(9,187,886)	(8,783,203)
Gross profit		12,396,837	6,639,371	12,565,312	6,025,945
Other income	22	67,091	121,767	90,012	121,758
Marketing and promotional expenses		(1,013,245)	(694,985)	(639,151)	(609,402)
Administrative expenses		(4,955,543)	(4,094,720)	(3,256,374)	(3,033,907)
Other expenses	22	(12,949)	(46,731)	(10)	(24,314)
Impairment loss on trade receivables and contract assets	22	123,393	(305,192)	151,084	(305,192)
Results from operating activities		6,605,584	1,619,510	8,910,873	2,174,888
Finance income	23	31,529	72,943	73,944	130,889
Finance costs	23	(72,147)	(466,616)	(72,486)	(466,326)
Net finance (costs)/ income		(40,618)	(393,673)	1,458	(335,437)
Profit before income tax	22	6,564,966	1,225,837	8,912,331	1,839,451
Income tax expense	24	(3,323,666)	(611,041)	(3,096,597)	(538,637)
Profit for the year		3,241,300	614,796	5,815,734	1,300,814
Other comprehensive income					
<i>Items that are or may be reclassified to profit or loss</i>					
Foreign currency translation differences on foreign operations		4,952	(241,767)	-	-
<i>Items that will not be reclassified to profit or loss</i>					
Net change in fair value of investment in equity instruments designated at FVTOCI upon initial recognition		85,320	-	85,320	-
Remeasurement in net defined benefit liability		(385,993)	-	(385,470)	-
		(295,721)	(241,767)	(300,150)	-
Total comprehensive income		2,945,579	373,029	5,515,584	1,300,814
Profit for the year attributable to:					
Owners of the Company		4,247,289	793,033	5,815,734	1,300,814
Non-controlling interest		(1,005,989)	(178,237)	-	-
Profit for the year		3,241,300	614,796	5,815,734	1,300,814
Total comprehensive income attributable to:					
Owners of the Company		3,924,115	588,718	5,515,584	1,300,814
Non-controlling interest		(978,536)	(215,689)	-	-
Total comprehensive income for the year		2,945,579	373,029	5,515,584	1,300,814
Earnings per share	25	€ 0.025	€ 0.005	€ 0.034	€ 0.008

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

RS2 Software p.l.c.

Statements of Cash Flows

For the year ended 31 December 2018

	Note	The Group		The Company	
		2018 €	2017 €	2018 €	2017 €
Cash flows from operating activities					
Profit for the year		3,241,304	614,796	5,815,737	1,300,814
Adjustments for:					
Depreciation	9	525,379	629,738	411,566	524,312
Amortisation of intangible assets	10	719,777	652,927	719,777	652,927
Capitalised development costs	10	(1,268,232)	(910,935)	(1,268,234)	(910,935)
Provision for expected credit losses		(24,000)	-	(24,000)	-
Provision for impairment loss on receivables	22	60,907	(516,489)	33,216	(516,489)
Bad debts written off	22	(160,300)	630,017	(160,300)	630,017
Interest payable	23	64,825	101,825	64,805	101,801
Interest receivable	23	(11,098)	(11,614)	(11,071)	(11,554)
Unwinding of discount on post-employment benefit	27	38,338	72,119	29,797	41,148
Unwinding of discount on contract assets	23	-	(25,184)	(42,441)	(83,190)
Unwinding of discount on deposit		(652)	(688)	-	-
Employee share benefits		681,970	65,385	100,000	65,385
Income tax	24	3,323,666	611,041	3,096,597	538,637
Provision for exchange fluctuations	22	(13,308)	288,727	(24,246)	287,637
Gain on disposal of asset	22	-	(6,900)	-	(6,900)
Change in fair value of derivative	23	(20,431)	(36,145)	(20,431)	(36,145)
		7,158,145	2,158,620	8,720,772	2,577,465
Changes in trade and other receivables		(2,246,686)	2,827,774	(1,164,239)	3,045,230
Changes in trade and other payables		(4,357,507)	645,674	(4,801,201)	460,156
Change in other related parties' balances		-	-	(47,184)	511,112
Cash generated from operating activities		553,952	5,632,068	2,708,148	6,593,963
Interest paid		(66,183)	(103,088)	(66,183)	(103,065)
Interest received		665	1,183	639	1,123
Income taxes paid		(459,841)	(966,759)	(459,837)	(963,333)
Net cash from operating activities		28,593	4,563,404	2,182,767	5,528,688
Cash flows from investing activities					
Acquisition of property, plant and equipment		(877,204)	(437,084)	(73,305)	(301,505)
Proceeds on sale of property plant and equipment		-	6,900	-	6,900
Investment in subsidiary	11	-	-	(25,000)	-
Advances to subsidiaries		-	-	(2,920,232)	(1,048,469)
Repayment of advances to subsidiaries		-	-	60,475	-
Net cash used in investing activities		(877,204)	(430,184)	(2,958,062)	(1,343,074)

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

RS2 Software p.l.c.

Statements of Cash Flows

For the year ended 31 December 2018

	Note	The Group		The Company	
		2018 €	2017 €	2018 €	2017 €
Cash flows from financing activities					
Dividends paid		(2,501,206)	(1,579,196)	(2,501,206)	(1,579,196)
Repayments of bank borrowings		(1,023,368)	(996,451)	(1,023,368)	(996,451)
Net cash used in financing activities		(3,524,574)	(2,575,647)	(3,524,574)	(2,575,647)
Net increase/(decrease) in cash and cash equivalents		(4,373,185)	1,557,573	(4,299,869)	1,609,967
Cash and cash equivalents at 1 January		7,789,159	6,344,155	7,083,067	5,535,139
Effect of exchange rate fluctuations on cash held		(13,002)	(112,569)	15,746	(62,039)
Cash and cash equivalents at 31 December	15	3,402,972	7,789,159	2,798,944	7,083,067

The accompanying Notes on pages 32 to 100 are an integral part of these financial statements

1 REPORTING ENTITY

RS2 Software p.l.c. (the "Company") is a public limited liability company domiciled and incorporated in Malta with registration number C25829. The registered address of the Company is RS2 Buildings, Fort Road, Mosta, MST 1859, Malta. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated and separate financial statements (the "financial statements") have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. These financial statements have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta), (the "Act") and Article 4 of Regulation 1606/2002/EC, which requires the companies having their securities traded on a regulated market of any EU member state to prepare their consolidated financial statements in conformity with IFRS as adopted by the EU. Details of the accounting policies are included in note 3. Legal Notice 19 of 2009 as amended by Legal Notice 233 of 2016, Accountancy Profession (Accounting and Auditing Standards) (Amendments) Regulations, 2016, which defines compliance with generally accepted accounting principles and practice as adherence to International Financial Reporting Standards (IFRS) as adopted by the EU were also adhered to when preparing and presenting these financial statements.

2.2 BASIS OF ACCOUNTING

Details of the Group's accounting policies are included in Note 4.

This is the first set of the Group's and the Company's annual financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 3.

2.3 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and equity investments designated at FVTOCI upon initial recognition which are measured at fair value.

The methods used to measure fair values are discussed further in note 6.

2.4 FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Euro, which is the Company's functional currency.

2.5 USE OF ESTIMATES AND JUDGEMENTS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2 BASIS OF PREPARATION (CONTINUED)

2.5 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2019 is included in the following notes:

Note 2.5.1	- impairment reviews
Note 3.1 and Note 4.14	- IFRS 15 revenue judgements and estimates
Note 6.1 and Note 28.6.1	- fair value of other investment
Note 6.5 and Note 29.1	- cash-settled share-based payments
Note 10.5	- impairment test for cash-generating unit containing goodwill : key assumptions underlying recoverability
Note 10.5.4 and Note 11	- recoverability of investment in subsidiaries
Note 27	- measurement of defined benefit obligations : key actuarial assumptions
Note 28.1.2	- recoverability assessment on trade and other receivables

2.5.1 IMPAIRMENT REVIEWS

The determination of the recoverable amount involves significant management judgement. In most cases this involves an assessment as to whether the carrying value of assets can be supported by the present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, as noted below.

With respect to goodwill and intangible assets not yet put in use, IFRS requires management to undertake a test for impairment at least annually and at each reporting period if there is an indication that the asset may be impaired. The Group currently undertakes an annual impairment test covering goodwill and also reviews other certain financial and non-financial assets at least annually to consider whether a full impairment review is required.

There are a number of assumptions and estimates involved in calculating the present value of future cash flows from the Group's businesses, including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit or loss before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- uncertainty of future technological developments;
- long term growth rates; and
- the selection of discount rates to reflect the risks involved.

The selection of assumptions and estimates by management involves significant judgement and small changes in these assumptions could result in the determination of a recoverable amount which is materially different to the results obtained using the variables selected by the Company. This is particularly so in respect to the discount rate and growth rate assumptions used in the cash flow projections. Changes in the assumptions used could significantly affect the Group's impairment evaluation and, hence, results.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially applied IFRS 15 (Note 3.1) and IFRS 9 (Note 3.2) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's and the Company's financial statements.

Due to the transition methods chosen by the Group and the Company in applying the new accounting standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting in profit or loss impairment loss on trade receivables and contract assets as required by the consequential amendments of IAS 1.

The effect of initially applying these standards disclosed in the remaining note.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 IFRS 15 Revenue from contracts with customers

In the current year, the Group and the Company have applied IFRS15 (as amended in April 2016). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. IFRS 15 introduces a five-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. It supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

At 1 January 2018, in line with the date of initial application, the Group has adopted IFRS 15 using the cumulative catch-up approach and the practical expedient to apply the new standard retrospectively only to contracts that were not completed as of that date. In terms of the modified approach in the transitional provisions, the cumulative effect of initially applying IFRS 15 is recognised in equity at 1 January 2018. Accordingly, the information presented for 2017 has not been restated and is being presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. The significant accounting policies for the recognition of revenue for both comparative and the current year are as described below.

The Group	Impact of changes in accounting policies as at 1 January 2018		
	As previously reported	IFRS 15 adjustments	As restated
	€	€	€
Deferred income	(1,696,377)	(6,169,855)	(7,866,232)
Accrued income	1,069,624	(88,595)	981,029
Contract costs	-	166,625	166,625
Deferred tax liabilities	(902,039)	2,130,288	1,228,249
Total effect on net assets		<u>(3,961,537)</u>	
Retained earnings - total effect on equity		<u>3,961,537</u>	

The Company	Impact of changes in accounting policies as at 1 January 2018		
	As previously reported	IFRS 15 adjustments	As restated
	€	€	€
Deferred income	(1,539,677)	(6,169,578)	(7,709,255)
Accrued income	2,490,164	(924,595)	1,565,569
Contract costs	-	41,971	41,971
Deferred tax liabilities	(1,593,281)	2,466,521	873,240
Total effect on net assets		<u>(4,585,681)</u>	
Retained earnings - total effect on equity		<u>4,585,681</u>	

Retained Earnings	The Group	The Company
	Impact of adopting IFRS 15 at 1 January 2018	
	€	€
Term licence and option to convert	(5,600,000)	(5,600,000)
Perpetual Licences and implementations	(491,825)	(1,452,202)
Related tax	2,130,288	2,466,521
Impact at 1 January 2018	<u>(3,961,537)</u>	<u>(4,585,681)</u>

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**3.1 IFRS 15 Revenue from contracts with customers (continued)**

The following tables summarise the impacts of adopting IFRS 15 on the Group's and Company's statement of financial position as at 31 December 2018 and its statement of profit or loss for the year ended for each of the line items affected. There was no material impact on the Group's and Company's statement of cash flows for the year ended 31 December 2018.

Impact on the statement of financial position

The Group	Amounts without adoption of IFRS 15		
31 December 2018	As reported	Adjustments	adoption of IFRS 15
Assets	€	€	€
Total non-current assets	17,853,796	-	17,853,796
Trade and other receivables	1,555,170	21,000	1,576,170
Contract assets	4,653,542	(111,059)	4,542,483
Total current assets	10,163,423	(90,059)	10,073,364
Total assets	28,017,219	(90,059)	27,927,160
Equity			
Retained earnings	8,529,949	289,788	8,819,737
Total equity attributable to equity holders of the Company	18,568,315	289,788	18,858,103
Total equity	17,232,185	289,788	17,521,973
Liabilities			
Deferred tax liability	1,004,937	144,731	1,149,668
Total non-current liabilities	3,650,928	144,731	3,795,659
Current tax payable	1,049,342	-	1,049,342
Contract Liabilities	2,096,750	(524,578)	1,572,172
Total current liabilities	7,134,106	(524,578)	6,609,528
Total liabilities	10,785,034	(379,847)	10,405,187
Total equity and liabilities	28,017,219	(90,059)	27,927,160
The Company			
31 December 2018	As reported	Adjustments	Amounts without adoption of IFRS 15
Assets	€	€	€
Total non-current assets	25,367,042	-	25,367,042
Trade and other receivables	1,140,058	21,000	1,161,058
Contract assets	4,689,437	653,595	5,343,032
Total current assets	8,999,952	674,595	9,674,547
Total assets	34,366,994	674,595	35,041,589
Equity			
Retained earnings	15,166,809	786,812	15,953,621
Total equity	25,322,743	786,812	26,109,555
Total equity	25,322,743	786,812	26,109,555

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 IFRS 15 Revenue from contracts with customers (continued)

The Company	Amounts without adoption of IFRS 15		
31 December 2018	As reported	Adjustments	€
	€	€	€
Liabilities			
Deferred tax liability	1,136,156	412,360	1,548,516
Total non-current liabilities	3,176,138	412,360	3,588,498
Current tax payable	1,049,342	-	1,049,342
Contract Liabilities	2,051,566	(524,577)	1,526,989
Total current liabilities	5,868,113	(524,577)	5,343,536
Total liabilities	9,044,251	(112,217)	8,932,034
Total equity and liabilities	34,366,994	674,595	35,041,589

Impact on the statement of profit or loss

The Group	Amounts without adoption of IFRS 15		
For the year ended 31 December 2018	As reported	Adjustments	€
	€	€	€
Continuing Operations			
Revenue	25,008,395	(5,667,500)	19,340,895
Cost of sales	(12,611,558)	-	(12,611,558)
Gross profit	12,396,837	(5,667,500)	6,729,337
Results from operating activities	6,605,584	(5,667,500)	938,084
Profit before tax	6,564,966	(5,667,500)	897,466
Income tax expense	(3,323,666)	1,957,503	(1,366,163)
Profit/(Loss) for the period	3,241,300	(3,709,997)	(468,697)
Total comprehensive income for the year	2,945,579	(3,709,997)	(764,418)

The Company	Amounts without adoption of IFRS 15		
For the year ended 31 December 2018	As reported	Adjustments	€
	€	€	€
Continuing Operations			
Revenue	21,753,198	(5,799,500)	15,953,698
Cost of sales	(9,187,886)	-	(9,187,886)
Gross profit	12,565,312	(5,799,500)	6,765,812
Results from operating activities	8,910,876	(5,799,500)	3,111,376
Profit before tax	8,912,334	(5,799,500)	3,112,834
Income tax expense	(3,096,597)	2,001,136	(1,095,461)
Profit for the period	5,815,737	(3,798,364)	2,017,373
Total comprehensive income for the year	5,515,587	(3,798,364)	1,717,223

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 IFRS 15 Revenue from contracts with customers (continued)

The significant changes are explained below:

(1) Term based licence and option to perpetuity - This is in relation to the sale in 2014 of a 5 year term licence in exchange for 5 equal annual payments of €2.2m each with an option to the customer to convert such a licence to perpetuity after the 5 annual payments in exchange for an additional payment of €1m. In terms of IAS 18, the Company and the Group had previously recognised the annual consideration received in advance at the point in time of receipt, corresponding with the start of the annual licence period as the option was not considered to be another element of the arrangement. In terms of IFRS 15, the Group and the Company consider the customer's option to convert the licence into a perpetual licence as a material right which gives rise to a performance obligation that is recognised when those future goods or services are transferred or when the option expires. The amount allocated to that right at 1 January 2018 amounted to €5.6m (gross of tax). Using criteria in IFRS 15, the Group and the Company allocated the standalone selling price of a similar perpetual licence to a term licence over an expected period of use by the customer in order to determine the fair value that was allocated to the option to perpetuity. Accordingly, under IFRS 15, the Group and the Company recognised the fair value attributable to the term-licence on an annual basis, immediately upon renewal of the licence agreement to the next year, and deferred the difference between the agreed annual licence fee and the fair value attributable to that annual licence.

The deferral of revenue of €3.64m (net of tax) and thus its reversal out of retained earnings as of 1 January 2018 emanates from the transitional provisions of IFRS 15. Assumptions and estimates made by management when determining the fair value of the performance obligation allocated to the customer's material right to convert the term licence to perpetuity involve significant judgement and small revisions to such assumptions could result in a material impact to that adjustment. This is particularly so in respect to the standalone selling price of an annual licence and the expected term of a similar perpetual licence. In accordance with IFRS 15, the cumulative differences attributable to the option, together with the additional one-time payment that fell due upon exercise of the option to convert the licence to perpetuity, were recognised as revenue in 2018 upon the notification from the customer of the exercise of the option to convert to perpetuity. Thus, the adjustment at 1 January 2018 was released to the income statement in 2018, resulting in an increase in revenue for 2018 of €5.6m and a corresponding reversal of the deferred tax asset in 2018 amounting to €1.96m together with the remaining revenues under the contract of €3.2m, inclusive of the final deferred payment on the exercise of the option. Accordingly, the deferral of revenues from this contract have no impact at 31 December 2018 since all revenues in relation to this contract were recognised in full by then. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18 is recognised as revenue again in 2018 as a result of the adoption of IFRS 15.

(2) Perpetual licences and significant customisation - As a result of applying the requirements of IFRS 15, licence revenue previously recognised under IAS 18 on the signing of the contract of perpetual licences is deferred and recognised over the customisation period.

(3) As a result of applying the requirements of IFRS 15, costs were deferred to be released over the contract life. The impact of these changes for the Group resulted in costs deferred of €167k and the Company of €42k.

(4) The impact on deferred tax assets of the Group amounts to €2,130k including the deferred tax asset recorded in terms of the material right. For the Company, the deferred tax assets increased by €2,467k as result of applying the requirements of IFRS 15. This also reflects the deferred tax asset adjustment for the perpetuity option treated as a material right in terms of the requirements of IFRS 15.

3.2 IFRS 9 Financial Instruments

In the current year, the Group and the Company have applied IFRS 9 (as revised in 2014) and the related consequential amendments to other IFRSs, including IFRS 7 Financial Instruments: Disclosures.

IFRS 9 Financial Instruments sets out requirements for classifying, recognising, measuring and derecognising financial assets, financial liabilities and some contracts to buy or sell non-financial items, introduces new rules for hedge accounting and new impairment model for financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

In line with the exemption included in the standard's transitional provisions, the Group and the Company did not restate comparative information for prior periods with respect to classification and measurement (including impairment) changes and accordingly such comparative information continues to be reported under IAS 39.

Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 were recognised in retained earnings and reserves as at 1 January 2018. Additionally, the additional disclosures in IFRS 7 have not generally been applied to comparative information. Both the accounting policies under IAS 39 and the accounting policies under IFRS 9 are disclosed in the significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVTOCI (Fair Value Through Other Comprehensive Income) – debt investment; FVTOCI – equity investment; or FVTPL (Fair Value Through Profit or Loss).

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments (continued)

In accordance with the transitional provisions of the Standard, the Group and the Company have not applied the requirements of IFRS 9 to instruments that have already been derecognised as at 1 January 2018.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings quoted in the Statement of Changes in Equity.

	Group and Company Impact of adopting IFRS 9 at 1 January 2018	€
Fair value reserve		
Reclassification from Retained Earnings to Fair Value Reserves of impairment losses on the 'Other Investments'	(87,193)	
Impact at 1 January 2018	<u>(87,193)</u>	
Retained earnings		
Reclassification from Retained Earnings to Fair Value Reserves of impairment losses on the 'Other Investments'	87,193	
Recognition of expected credit losses under IFRS 9	(105,000)	
Related tax	36,750	
Impact at 1 January 2018	<u>18,943</u>	

The Group	Impact of changes in accounting standards as at 1 January 2018		
	As previously reported	IFRS 9 adjustments	As Restated
31 December 2018	€	€	€
Other investment	131,785	-	131,785
Accrued income	1,069,624	(42,000)	1,027,624
Trade and other receivables	3,566,420	(63,000)	3,503,420
Loans receivable	774,546	-	774,546
Cash at bank and in hand	7,789,159	-	7,789,159
Deferred tax liability	(902,039)	36,750	(865,289)
Total effect on net assets		<u>(68,250)</u>	
Fair Value reserve (note 16)	-	(87,193)	(87,193)
Retained Earnings	10,718,444	18,943	10,737,387
Total effect on equity		<u>(68,250)</u>	

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**3.2 IFRS 9 Financial Instruments (continued)**

The Company 31 December 2018	Impact of changes in accounting standards as at 1 January 2018		
	As previously reported €	IFRS 9 adjustments €	As Restated €
Other investment	131,785	-	131,785
Accrued income	2,490,164	(42,000)	2,448,164
Trade and other receivables	3,630,957	(63,000)	3,567,957
Loans receivable	795,356	-	795,356
Cash at bank and in hand	7,083,067	-	7,083,067
Deferred tax liability	(1,593,281)	36,750	(1,556,531)
Total effect on net assets		<u>(68,250)</u>	
Fair Value reserve (note 16)	-	(87,193)	(87,193)
Retained Earnings	16,453,444	18,943	16,472,387
Total effect on equity		<u>(68,250)</u>	

The application of IFRS 9 has had no impact on the cash flows of the Group and the Company.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

3.2.1 Other Investment

Under IFRS 9, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. The other investment of the Group which was classified as non-current available-for-sale financial asset at cost under IAS 39, is classified as an equity instrument designated at FVTOCI under IFRS 9 upon initial recognition. Accordingly, the Company has measured the instrument at fair value at 1 January 2018 as a result of the new classification in terms of IFRS 9. There was no change in the carrying amount of this investment at 1 January 2018 as a result of the new classification in terms of IFRS 9. The cumulative impairment losses that were recognised in profit and loss and accumulated in retained earnings at 1 January 2018, amounting to €87,193, were reclassified from retained earnings to Fair Value reserves upon the initial adoption of IFRS 9.

3.2.1 Loans receivable, trade receivables and cash at bank

These financial assets, which were previously classified as loans and receivable under IAS 39 are classified in terms of IFRS 9 as financial assets measured at amortised cost since they meet the conditions for such classification.

In accordance with the transitional provisions of IFRS 9, the Company assessed the business model in which the financial assets are held on the basis of the facts and circumstances at 1 January 2018 and the resulting classification is being applied retrospectively irrespective of the Company's business model in prior reporting periods. Accordingly, there was no change in the carrying amount of these instruments at January 2018 as a result of the new classification in terms of IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVTOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 IFRS 9 Financial Instruments (continued)

3.2.1 Loans receivable, trade receivables and cash at bank (continued)

The Group ECLs were calculated based on lifetime expected credit losses on trade receivables and contract assets in line with the requirements of IFRS 9, using the simplified model. The Group has determined that the application of IFRS 9's impairment requirements for the Group and the Company at 1 January 2018 results in an additional impairment allowance of €105,000 as follows:

	€
Loss allowance at 31 December 2017 under IAS 39	5,003
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables	63,000
Contract assets	42,000
Loss allowance at 1 January 2018 under IFRS 9	<u>110,003</u>

For financial assets for which the simplified model is not applied, where possible, the Company and the Group used reasonable and supportable information that was available without undue cost or effort to determine the credit risk of the debt instruments at the date these were initially recognised and compared that to the credit risk at 1 January 2018, taking into consideration the low credit risk exemption and the 30 days past due rebuttable presumption.

3.2.2 Cash at bank

The cash at bank is held with banks which are rated BBB to AA-, based on Standard and Poor's ratings as at 31st December 2017.

The impairment on cash at bank was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group and the Company consider that their cash at bank has low credit risk based on the external credit ratings.

The Group and the Company estimated that application of IFRS 9's impairment requirements at 1 January 2018 did not result in any impairment recognised likewise under IAS 39.

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018. The additional ECL allowance of EUR105,000 is charged against the respective asset.

	Original measurement category under IAS 39	New measurement category under IFRS 9	Additional ECL under IFRS 9 in Retained Earnings	Reclassificati on from/to Retained	Reclassificatio n from/to Revaluation
Other investment	Available for sale	Financial assets measured at FVTOCI		87,193	(87,193)
Trade and other receivables - third	Loans and receivables	Financial assets measured at amortised cost	(63,000)		
Contract assets Loans receivable	Loans and receivables	Financial assets measured at amortised cost	(42,000)		
Cash at bank	Loans and receivables	Financial assets measured at amortised cost	-	-	
Retained earnings (gross of tax)			(105,000)	87,193	
Fair Value Reserve (gross of tax)					<u>(87,193)</u>

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)**3.2 IFRS 9 Financial Instruments (continued)**

The Group's assessment did not indicate that there is an impact on the Group's and Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The Group			Original carrying amount under IAS39 / New carrying amount under IFRS 9
	Original measurement category under IAS 39	New measurement category under IFRS 9	€
Bank borrowings	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	1,857,385
Trade and other payabl	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	1,197,427
Derivatives	Held for trading	Financial liabilities measured at FVTPL	48,108
Accruals	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	651,806
The Company			Original carrying amount under IAS39 / New carrying amount under IFRS 9
	Original measurement category under IAS 39	New measurement category under IFRS 9	€
Bank borrowings	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	1,857,385
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	1,193,139
Derivatives	Held for trading	Financial liabilities measured at FVTPL	48,108
Accruals	Financial liabilities at amortised cost	Financial liabilities measured at amortised cost	460,840

3.2.4 Hedge Accounting

The Group and the Company do not apply hedge accounting and accordingly, the new requirements on hedge accounting do not apply.

3.2.5 Presentation of impairment losses

Where applicable, the presentation of comparative information in the statement of profit and loss has been restated retrospectively for the amended presentation requirements in IAS 1 Presentation of Financial Statements. The effect of the restatement in the comparative period of the line items presented in the Statement of Profit or loss as a result of IAS 1 (as amended by IFRS 9) is summarised below.

	Effect on 2017
	€
Impairment loss on trade receivables and contract assets	(305,192)
Other income	(516,489)
Other expenses	821,681
Profit for the year	-

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities except as disclosed above (see also Note 3).

4.1 BASIS OF CONSOLIDATION

4.1.1 SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to direct the relevant activities that significantly affect the subsidiary's returns. In assessing control, there should also be exposure, or rights, to variable returns from its involvement with the Group and the ability of the Group to use its powers over the subsidiary to affect the amount of the Group's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

4.1.2 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

4.2 FOREIGN CURRENCY

4.2.1 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss except for differences arising on the revaluation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2.2 FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve. However, if the operation is a non-wholly owned subsidiary then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income in the consolidated financial statements, and are presented within equity in the foreign currency translation reserve.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 FINANCIAL INSTRUMENTS

4.3.1 NON-DERIVATIVE FINANCIAL ASSETS

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets not classified at fair value through profit or loss, are initially recognised at fair value plus directly attributable transaction costs.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following principal non-derivative financial assets: loans, trade receivables, investments and cash and cash equivalents.

Comparative year

In the comparative year, the significant accounting policies for non-derivative financial assets were as follows:

4.3.1.1 LOANS AND RECEIVABLES

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise loans receivables, cash and cash equivalents and trade and other receivables.

Trade receivables are stated at their nominal value unless the effect of discounting is material. Appropriate allowance for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

4.3.1.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, whenever this is reliably measured, and changes therein, other than impairment losses (see note 3.8.2), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

Current year

In the current year, the significant accounting policies for non-derivative financial assets were as follows:

4.3.1.3 CLASSIFICATION OF FINANCIAL ASSETS

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Debt instruments are subsequently measured at amortised cost, if they meet the following conditions:

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

Debt instruments are subsequently measured at fair value through other comprehensive income ('FVTOCI'), if they meet the following conditions:

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

By default, all other financial assets are subsequently measured at fair value through profit or loss ('FVTPL').

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The Business model

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

4.3.1.4 DEBT INSTRUMENTS MEASURED AT AMORTISED COST

The following financial assets are classified within this category – trade receivables, cash at bank, loans receivables.

Appropriate allowances for expected credit losses ('ECL') are recognised in profit or loss in accordance with the Group's accounting policy on ECLs.

Changes in the carrying amount as a result of foreign exchange gains or losses, impairment gains or losses and interest income are recognised in the profit or loss.

Interest income is recognised using the effective interest method and is included in the line item 'Finance income'.

Trade receivables which do not have a significant financing component are initially measured at their transaction price and are subsequently stated at their nominal value less any loss allowance for ECLs.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

4.3.1.5 EQUITY INSTRUMENTS DESIGNATED AS AT FVTOCI

The following financial assets are classified within this category – the Company's Other investment.

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity instrument is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Such financial assets are subsequently measured at fair value. Gains and losses arising from changes in fair value, including foreign exchange gains and losses, are recognised in other comprehensive income. The cumulative gain or loss that is recognised in other comprehensive income is not subsequently transferred to profit or loss.

Dividends on these equity instruments are recognised in profit or loss unless the dividends clearly represent recovery of part of the cost of the investment. If any, dividends are included in the line item 'Finance income'.

4.3.2 NON-DERIVATIVE FINANCIAL LIABILITIES

The Group initially recognises all financial liabilities, except for debt securities issued and subordinated liabilities, on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following principal non-derivative financial liabilities: loans, borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Trade payables are stated at their nominal value, unless the effect of discounting is material.

4.3.3 DERIVATIVE FINANCIAL INSTRUMENTS

The Group holds a derivative financial instrument to hedge its interest rate risk exposures.

Derivatives are recognised initially at fair value; attributable transactions are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for in profit or loss.

4.3.4 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

4.3.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented as current liabilities in the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 PROPERTY, PLANT AND EQUIPMENT

4.4.1 RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Borrowing costs related to the acquisition and construction of qualifying assets are capitalised as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

4.4.2 SUBSEQUENT COSTS

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

4.4.3 DEPRECIATION

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Buildings constructed on leased land are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership at the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	25 - 50 years
• electrical and plumbing installation	15 years
• furniture	10 years
• fixtures	10 years
• lifts	10 years
• other machinery	10 years
• air-conditioning	6 years
• motor vehicles	5 years
• computer hardware	4 years
• computer software	4 years
• office equipment	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end, and adjusted if appropriate.

4.5 INTANGIBLE ASSETS

4.5.1 RE-ACQUIRED RIGHTS

When as part of a business combination, the Group re-acquires a right that it had previously granted to the acquiree to use one or more of its recognised or unrecognised assets, an intangible asset is recognised separately from goodwill. The value of the re-acquired right is measured on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value. A settlement gain or loss is recognised by the Group when the terms of the contract giving rise to a re-acquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 INTANGIBLE ASSETS (CONTINUED)

4.5.2 GOODWILL

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in profit or loss.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

4.5.3 INTERNALLY GENERATED COMPUTER SOFTWARE DEVELOPMENT

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

4.5.4 SOFTWARE RIGHTS

Software rights that are separable or arise from contractual or other legal rights are recognised as intangible assets if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Software rights are initially measured at cost. Subsequent to initial recognition, software rights are recognised at cost less any accumulated amortisation and any accumulated impairment losses.

4.5.5 SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and when it meets the definition of an intangible asset and the recognition criteria. All other expenditure is recognised in profit or loss as incurred.

4.5.6 AMORTISATION

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected patterns of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|--|--------------|
| • internally generated computer software development | 15 years |
| • software rights | 15 years |
| • other computer software | 4 - 15 years |

The amortisation method, useful life and residual value are reviewed at each financial year-end and adjusted if appropriate.

4.6 LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leased assets from operating leases are not recognised in the Group's statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are shown in the statement of financial position of the Company at cost less any impairment losses.

Loans advanced by the Company to its subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries to the extent that they represent a capital contribution.

4.8 IMPAIRMENT

4.8.1 INVESTMENTS IN SUBSIDIARIES

The carrying amounts of the Company's investments in subsidiaries 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.

The recoverable amount is the higher of fair value less costs to sell and value in use. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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 if no impairment loss had been recognised.

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS

Comparative year

In the comparative year, the impairment accounting policy for non-derivative financial assets was as follows:

A financial asset not classified 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.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment.

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. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised which causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

An unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured is impaired if, there is objective evidence that an impairment loss has been incurred. An impairment loss is recognised in profit or loss and measured as the difference between the carrying amount of the unquoted equity investment and the present value of estimated future cash flows discounted at the market rate of return for a similar financial asset. Such impairment losses are not reversed.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 IMPAIRMENT (CONTINUED)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in cumulative impairment losses attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Current year

In the current year, the significant accounting policies for non-derivative financial assets were as follows:

4.8.2.1 EXPECTED CREDIT LOSSES

The Group recognises a loss allowance for ECLs on the following – financial assets measured at amortised cost, lease receivables and contract assets.

The amount of ECLs is updated at each reporting date to reflect changes in credit risk since the initial recognition.

For trade receivables and contract assets that do not contain a significant financing component, the Group applies the simplified approach and recognises lifetime ECL.

Where a collective basis is applied, the ECLs on these financial assets are estimated using the provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

For all other financial instruments, the Group uses the general approach and recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group, measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of an evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in equity, and does not reduce the carrying amount of the financial asset in the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 IMPAIRMENT (CONTINUED)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

4.8.2.1 EXPECTED CREDIT LOSSES (CONTINUED)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both the quantitative and the qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort and, where applicable, the financial position of the counterparties.

Forward-looking information considered includes, where applicable, the future prospects of the industries in which the Company's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information, that is available without undue cost or effort, that demonstrates otherwise.

Despite the above assessment, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Accordingly, for these financial assets, the loss allowance is measured at an amount equal to 12m ECL. The Group has applied the low credit risk assumption for the following classes of financial assets – cash at bank.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 120 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

4.8.2.1 EXPECTED CREDIT LOSSES (CONTINUED)

Measurement and recognition of ECLs

For financial assets, the credit loss is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. ECLs represent the weighted average of credit losses with the respective risks of a default occurring as the weights.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information, where applicable.

Forward-looking information considered includes, where applicable, the future prospects of the industries in which the Company's debtors operate, as well as consideration for various external sources of actual and forecast economic information that relate to the Company's core operations.

Collective basis

If evidence of a significant increase in credit risk at the individual instrument level is not yet available, the Company performs the assessment of significant increases in credit risk on a collective basis by considering information on, for example, a group or sub-group of financial instruments.

Where the company does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime ECL, on an individual instrument basis, lifetime ECL is measured on a collective basis.

In such instances, the financial instruments are grouped on the basis of shared credit risk characteristics, such as the nature, size and industry.

4.8.3 NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than 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, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its CGU ("cash-generating unit") exceeds its estimated recoverable amount.

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 (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.

Impairment losses are recognised in profit or loss unless the asset is carried at a revalued amount. For assets recognised at revalued amount, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation recognised for that asset. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of CGU) 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group contributes towards the respective State pension defined contribution plan in accordance with local legislation, and to which, it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

4.10 SHARE-BASED PAYMENT TRANSACTIONS

The grant-date fair value of equity-settled 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 amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related services and non-market performance conditions at the vesting date.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. As at each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

4.11 EMPLOYEE BENEFITS

Non-Competition post employment benefits due to employees holding senior management positions are payable upon cessation for whatever reason based on either a fixed amount on the then applicable annual salary. The cost of providing for these post-employment benefits is determined using the projected unit method, with estimations being carried out at each reporting date. In line with the recognition of other provisions, the post -employment benefits are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The liability recognised in the statement of financial position represents the present value of the expected future payments required to settle the obligation at the end of the reporting period. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows to be paid on termination using market yields. Such yields are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the estimated termination date. The Directors consider this to be an appropriate proxy to a high quality corporate bond. The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Re-measurements of the net defined benefit liability, are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period. Re-measurements may include changes in the present value of the defined benefit obligation arising from experience adjustments and the effects of changes in the actuarial assumptions. Such re-measurements are reflected immediately in retained earnings.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, 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 current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

4.13 WARRANTIES

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

4.14 REVENUE

Comparative year

In the comparative year, the significant accounting policies for the recognition of revenue are as described below.

In the comparative year, revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of value added tax and discounts, where applicable.

4.14.1 LICENCES

Licence fees arise from software licence agreements where the Group grants non-exclusive, perpetual licences to use specific BankWORKS® modules, against a one-time licence fee. Revenue from licensing of BankWORKS® is measured at the consideration received or receivable.

Licence fees also arise from software licence agreements where the Group grants non-exclusive, time-based licences to use specific BankWORKS® modules, against licence fees payable over time. Where licence agreements are time-based, revenue from such licences is recognised rateably over the term of the agreement.

Revenue is generally recognised when the software is delivered, persuasive evidence exists usually in the form of a software licence agreement, it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Delivery of the software is considered to have occurred when the customer either takes possession of the software, or has the ability to do so.

For subscription license arrangements, also referred to as 'Comprehensive Packages', where the Company sells to customers the rights to BankWORKS® modules including also unspecified products as well as unspecified upgrades and enhancements during a specified term, the licence revenue is recognised rateably over the term of the arrangement. The persuasive evidence of these arrangements is in the form of written agreements (see also accounting policy 3.14.4).

4.14.2 MAINTENANCE

Maintenance consists of upgrades, enhancements, corrections and on-going support for BankWORKS®, as well as updates mandated by international card organisations. Maintenance is agreed to in the form of agreements and billed quarterly or annually in advance. Revenue from maintenance is recognised on a pro-rata basis with reference to the period to which it relates.

4.14.3 SERVICES

Professional services are provided to assist customers with the initial implementation of BankWORKS® and include other services requested by customers. Such services may include system implementation and integration, customisations, configurations, certification with international card organisations, project management, change requests, remote and on-site support, and user training.

Revenue from technical services which support the provision of processing services is recognised in profit or loss as it accrues. Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured and the rendering of services has been performed.

Revenue from services rendered is recognised in proportion to the stage of completion of the agreed services at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 REVENUE (CONTINUED)

4.14.4 COMPREHENSIVE PACKAGES

Comprehensive package agreements are contracted for a fixed term and grant to customers the right to use BankWORKS® modules, including unspecified modules that may be made available, initial implementation services, as well as unspecified upgrades and enhancements during the term of the agreement.

Revenue from comprehensive package agreements is recognised ratably over the term of the agreement unless revenue arising from separately identifiable deliverables can be measured reliably to reflect the substance of the transactions. Where separable deliverables can be identified, revenue is recognised upon satisfaction of the criteria for recognition of these deliverables and presented in accordance with the respective categories as described in accounting policies 3.1.1 to 3.1.3.

Current year

In the current year, the significant accounting policies for the recognition of revenue are as follows:

Under IFRS 15, revenue is recognised when the Group or the Company satisfies a performance obligation by transferring control of a promised good or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

4.14.5 LICENCES

4.14.5.1 Perpetual Licences and significant customisation/implementation services

Licence fees arise from software licence agreements where the Group grants non-exclusive licences to use specific BankWORKS modules. In the case of perpetual licences, the fee is generally a one-time fee.

The Group accounts for individual products and services separately if they are distinct (that is, if a product or service is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract) and if a customer can benefit from it either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct).

With the adoption of IFRS 15, the Group is required to assess each arrangement to understand whether licences are distinct from the significant implementation and customisation services provided with that licence and from the other services provided. For the purposes of understanding whether the licences are distinct, management is required to consider additional criteria including whether the customers can benefit from use of the licence alone or otherwise and whether there exist activities which require significant integration, modification or which are otherwise interdependent.

In this respect, management has assessed that in the majority of the Group's contracts, the licence and the significant implementation and customisation services are to be considered as one performance obligation in terms of the above criteria.

The Group has determined that revenue from this performance obligation should be recognised provided the criteria for the recognition of a contract are satisfied, including having an enforceable right to payment. In this case, under IFRS 15, revenue is recognised as each licenced system is customised and set up according to the customer's specific needs, by reference to the stage of satisfaction of the performance obligation.

Payment for the licence and the significant customisation services is generally fixed and is payable by the customer in advance by way of milestone payments. Any cash received in advance of the provision of the customisation services is therefore recognised as a contract liability, thus representing the entity's obligation to perform the obligation. Such amounts are recognised as revenue over the customisation period.

There is not considered to be a significant financing component in such contracts as the period between the recognition of revenue under the stage of completion and the payment is less than one year.

Management has also considered IFRS 15's impact on contracts in which consideration for the promise is variable. For the licence business, this is relevant for contracts in which the Group's consideration is based on a percentage of revenues that are earned by the client from its own customers. For this variable consideration, the Group concludes that it cannot include its estimate of such revenues in the transaction price until the uncertainty is resolved. This is based on the fact that the variability of the fee based on the customer's own revenues indicates that the Group cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognised would not occur. Accordingly, such estimates are not included before they are earned.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 REVENUE (CONTINUED)

4.14.5.2 Term Licence with an option to perpetuity

The Group is party to an annually-renewable term licence agreement with an option by the client of converting to perpetuity.

Under IFRS 15, the Group considers the customer's option to represent a material right in the hands of the customer which represents another performance obligation in the arrangement. Using criteria under IFRS 15 the Group allocated the consideration received between the annual term licences and the material right based on the relative standalone selling prices of a similar perpetual licence to a term licence over an expected period of use by the customer in order to determine the fair value to be allocated to the option to perpetuity. Accordingly, under IFRS 15, the Group recognises the revenue attributable to the term-licence on an annual basis at a point in time, immediately upon renewal of the licence agreement to the next year and defers the difference between the agreed annual licence fee and the value attributable to the customer's option to convert and recognises this amount as a contract liability.

The cumulative amounts attributable to the option recognised as a contract liability, together with the additional one-time payment that falls due upon exercise of the option to convert the licence to perpetuity, are recognised as income at the earlier of the following events:

Notification from the customer of a decision on exercising the option to convert the licence to perpetuity; and
Termination of the agreement for whatever reason.

4.14.6 SERVICES

The Group provides a) transaction processing services; b) maintenance services, such as ongoing support for BankWORKS®, software enhancements and software upgrades; and c) other services, including change requests.

The agreements for the maintenance services and the other services are either entered into i) at the same time with the sale of the licence or ii) after the sale of the licence, as part of a comprehensive package. Where the agreements are entered into at the same time with the sale of the licence, the Group assesses whether such agreements need to be combined with the licence contract for the purpose of IFRS 15.

The Group accounts for individual products and services separately if they are distinct (that is, if a product or service is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract) and if a customer can benefit from it either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct).

Transaction processing is determined to be a performance obligation which is distinct from the corresponding setting up activities that are performed in advance of such transaction processing (see 4.14.9). Transaction processing services are regarded as a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer; the performance obligation is the fact that the Group needs to stand ready to perform, which obligation is satisfied over time. The consideration in respect of such services contains variable elements that are dependent on the volume of transactions processed, with a minimum monthly fee; management allocates the variable fees charged for each transaction to the time period in which the Group has the contractual right to bill the customer since such payments relate specifically to the Group's efforts to satisfy the performance obligation and allocating that amount entirely to that specific time period is consistent with the allocation objective in IFRS 15. The Group accordingly recognises the monthly billings to customers as revenue in the month of billing.

Maintenance services are generally billed quarterly or annually in advance. Regardless of whether the corresponding agreements for such services are entered into at the same time with the sale of the licence, these services are determined to be distinct from the corresponding licences under IFRS 15. Revenues allocated to the maintenance services are recognised over time under IFRS 15, as the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs. The transaction price is recognised as a contract liability at the time of receipt.

Revenue from other additional services requested by the client outside the scope of the original contract, such as changes that are requested after the sale of the licence and / or the period of customisation, are generally treated as a separate contract if the scope of the contract increases because of the addition of services that are distinct and the price charged is calculated at a man-rate per hour that reflects the stand alone selling price of such additional services. This performance obligation is generally recognised over the period of such customisation.

Revenue from services provided in comprehensive packages continues to be recognised over time under IFRS 15 unless separate performance obligations are identified.

There should not a significant financing component in relation to such services as the period between the recognition of revenue and the payment is always less than one year.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 REVENUE (CONTINUED)

4.14.7 CONTRACT COSTS

Contract costs that are recognised as an asset are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. An impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses. An impairment reversal is recognised when the impairment conditions no longer exist or have improved but the increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

Incremental costs of obtaining a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Applying the practical expedient in paragraph 94 of IFRS 15, the Company recognises the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Costs to fulfil a contract

The costs incurred in fulfilling a contract with a customer that are not within the scope of another Standard are recognised as an asset only if (a) the costs relate directly to a contract or an anticipated contract that the entity can specifically identify, (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and (c) the costs are expected to be recovered.

4.14.8 CONTRACT MODIFICATIONS

A contract modification, such as changes that are requested after the sale of the licence and / or the period of customisation, is accounted for as a separate contract if (a) the scope of the contract increases because of the addition of promised goods or services that are distinct and (b) the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

For a contract modification that is not accounted for as a separate contract, the entity accounts for the promised goods or services not yet transferred at the date of the contract modification based on the specific facts and circumstances. A contract modification is accounted for as if it were a termination of the existing contract and the creation of a new contract if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification. A contract modification is accounted for as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. If the remaining goods or services are partly distinct and partly not distinct, the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract are accounted for in a manner that is consistent with the objectives of IFRS 15.

4.14.9 IMPLEMENTATION AND CUSTOMISATION FEES FOLLOWED BY TRANSACTION PROCESSING SERVICES

Where the Group receives a fee for customisation and implementation activities without the sale of a licence, which are followed by transaction processing services, it assesses whether the fee relates to the transfer of a promised good or service. Where the fee relates to an activity that the Group is required to undertake at or near contract inception to fulfil the contract and that activity does not result in the transfer of a promised good or service to the customer, the fee is treated as an advance payment for future goods or services and, therefore, is recognised as revenue when those future goods or services are provided.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

4.16 FINANCE INCOME AND COSTS

Finance income comprises interest income on bank balances, loans receivables, movements in provisions for non-operating exchange gains, finance income arising on measuring payables at amortised cost using the effective interest rate method and gains on derivatives recognised in the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method as further described in the accounting policies for non-derivative financial assets.

Finance costs comprise interest expense on borrowings, interest on late payments, movements in provisions for non-operating exchange losses, finance cost arising on measuring receivables at amortised cost using the effective interest rate method recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition and construction of qualifying assets are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

4.17 GOVERNMENT GRANTS

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4.18 INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

4.20 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components. Operating results of all operating segments are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4.21 DIVIDENDS

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared. Dividends to holders of equity instruments are recognised directly in equity.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted, however the Group and the Company have not early adopted the new or amended standards in preparing these financial statements. Those which may be relevant to the Group and the Company are set out below.

The Group and the Company do not expect a material impact resulting from other standards and interpretations not included below.

5.1 IFRS 16 LEASES

The Group and the Company are required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that the initial application of IFRS 16 will have on the consolidated and separate financial statements.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group and the Company will be 1 January 2019.

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

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

5.1.2 IMPACT ON LEASES IN WHICH THE GROUP IS A LESSEE

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The Group will recognise new assets and liabilities for its operating leases of office premises and the leasing of a server in relation to a combination of managed hosting services and a private cloud infrastructure. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period), if any, will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This practical expedient will be applied for the agreement which the Group is party for computer hardware company to obtain a combination of managed hosting services and a private cloud infrastructure and for lease of Mosta apartment which has a remaining a lease term of less than 12 months. The remaining leases attributable to land and buildings are addressed in note 30 operating leases, while the new lease is disclosed in note 34 of these financial statements.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of €1,101,247. The non-cancellable operating lease commitments of the Company as at year end amount to €673,086.

A preliminary assessment indicates that €937,368 and €673,086 for the Group and the Company respectively, of these arrangements relate to leases other than short-term leases, and hence the Group will recognise a right-of-use asset of €4,118,439 and a corresponding lease liability of €4,076,359 for the Group and €495,747 for the Company in respect of all these leases. The Company will recognise a right-of-use asset of €504,356. The impact on profit or loss is to increase depreciation by €397,777 (Company: €24,804) and to increase interest expense by €90,560 (Company: €13,845).

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

5.1 IFRS 16 LEASES (continued)

5.1.2 IMPACT ON LEASES IN WHICH THE GROUP IS A LESSEE (continued)

The preliminary assessment indicates that €168,979 for the Group (Company: nil) of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities by €168,113 (Company: €28,409) and to increase net cash used in financing activities by the same amount.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that as part of its lease liability only the amount expected to be payable is recognised under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

On the basis that the Group and the Company does not have any finance leases as at 31 December 2018, this change will not have an impact on the Group's and the Company's financial statements.

5.1.3 TRANSITION

The Group and the Company plan to apply IFRS 16 on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening of retained earnings at 1 January 2019, with no restatement of comparative information. The lease liability at 1 January 2019 will be measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group shall measure the right-of-use asset as being equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments required in the statement of financial position before the date of initial application, and therefore has no impact on its retained earnings on 1 January 2019 as a result of transitioning to IFRS 16.

In determining the incremental borrowing rate the below, assessments on the below were made:

- the amount of the funds 'borrowed'
- the economic environment: i.e. the jurisdiction and the time at which the lease is entered into, and the currency in which the lease payments are denominated
- the term of the arrangement: this will typically be the lease term, unless the lease payments are paid up-front
- the lessee: it is a company-specific rate
- the 'security' granted to the lessor: i.e. the nature and quality of the underlying asset.

5.2 AMENDMENTS TO IAS 1 AND IAS 8, DEFINITION OF MATERIAL

The amendments relate to a revised definition of 'material' as follows:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Three new aspects of the new definition include (i) obscuring; (ii) could reasonably be expected to influence; and (iii) primary users.

The amendments stress especially five ways material information can be obscured:

- if the language regarding a material item, transaction or other event is vague or unclear;
 - if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
 - if dissimilar items, transactions or other events are inappropriately aggregated;
 - if similar items, transactions or other events are inappropriately disaggregated; and
 - if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.
- The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted. Management is assessing the impact of these amendments.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

5.3 AMENDMENTS TO IAS 19, EMPLOYEE BENEFITS: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

On measuring the current service cost and the net interest on the net defined benefit liability (asset), an entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are effective for periods beginning on or after 1 January 2019. Management is assessing the impact of these amendments.

6 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. When measuring the fair value of an asset or liability, the Group uses observable market data whenever sufficient data is available.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuations techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

6.1 OTHER INVESTMENT

Up to 31 December 2017, the investment was carried at cost less any impairment losses. Fair value information for this investment had not been attributed because the investment is an investment in an equity instrument that did not have a quoted market price. Under IFRS 9, the other investment is classified as an equity instrument designated as at FVTOCI upon initial recognition.

The fair value of the other investment at 31 December 2018 is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. Such fair values are based on unobservable inputs, being cash flow projections of the investee for a period of up to 5 years. Recent average inflation rates in the region of operations are used to determine the terminal growth rate used to extrapolate the terminal values whilst the discount rate encompasses the relevant market risk premium and the industry specific risk.

6.2 LOANS RECEIVABLES

The fair value of loans receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is also determined for disclosure purposes.

6 DETERMINATION OF FAIR VALUES (CONTINUED)

6.3 NON-DERIVATIVE FINANCIAL LIABILITIES

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 reporting date.

6.4 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of the interest rate swap is based on the banker's quote which comprises a present value of future cash flows discounted at the applicable year end discount rate.

6.5 SHARE-BASED PAYMENT TRANSACTIONS

The fair value of employee share options or awards, is measured using the Binomial Option Pricing Model. Measurement inputs include the share price at measurement date, the exercise price of the instrument, if any, expected volatility (based on an evaluation of the Company's historic volatility) where appropriate, the life of the instrument, expected dividends to the extent applicable, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

For the cash-settled share based payment, the most significant input was the share price of the underlying US subsidiary, which share price was measured on the basis of a discounted cash flow model, with inputs and sensitivities being largely in line with those identified in Note 10.4. Expected dividends were not included in the fair value measurement since the individual is entitled to the rights of a shareholder, including the right to receive dividends from the date of grant of shares.

7 FINANCIAL RISK MANAGEMENT

7.1 OVERVIEW

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements. The Company's exposure to such risks is substantially similar to that of the Group unless otherwise stated.

7.2 RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

7.3 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers, contract assets, loans receivable and cash held with financial institutions. For the Company, credit risk also arises in relation to the financial guarantee in note 11.9.

7 FINANCIAL RISK MANAGEMENT (CONTINUED)

7.3.1 TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate have less of an influence on credit risk.

85% of the Group's revenue is attributable to sales transactions with two major customers (2017: 74% attributable to sales transactions with two major customers) as per note 8.4. The Group's revenue is mainly generated through sales transactions concluded with customers situated in Europe (2017: Europe).

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are classified according to their credit characteristics, geographic location and ageing profile. Trade receivables relate to the Group's customers to whom services are rendered.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures and a collective provision where necessary unless this is considered to be immaterial.

7.3.2 LOANS RECEIVABLES

Loans receivables are presented net of an allowance for doubtful debts.

7.3.3 CONTRACT ASSETS

These are tested for impairment in terms of the ECL model.

7.3.4 CASH AT BANK

The Group's cash is placed with reputable financial institutions with credit ratings of AA- and BBB, such that management does not expect any institution to fail to meet repayments of amounts held in the name of the Group.

7.3.5 FINANCIAL GUARANTEES

The expected credit loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive.

7.4 LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations, which are associated with its financial liabilities that are settled by delivering cash or another financial asset, as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its cash flow requirements on a regular basis and ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

7.5 MARKET RISK

Market risk is the risk that changes in market prices, namely foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

7 FINANCIAL RISK MANAGEMENT (CONTINUED)

7.5.1 CURRENCY RISK

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the Euro (€). The currencies in which these transactions are primarily denominated are the USD and GBP.

The Group relies on natural hedges between inflows and outflows in currencies other than the Euro, and does not otherwise hedge against exchange gains or losses which may arise on the realisation of amounts receivable and settlement of amounts payable in foreign currencies.

7.5.2 INTEREST RATE RISK

The Group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Lending Base Rate. The Group has entered into an interest rate swap for the purpose of hedging the risk of changes in cash flows related to interest payments on one of its facilities.

Interest on certain loans receivables and cash at bank are also tested for interest rate risk.

7.5.3 EQUITY PRICE RISK

The Group is exposed to equity risks arising from equity investments classified at FVTOCI. Equity investments measured at FVTOCI are held for strategic rather than trading purposes. The Group does not actively trade such investments.

This exposure is not considered to be material.

7.6 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

8 OPERATING SEGMENTS

The Group has two reportable segments, as described below, which represent the Group's business units. The business units offer different services and are managed separately because they require different operating and marketing strategies. For each of the business units, the Group's Board of Directors reviews internal management reports on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- **Licensing** - Licensing of the Group's BankWORKS® software to banks and service providers, including maintenance and enhanced services thereto.
- **Processing** - Processing of payment transactions utilising the Group's BankWORKS® software.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

8 OPERATING SEGMENTS (CONTINUED)**8.1 INFORMATION ABOUT REPORTABLE SEGMENTS**

	Licensing		Processing		Total	
	2018 €	2017 €	2018 €	2017 €	2018 €	2017 €
External revenues *	21,245,662	14,448,881	3,762,733	2,931,145	25,008,395	17,380,026
Inter-segment revenue:	507,536	360,267	-	-	507,536	360,267
Segment revenues	21,753,198	14,809,148	3,762,733	2,931,145	25,515,931	17,740,293
Finance income	73,944	130,889	1,467	60	75,411	130,949
Finance expense	(73,576)	(466,367)	(42,452)	(58,255)	(116,028)	(524,622)
Depreciation and amortisation	(1,169,314)	(1,214,850)	(222,508)	(214,482)	(1,391,822)	(1,429,332)
Movement in provision for impairment loss on receivables	(9,216)	516,489	(27,691)	-	(36,907)	516,489
Movement in amounts written off	160,300	(821,681)	-	-	160,300	(821,681)
Reportable segment profit/(loss) before income tax	8,650,699	1,461,676	(2,232,393)	(382,502)	6,418,306	1,079,174
Income tax (expense)/credit	(3,099,868)	(542,054)	(223,798)	(68,987)	(3,323,666)	(611,041)
Reportable segment assets	25,717,307	29,159,402	5,971,063	5,043,197	31,688,370	34,202,599
Capital expenditure	165,585	425,862	850,198	96,559	1,015,783	522,421
Reportable segment liabilities	9,225,166	8,783,976	5,722,736	3,362,226	14,947,902	12,146,202

8 OPERATING SEGMENTS (CONTINUED)

8.2 RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES, AND OTHER MATERIAL ITEMS

	2018	2017
	€	€
External Revenues		
Total revenue for reportable segments *	25,515,931	17,740,293
Elimination of inter-segment transactions	(507,536)	(360,267)
Consolidated revenue	<u>25,008,395</u>	<u>17,380,026</u>
Finance income		
Total finance income for reportable segments	75,411	130,949
Elimination of inter-segment transactions	(43,882)	(58,006)
Consolidated finance income	<u>31,529</u>	<u>72,943</u>
Finance expense		
Total finance expense for reportable segments	116,028	524,622
Elimination of inter-segment transactions	(43,881)	(58,006)
Consolidated finance expense	<u>72,147</u>	<u>466,616</u>
Depreciation and amortisation		
Total depreciation and amortisation for reportable segments	1,391,822	1,429,332
Elimination of inter-segment transactions	(146,667)	(146,667)
Consolidated depreciation and amortisation	<u>1,245,155</u>	<u>1,282,665</u>
Reportable segment profit before income tax		
Total reportable segment profit before income tax for reportable segments	6,418,306	1,079,174
Elimination of inter-segment transactions	146,660	146,663
Consolidated reportable segment profit before income tax	<u>6,564,966</u>	<u>1,225,837</u>
Assets		
Total assets for reportable segments	31,688,370	34,202,599
Elimination of computer software	(1,356,670)	(1,503,335)
Elimination of contract assets	(1,619,996)	(2,272,805)
Elimination of other inter-segment assets	(694,485)	(788,594)
Consolidated total assets	<u>28,017,219</u>	<u>29,637,865</u>
Liabilities		
Total liabilities for reportable segments	14,947,902	12,146,202
Elimination of inter-segment balances	(2,592,459)	(1,975,797)
Elimination of inter-segment accruals	(1,743,776)	(449,343)
Elimination of other inter-segment liabilities	173,367	(803,611)
Consolidated total liabilities	<u>10,785,034</u>	<u>8,917,451</u>

Assets allocated to reportable segments exclude the Bankworks licence held by the subsidiary and any contract assets recognised in relation to services provided between licensing and processing segments. Likewise, the Group liabilities exclude accruals, inter-segment balances and inter-segment liabilities.

8 OPERATING SEGMENTS (CONTINUED)

8.3 GEOGRAPHICAL INFORMATION

In presenting information for the Group on the basis of geographical segments, revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenues €	Non -current assets €
31 December 2018		
Malta	473,149	13,711,810
UK and Ireland *	19,692,750	-
Other countries	4,842,496	3,149,159
	<u>25,008,395</u>	<u>16,860,969</u>
31 December 2017		
Malta	582,629	13,589,908
UK and Ireland	11,808,672	-
Other countries	4,988,725	2,206,639
	<u>17,380,026</u>	<u>15,796,547</u>

* In 2018, this includes the release of deferred income as at 1 January 2018, amounting to €5.6m as detailed in note 3.1. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

Other countries comprise revenue based on geographical location of customers, which individually are immaterial and do not exceed 10% of total revenue.

The nature and effect of initially applying IFRS 15 on the Group's financial statements are disclosed in Note 3.

8.4 MAJOR CUSTOMERS

For the year ended 31 December 2018, revenues from two (2017: two) major customers of the licensing segment amounted to €14,179,647* and €4,066,970 (2017: €5,241,057 and €5,681,390) of the Group's total revenues.

* Includes the release of deferred income amounting to €5.6m as detailed in note 3.1

9 PROPERTY, PLANT AND EQUIPMENT

9.1 THE GROUP

	Land and buildings €	Leashold Improvements €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Cost					
Balance at 1 January 2017	7,745,295	1,357,244	3,075,961	176,482	12,354,982
Additions	140,021	-	314,362	68,038	522,421
Disposals	-	-	-	(43,863)	(43,863)
Effects of movement in exchange rates	-	(3,339)	(26,886)	(3,225)	(33,450)
Balance at 31 December 2017	<u>7,885,316</u>	<u>1,353,905</u>	<u>3,363,437</u>	<u>197,432</u>	<u>12,800,090</u>
Balance at 1 January 2018	7,885,316	1,353,905	3,363,437	197,432	12,800,090
Additions	43,230	48,962	923,591	-	1,015,783
Effects of movement in exchange rates	-	(123)	(24,774)	(118)	(25,015)
Balance at 31 December 2018	<u>7,928,546</u>	<u>1,402,744</u>	<u>4,262,254</u>	<u>197,314</u>	<u>13,790,858</u>
Depreciation					
Balance at 1 January 2017	844,580	110,612	2,256,219	108,758	3,320,169
Depreciation for the year	188,280	55,272	346,422	39,764	629,738
Released on disposals	-	-	-	(43,863)	(43,863)
Effects of movement in exchange rates	-	(617)	(8,573)	(323)	(9,513)
Balance at 31 December 2017	<u>1,032,860</u>	<u>165,267</u>	<u>2,594,068</u>	<u>104,336</u>	<u>3,896,531</u>
Balance at 1 January 2018	1,032,860	165,267	2,594,068	104,336	3,896,531
Depreciation for the year	107,123	62,801	316,107	39,347	525,378
Effects of movement in exchange rates	-	214	11,100	125	11,439
Balance at 31 December 2018	<u>1,139,983</u>	<u>228,282</u>	<u>2,921,275</u>	<u>143,808</u>	<u>4,433,348</u>
Carrying amounts					
At 1 January 2017	<u>6,900,715</u>	<u>1,246,632</u>	<u>819,742</u>	<u>67,724</u>	<u>9,034,813</u>
At 31 December 2017	<u>6,852,456</u>	<u>1,188,638</u>	<u>769,369</u>	<u>93,096</u>	<u>8,903,559</u>
At 31 December 2018	<u>6,788,563</u>	<u>1,174,462</u>	<u>1,340,979</u>	<u>53,506</u>	<u>9,357,510</u>

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

9.2 THE COMPANY

	Land and buildings €	Leashold Improvements €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Cost					
Balance at 1 January 2017	7,745,296	1,330,722	2,085,193	150,859	11,312,070
Additions	140,021	-	217,801	68,038	425,860
Disposals	-	-	-	(43,863)	(43,863)
Balance at 31 December 2017	<u>7,885,317</u>	<u>1,330,722</u>	<u>2,302,994</u>	<u>175,034</u>	<u>11,694,067</u>
Balance at 1 January 2018	7,885,317	1,330,722	2,302,994	175,034	11,694,067
Additions	43,230	-	122,356	-	165,586
Balance at 31 December 2018	<u>7,928,547</u>	<u>1,330,722</u>	<u>2,425,350</u>	<u>175,034</u>	<u>11,859,653</u>
Depreciation					
Balance at 1 January 2017	844,582	109,040	1,536,674	108,117	2,598,413
Depreciation for the year	180,027	55,271	254,034	34,980	524,312
Released on disposals	-	-	-	(43,863)	(43,863)
Balance at 31 December 2017	<u>1,024,609</u>	<u>164,311</u>	<u>1,790,708</u>	<u>99,234</u>	<u>3,078,862</u>
Balance at 1 January 2018	1,024,609	164,311	1,790,708	99,234	3,078,862
Depreciation for the year	107,122	55,271	214,192	34,981	411,566
Balance at 31 December 2018	<u>1,131,731</u>	<u>219,582</u>	<u>2,004,900</u>	<u>134,215</u>	<u>3,490,428</u>
Carrying amounts					
At 1 January 2017	<u>6,900,714</u>	<u>1,221,682</u>	<u>548,519</u>	<u>42,742</u>	<u>8,713,657</u>
At 31 December 2017	<u>6,860,708</u>	<u>1,166,411</u>	<u>512,286</u>	<u>75,800</u>	<u>8,615,205</u>
At 31 December 2018	<u>6,796,816</u>	<u>1,111,140</u>	<u>420,450</u>	<u>40,819</u>	<u>8,369,225</u>

10 INTANGIBLE ASSETS**10.1 THE GROUP**

	Goodwill €	Internally generated computer software €	Software rights €	Other computer software €	Total €
Cost					
Balance at 1 January 2017	706,627	13,833,010	3,000,000	781,229	18,320,866
Additions	-	910,935	-	-	910,935
Effects of movement in exchange rates	(85,552)	-	-	(94,580)	(180,132)
Balance at 31 December 2017	621,075	14,743,945	3,000,000	686,649	19,051,669
Balance at 1 January 2018	621,075	14,743,945	3,000,000	686,649	19,051,669
Additions	-	1,268,232	-	-	1,268,232
Effects of movement in exchange rates	29,453	-	-	32,563	62,016
Balance at 31 December 2018	650,528	16,012,177	3,000,000	719,212	20,381,917
Amortisation					
Balance at 1 January 2017	-	10,480,754	1,025,000	-	11,505,754
Charge for the year	-	452,927	200,000	-	652,927
Balance at 31 December 2017	-	10,933,681	1,225,000	-	12,158,681
Balance at 1 January 2018	-	10,933,681	1,225,000	-	12,158,681
Charge for the year	-	519,777	200,000	-	719,777
Balance at 31 December 2018	-	11,453,458	1,425,000	-	12,878,458
Carrying amounts					
At 1 January 2017	706,627	3,352,256	1,975,000	781,229	6,815,112
At 31 December 2017	621,075	3,810,264	1,775,000	686,649	6,892,988
At 31 December 2018	650,528	4,558,719	1,575,000	719,212	7,503,459

10 INTANGIBLE ASSETS (CONTINUED)

10.2 THE COMPANY

	Internally generated computer software	Software rights	Total
	€	€	€
Cost			
Balance at 1 January 2017	13,833,010	3,000,000	16,833,010
Additions	910,935	-	910,935
Balance at 31 December 2017	<u>14,743,945</u>	<u>3,000,000</u>	<u>17,743,945</u>
Balance at 1 January 2018	14,743,945	3,000,000	17,743,945
Additions	1,268,234	-	1,268,234
Balance at 31 December 2018	<u>16,012,179</u>	<u>3,000,000</u>	<u>19,012,179</u>
Amortisation			
Balance at 1 January 2017	10,480,754	1,025,000	11,505,754
Amortisation for the year	452,927	200,000	652,927
Balance at 31 December 2017	<u>10,933,681</u>	<u>1,225,000</u>	<u>12,158,681</u>
Balance at 1 January 2018	10,933,681	1,225,000	12,158,681
Amortisation for the year	519,777	200,000	719,777
Balance at 31 December 2018	<u>11,453,458</u>	<u>1,425,000</u>	<u>12,878,458</u>
Carrying amounts			
At 1 January 2017	<u>3,352,256</u>	<u>1,975,000</u>	<u>5,327,256</u>
At 31 December 2017	<u>3,810,264</u>	<u>1,775,000</u>	<u>5,585,264</u>
At 31 December 2018	<u>4,558,721</u>	<u>1,575,000</u>	<u>6,133,721</u>

10.3 The amortisation of internally generated computer software and software rights is included in cost of sales.

10.4 The internally generated computer software is recognised annually and the relative amortisation is charged annually in line with the accounting policy in 4.5.6. The remaining amortisation period for the software rights amount to 7 years 11 months.

10 INTANGIBLE ASSETS (CONTINUED)

10.5 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL

Goodwill arose from the acquisition of 26% of the issued share capital of RS2 Software LLC (formerly Transworks LLC) in 2009. During 2014, the Company acquired a further 38.2% shareholding in RS2 Software LLC for \$500,000. For the purposes of impairment testing of goodwill arising on the acquisition of RS2 Software LLC (now merged into RS2 Software Inc), the recoverable amount of the related cash generating unit containing goodwill was based on its value-in-use and was determined by discounting the projected future cash flows to be generated from RS2 Software LLC. In 2018, RS2 Software LLC was merged into a newly formed company, RS2 Software Inc, in which the Company held the same percentage holding that it held in RS2 Software LLC. For this purpose management prepared forecasts of net cash flows for the five-year period 2019 – 2023 (2017: five-year period 2018 - 2022) and applied growth rates for subsequent years.

10.5.1 PAST PERFORMANCE AND OUTLOOK

Various factors such as the brand’s newness to the market, high competition, lack of focus on the field and lack of inertia by potential clients and time needed to get the software certified to operate in the US market, slowed down implementation of the Group’s plan for market penetration. This has led to the Group not meeting its 2018 targets and to revise its forecasts for the near future to realistically reflect current market indicators. A very important milestone achieved in the past was the Group securing the sponsorship of a US bank. The sponsorship is essential for the Group to carry out its managed services business in US.

Notwithstanding this, the Group is persistent in its efforts to penetrate the US market, and aims to achieve the revised projections through more intensive marketing, investment in new technology, by building sales teams, creating distribution channels and by providing solutions that are currently not available within the US. The Group is in advanced contract negotiation and technical collaboration with the sponsor bank in US that would pave the way for the provision of managed services to merchants. Following the recruitment of an Office Manager and an Operations Manager in 2016, the Group secured the services of a consultant in June 2017, who was taken on board as a CEO for the US business in February 2018. The US CEO, as the person knowledgeable of the US Payments Industry, has formulated the US market entry strategy in line with the Group’s Strategy and Plan and will be the driving force behind the implementation of the US business plan through her direct market contacts and knowledge.

10.5.2 ASSUMPTIONS

There are a number of assumptions and estimates involved in calculating the present value of future cash flows from the Group’s businesses, including management’s expectations of:

- growth in forecast net cash flows, calculated as adjusted operating profit or loss before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- uncertainty of future technological developments;
- long term growth rates; and
- discount rates to reflect the risks involved.

The key assumptions used in the calculation of the value-in-use of RS2 Software Inc, being the forecasted net cash flows and the discount rate, used in a risk adjusted cash flow forecast, are:

(i) Forecasted Pre-Tax Net Cash (Outflows)/Inflows*:

	2018	2019	2020	2021	2022	2023
	€	€	€	€	€	€
31 December 2018 (risk-adjusted)	Not Applicable	(8,680,934)	(2,582,904)	4,762,383	5,238,621	5,762,483
31 December 2017 (risk-adjusted)	(5,253,797)	(4,153,024)	338,215	4,461,239	4,907,363	Not Applicable

10 INTANGIBLE ASSETS (CONTINUED)

The cash flow projections used to calculate value-in-use consider the above forecast net cash flows for five years and a terminal growth rate of 1.62% (2017: 0.12%). These projections comprise cash flow movements based on:

- revenue expected to be generated over the following five years, with growth being projected on the forecasted sales volumes and charges. Such revenue forecasts comprise the revenue potential of current leads and on-going negotiations with prospective clients, as well as revenue expected from new targets. The percentage of total forecasted revenue expected to be generated in the next five years from currently negotiated business is as follows:

	2018	2019	2020	2021	2022	
31 December 2018	Not Applicable	78%	30%	17%	17%	17%
31 December 2017	100%	57%	37%	26%	26%	Not Applicable

- expenses expected to be incurred to generate forecasted revenues. Such expenses mainly encompass wages and salaries for staff engaged in management, operations, sales and administration; operating costs including hosting and software related; consultancy fees, travelling and other ancillary expenses.

For both 2018 and 2017, the projection risk was reflected in the forecast net cash (outflows)/inflows.

(ii) Discount rate*:

	2018	2017
Post-tax	14.4%	12.8%
Pre-tax	17.6%	15.7%

The discount rate is a measure based on the US risk-free rate (based on US Government 30-year bond), industry specific risk rate and the estimated projection risk rate of the business initiative. The discount rate reflects the current market assessments of the time value of money and management's assessment of the risks specific to the projected cash flows.

10.5.3 TERMINAL GROWTH RATE

Cash flows beyond 2023 have been extrapolated using a terminal growth rate of 1.62% (2017: 0.12%). The terminal growth rate was determined based on management's estimate of the long-term compound annual cash flow growth rate, consistent with the assumption that a market participant would make.

10.5.4 ASSESSMENT

At Company level, the recoverable amount of RS2 Software Inc was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Software Inc at 31 December 2018 which stood at €5.2m (2017: €3.1m).

At Group level, the carrying amount of the Cash Generating Unit amounts to €1.1m (2017: €1.3m), of which goodwill amounts to €0.6m.

In line with the outcome of such assessments, management is of the opinion that the investment in RS2 Software Inc, both from a Company and a Group perspective, is not impaired.

The selection of assumptions and estimates by management involves significant judgment and changes in these assumptions could result in the determination of a recoverable amount which is materially different to the results obtained using the variables selected by the Group and may lead to an impairment loss being recognised. This is particularly so in respect to the discount rate, timing of cash flows and projected level of operations used in the cash flow projections. A reasonably possible change in management's assumptions could cause the carrying amount of the Group's investment in RS2 Software Inc including goodwill to materially exceed the recoverable amount. The business plan is based on the management's expectation of the penetration of the US market. Should the annual cash inflows deteriorate from those originally projected for each year from 2019 to 2023 (2017: 2018 to 2022), then the carrying amount would exceed the recoverable amount, irrespective of whether such changes emanate from changes in revenue growth rates or changes in EBITDA growth rates. Such eventuality will also arise should the discount rate be increased as a result of a significant increase in the overall risk. The changes required for carrying amounts to equal recoverable amount are as follows:

	2018	2017
Deterioration of annual net cash flows by:	-9.50%	-12.6%
Increase of discount rate by:	+3.90%	+5.9%

RS2 Software p.l.c.

Notes to the Financial Statements

Year ended 31 December 2018

11 INVESTMENTS IN SUBSIDIARIES

11.1		The Company	
		2018	2017
		€	€
	Balance at 1 January	6,819,753	5,737,262
	Acquisitions	25,000	-
	Contribution to subsidiaries	3,034,087	1,140,497
	Discount unwind on accrued income receivable from subsidiary	(42,441)	(58,006)
	Balance at 31 December	9,836,399	6,819,753

11.2 Contribution to subsidiaries are unsecured, interest free and represent capital contributions.

11.3

	Place of business	Ownership interest fully paid-up		Nature of business
		2018	2017	
		%	%	
RS2 Smart Processing Ltd.	RS2 Buildings, Fort Road, Mosta MST1859 Malta	99.99	99.99	Transaction processing services with the use of BankWORKS®
RS2 Software INC	Twelfth floor, Suite No. 1285, South Ulster, Denver, Colorado USA	64.20	64.20	Transaction processing services with the use of BankWORKS®
RS2 Software LAC LTDA	Rua Manoel de Nóbrega Município de São Paulo Estado de São Paulo Brazil	99.00	99.00	Provision of support and other related services to the Company and its clients
RS2 Software APAC Inc	Unit 1501 AccraLaw Tower 2nd Avenue Corner 30th Street Bonifacio Global City Barangay Fort Bonifacio Taguig City 1634, Metro Manila Philippines	99.99	99.99	Provision of support and other related services to the Company and its clients
RS2 Germany GmbH	Martin-Behaim-Straße 12 63263 Neu-Isenburg Germany	100.00	-	Provision of support and other related services to the Company and its clients

11 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

11.4 On 12 June 2009, the Company acquired control of RS2 Software LLC, a transaction processing company in the United States of America, by acquiring 26% of the shares and voting interests in the company. On 24 September 2014, the Company acquired a further 38.2% shareholding in RS2 Software LLC. On 16 February 2018, a new company, RS2 Software INC was incorporated and the Company held 64.2% shareholding in it. The newly formed corporation merged with RS2 Software LLC on 28 March 2018. As further detailed in note 29.1, in February 2018, the Group recruited a new CEO for its North American business. As disclosed in that note, the executive was granted 12,500 new shares in RS2 Software INC, with certain vesting conditions and restrictions. This arrangement is accounted for as a cash-settled arrangement and accordingly a corresponding liability is recognised in the Group financial statements. Upon the granting of these award shares, the Group's effective voting rights will be reduced from 64.2% (2017) to 57.05% (2018) during the period in which the executive will hold the shares.

As at 31 December 2018 issued ordinary share capital in RS2 Software Inc amounted to €1,398,576 (2017: €1,398,576). Loss for the year amounts to €2,809,555 (2017: €497,471) and the retained earnings reserve totals (€1,299,238) (2017: (€585,215)). The translation reserve of RS2Software Inc comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to (€157,344) (2017: (€156,237)).

At Company level, the recoverable amount of RS2 Smart Processing Ltd. was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Smart Processing Ltd. at 31 December 2018 which stood at €3.7m. The key assumptions used in the calculation of the value-in-use of RS2 Smart Processing Ltd. are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

11.5 On 29 May 2012, the Company subscribed to and was allotted 1,200 shares in RS2 Smart Processing Ltd., a company registered in Malta, representing 99.99% of the share capital of this subsidiary. During 2015, RS2 Smart Processing Ltd. increased its authorised share capital to 1,500,000 ordinary shares at a nominal value of €1.00 each. The increase in share capital was fully subscribed by the existing shareholders as at 31 December 2014 in a proportionate manner.

As at 31 December 2018 issued ordinary share capital in RS2 Smart Processing Ltd. amounted to €1,500,000 (2017: €1,500,000). Profit for the year amounts to €353,364 (2017: €45,981) and the retained earnings reserve totals (€1,706,969) (2017: (€2,141,358)). Other reserve relates to post-employment benefits to key management personnel amounting to (€523) (2017: €0).

11.6 On 16 September 2015, the Company subscribed to and was allotted 3,465 shares in RS2 Software LAC LTDA., a company registered in Brazil, representing 99.00% of the share capital of this subsidiary.

As at 31 December 2018 issued ordinary share capital in RS2 LAC LTDA amounted to €789 (2017: €789). Loss for the year amounts to €16,645 (2017: €14,055) and the retained earnings reserve totals (€48,848) (2017: (€32,203)). The translation reserve of RS2 LAC LTDA comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to €6,124 (2017: €2,556).

11.7 On 4 April 2016, the Company subscribed to and was allotted 55,745 shares of Php100 each in RS2 Software APAC Inc., a company registered in the Philippines, representing 99.99% of the share capital of this subsidiary.

As at 31 December 2018 issued ordinary share capital in RS2 Software APAC Inc amounted to €112,105 (2017: €112,105). Loss for the year amounts to €81,912 (2017: €367,135) and the retained earnings reserve totals €320,327 (2017: (€141,163)). The translation reserve of RS2 APAC INC comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to (€63,248) (2017: (€18,944)).

At Company level, the recoverable amount of RS2 Software APAC Inc. was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Software APAC Inc. at 31 December 2018 which stood at €1.1m. The key assumptions used in the calculation of the value-in-use of RS2 Software APAC Inc. are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

11.8 On 2 February 2018, the Company subscribed to and was allotted 1 share equivalent to €25,000 in RS2 Germany GmbH, a company registered in Germany, representing 100.00% of the share capital of this subsidiary.

As at 31 December 2018 issued ordinary share capital in RS2 GmbH amounted to €25,000 (2017: €0). Loss for the year amounts to €34,349 (2017: €0) and the retained earnings reserve totals €615,651 (2017: €0).

At Company level, the recoverable amount of RS2 Germany GmbH was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Germany GmbH at 31 December 2018 which stood at €0.68m. The key assumptions used in the calculation of the value-in-use of RS2 Germany GmbH are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

11.9 During 2015, a Parental Guarantee was entered into between the Company and a supplier which ensures the payments of any monetary obligations owed by one of the subsidiaries. As at the end of 2018, the guarantee amounted to €131,565 (2017: €378,496).

11 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

11.10 Non-Controlling Interests

RS2 Software INC	2018	2017
NCI Percentage	35.80%	35.80%
Non-Current Assets	1,144,628	864,024
Current Assets	129,546	61,765
Current Liabilities	(1,374,401)	(257,433)
Net Assets	(100,227)	668,356
Net Assets attributable to NCI	(35,881)	239,271
Adjustments:		
Share of capital contribution due to the Company	(1,454,986)	(715,831)
Adjustment upon elimination of investment in subsidiary	263,546	263,546
Amounts due to the Company	(49,034)	(49,034)
Amounts due to Subsidiaries	(9,959)	-
Foreign currency translation reserve attributable to NCI	(36,132)	(63,585)
Other Adjustments	(13,477)	(32,285)
Net Assets/(Liabilities) attributable to other NCI	207	41
Net Liabilities attributable to total NCI	(1,336,130)	(357,876)
Revenue	-	-
Loss	(2,809,555)	(497,471)
Total Comprehensive Loss	(2,809,555)	(497,471)
Profit attributable to NCI	(1,005,821)	(178,095)
Profit attributable to other NCI	(168)	(142)
Profit attributable to total NCI	(1,005,989)	(178,237)
Cash flows from operating activities	(1,705,954)	(410,009)
Cash flows from investing activities	(253,927)	(48,270)
Cash flows from financing activities (dividends to NCI: nil)	2,033,640	474,707
Net increase in cash and cash equivalents	73,759	16,428

12 OTHER INVESTMENT

12.1	Group and Company	
	2018	2017
Non-current	€	€
Financial Investment (2017 - Available-for-sale financial asset)	217,105	131,785

12.2 Non-current available-for-sale financial assets comprise an investment in a company incorporated in the United States of America that is engaged in the provision of end-to-end electronic payment platforms. Under IFRS 9, the other investment is classified as an equity instrument designated as at FVTOCI upon initial recognition. There was no material difference between the carrying amount of the investment at 31 December 2017 and its fair value at that date.

13 TRADE AND OTHER RECEIVABLES

13.1	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Non-current				
Trade receivables owed by third parties	-	40,018	-	-
	-	40,018	-	-
Current				
Trade receivables owed by third parties	1,136,050	1,441,046	396,655	1,400,589
Trade receivables owed by subsidiaries	-	-	726,889	261,836
Trade receivables owed by other related parties	10,423	1,935,809	10,430	1,935,809
Other receivables	408,697	149,547	6,084	32,723
	1,555,170	3,526,402	1,140,058	3,630,957

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

	The Group	The Company
	€	€
Balance at 31 December 2017 in terms of IAS 39	3,526,402	3,630,957
Adjustments upon initial adoption of IFRS 9 (note 3)	(63,000)	(63,000)
Balance at 1 January 2018 in terms of IFRS 9	3,463,402	3,567,957

13.2 Transactions with related parties are set out in note 33 to these financial statements.

13.3 Trade receivables for the Group and Company are shown net of impairment losses recognised during the year as disclosed in note 22.5.

13.4 Information about the Group's exposure to credit and market risks for trade receivables is included in Note 3.2.1 and Note 3.2.3.

13.5 Loans receivables	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Non-current				
Loans receivables from parent company	775,722	-	775,722	-
Loans receivables from subsidiaries	-	-	34,870	20,810
	775,722	-	810,592	20,810
Current				
Amounts owed by parent company	-	765,275	-	765,275
Amounts owed by other related parties	7,438	9,271	7,438	9,271
	7,438	774,546	7,438	774,546

13.6 Amounts due by parent company are unsecured, repayable on demand and bear interest at the rate of 2% per annum.

13.7 Amounts due by subsidiaries and other related parties as at 31 December 2018 were unsecured, repayable on demand and did not bear any interest.

13.8 Transactions with related parties are set out in note 33 to these financial statements.

13.9 The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

13.10 In relation to the Statement of Financial Position at 31 December 2017, the Group and the Company have reclassified an amount of €1,935,809 and €2,197,645 respectively from loans and receivables to trade receivables to better reflect the distinction between receivables relating to operations and receivables that are not relating to trade.

14 ACCRUED INCOME AND CONTRACT COSTS

14.1	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Non - current				
Contract Assets owed by subsidiary	-	-	-	844,369
	-	-	-	844,369
Current				
Contract assets owed by third parties	3,080,782	932,597	2,690,864	416,462
Contract assets owed by parent company	120,000	120,000	120,000	120,000
Contract assets owed by subsidiary	-	-	474,344	593,043
Contract assets owed by other related parties	1,117,688	17,027	1,117,688	17,027
	4,318,470	1,069,624	4,402,896	1,146,532
Accrued income owed by subsidiary	-	-	286,541	499,263
Contract costs	335,072	-	-	-
	4,653,542	1,069,624	4,689,437	2,490,164

14 ACCRUED INCOME AND CONTRACT COSTS (CONTINUED)

Category of activity	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Licence fees excluding customisation	1,352,543	363,452	1,510,244	1,485,380
Service fees transaction processing and customisation	2,842,349	685,539	2,537,737	310,157
Maintenance fees	13,139	-	247,228	174,733
Re-imbusement of expenses	110,439	20,633	107,687	20,631
	4,318,470	1,069,624	4,402,896	1,990,901
Accrued income	-	-	286,541	499,263
	4,318,470	1,069,624	4,689,437	2,490,164

	The Group	The Company
	€	€
Contract assets		
Balance at 31 December 2017 in terms of IAS 39 and IAS 18	1,069,624	1,990,901
Additional ECL allowance upon initial adoption of IFRS 9 (note 3)	(42,000)	(42,000)
Additional contract asset upon initial adoption of IFRS 15 (note 3)	(88,595)	(924,595)
Balance at 1 January 2018 in terms of IFRS 9 and IFRS 15	939,029	1,024,306

14.2 Significant changes in the contract assets balances during the period are as follows:

	The Group	The Company
	€	€
Balance at 1 January 2018 in terms of IFRS 9 and IFRS 15	939,029	1,024,306
Increases as a result of further progress	3,515,136	3,355,136
Other Movements	(135,695)	23,454
Balance at 31 December 2018	4,318,470	4,402,896

14.3 During 2017, the Company provided a guarantee to one of its clients of \$111,126 which would have become payable if the Company failed to fulfil the contractual obligations under the agreement with the client. No guarantees were provided during 2018.

14.4 The impairment loss during 2018 amounted to €25,000 and the adjustment at January 2018 amounted to €42,000. The impairment loss during 2017 amounted to €nil.

14.5 Transactions with related parties are set out in note 33 to these financial statements.

	The Group	The Company
	€	€
Contract Costs		
Balance at 31 December 2017 in terms of IAS 18	-	-
Additional contract costs upon initial adoption of IFRS 15 (note 3)	166,625	41,971
Balance at 1 January 2018 in terms of IFRS 15	166,625	41,971

Costs in relation to implementation and customisation which are followed by transaction processing services are amortised on a straight-line basis over the period that the related future service is expected to be transferred to the customer.

Other contract costs mainly relate to the deferral of costs incurred by the Group in relation to the provision of certain scoping and development services necessary for the implementation of pilot services in anticipation of a potential long term strategic relationship with another party for the development and commercialisation of a customised processing and payments solution for use in the travel industry. During the performance of the scoping and development services, each of the two parties is required to bear its own cost.

15 CASH AND CASH EQUIVALENTS

15.1	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Cash at bank	3,395,335	7,780,050	2,792,451	7,074,612
Cash in hand	7,637	9,109	6,493	8,455
	3,402,972	7,789,159	2,798,944	7,083,067

16 CAPITAL AND RESERVES

16.1 SHARE CAPITAL

		Group and Company	
		2018	2017
		No.	No.
ISSUED SHARE CAPITAL			
Ordinary Shares			
On issue at 1 January - fully paid-up		171,527,619	158,333,187
Bonus issue		-	13,194,432
Share split		-	-
On issue at 31 December - fully paid-up		<u>171,527,619</u>	<u>171,527,619</u>

AUTHORISED SHARE CAPITAL

At 31 December 2018, the authorised share capital comprised 200,000,000 (2017: 200,000,000) ordinary shares at a nominal value of €0.06 each (2017: €0.06 each). On 20 June 2017, the Company resolved to re-designate the authorised share capital previously consisting of 166,666,667 Ordinary Shares of €0.06 each to 200,000,000 Ordinary Shares of €0.06.

SHAREHOLDER RIGHTS

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company. All shares rank equally with regards to the Company's residual assets.

16.2 SHARE PREMIUM

Share premium amounting to €1,077 (2017: €792,743) represents the balance of premium on issue of five million (5,000,000) ordinary shares of a nominal value of €0.20 each at a share price of €0.80 each. Share premium is shown net of transaction costs of €207,266 directly attributable to the issue of the ordinary shares. During the year ended 31 December 2017, the Company allotted 13,194,432 bonus shares (1 for every 12 held) approved by the Annual General Meeting held on 20 June 2017 at a nominal value of €0.06 each, amounting to €791,666 out of its share premium reserve. During the year ended 31 December 2016, the Company allotted 5,000,000 bonus shares (1 for every 18 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During the year ended 31 December 2014, the Company allotted 2,500,000 bonus shares (1 for every 17 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2013, the Company allotted 2,500,000 bonus shares (1 for every 16 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2012, the Company allotted 2,499,956 bonus shares (1 for every 15 held) at a nominal value of €0.20 each, amounting to €499,991 out of its share premium reserve.

16.3 RESERVES

16.3.1 TRANSLATION RESERVE

The translation reserve of the Group comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable.

16.3.2 SHARE OPTION RESERVE

The share option reserve represents the fair value at grant date of the employees expense in respect of equity-settled share-based payments based on vesting period.

16.3.3 OTHER RESERVE

The other reserve relates to share based payments granted by the Company to its employees under its employee share based payment arrangements.

16.3.4 FAIR VALUE RESERVE

The fair value reserve represents the cumulative gains and losses arising on the revaluation of equity investments at fair value through other comprehensive income that have been recognised in other comprehensive income.

16.3.5 EMPLOYEE BENEFITS RESERVE

The employee benefits reserve includes non-competition post-employment benefits due to employees holding senior management positions as further disclosed in note 27 to these financial statements.

16.4 DIVIDENDS

The following dividends were declared and paid by the Company:

For the year ended 31 December	2018	2017
	€	€
Dividend, net of income tax	<u>2,504,303</u>	1,583,332
Dividend per ordinary share	<u>0.0146</u>	0.0100

16 CAPITAL AND RESERVES (CONTINUED)**16.5 AVAILABILITY OF RESERVES FOR DISTRIBUTION**

The non-distributable reserves include the Share premium reserve, Translation reserve, Fair value reserve, Other reserves and the Share option reserve.

17 BANK BORROWINGS**17.1**

Group and Company	
2018	2017
€	€

Non-current liabilities

Non-current portion of secured bank loan:

Repayable between one and five years

199,820	835,369
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At end of year

199,820	835,369
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Current liabilities

Current portion of secured bank loan

634,196	1,022,016
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17.2

Bank borrowings represent the balances on four banking facilities. The first facility is repayable over a period of 10 years from the first drawdown, is repayable in full by 13 August 2020, and is subject to interest at the rate of 2.5% over the 3-month euribor rate. The second facility is repayable over a period of 5 years from the first drawdown, is repayable in full by 18 March 2019, and is subject to interest at the rate of 3% over the 3-month euribor rate. The third facility is repayable over a period of 5 years from the first drawdown, is repayable in full by 2 July 2020, and is subject to interest at the rate of 3% over the 3-month euribor rate. The fourth facility is repayable over a period of 7 years, is repayable in full by 12 May 2022 and is subject to interest at the rate of 3% over the 3-month euribor rate.

All facilities are secured by first general hypothec over the Company's assets, first special hypothec and special privileges over the land situated in Mosta and a pledge on a comprehensive insurance policy covering the hypothecated property.

During 2018, the Group had an undrawn Overdraft Facility of €1,000,000.

17.3

During 2011, the Company entered into an interest rate swap for the purpose of hedging the risk of changes in cash flows related to interest payments on the first facility. The fair value measurement for the interest rate swap has been categorised as a Level 2 fair value based on inputs other than quoted prices but that are observable for the instrument.

17.4

The Group's exposure to interest rate risk for financial assets and liabilities are disclosed in note 28.

17.5

The Group's exposure to liquidity risk is disclosed in note 28.

18 DEFERRED TAX ASSETS AND LIABILITIES**18.1 DEFERRED TAX ASSETS AND LIABILITIES ARE ATTRIBUTABLE TO THE FOLLOWING:****The Group**

	Assets		Liabilities		Balance	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
Property, plant and equipment	-	1,700	(110,425)	(126,974)	(110,425)	(125,274)
Intangible assets	-	-	(2,085,720)	(2,079,384)	(2,085,720)	(2,079,384)
Impairment loss on receivables	22,942	1,751	-	-	22,942	1,751
Provision for exchange fluctuations	76,663	85,444	-	-	76,663	85,444
Unabsorbed losses	376,017	376,017	-	-	376,017	376,017
Unabsorbed capital allowances	514,451	839,407	-	-	514,451	839,407
Temporary difference on expected credit losses under IFRS 9	28,350	-	-	-	28,350	-
Temporary difference on revenues previously recorded under IAS18	172,785	-	-	-	172,785	-
Tax assets/(liabilities)	1,191,208	1,304,319	(2,196,145)	(2,206,358)	(1,004,937)	(902,039)
Set off of tax	(1,191,208)	(1,304,319)	1,191,208	1,304,319	-	-
Net tax liabilities	-	-	(1,004,937)	(902,039)	(1,004,937)	(902,039)

The Company

	Assets		Liabilities		Balance	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
Property, plant and equipment	-	-	(109,054)	(126,974)	(109,054)	(126,974)
Intangible assets	-	-	(1,610,887)	(1,553,217)	(1,610,887)	(1,553,217)
Impairment loss on receivables	13,376	1,751	-	-	13,376	1,751
Provision for exchange fluctuations	76,674	85,159	-	-	76,674	85,159
Temporary difference on expected credit losses under IFRS 9	28,350	-	-	-	28,350	-
Temporary difference on revenues previously recorded under IAS18	465,385	-	-	-	465,385	-
Tax assets/(liabilities)	583,785	86,910	(1,719,941)	(1,680,191)	(1,136,156)	(1,593,281)
Set off of tax	(583,785)	(86,910)	583,785	86,910	-	-
Net tax liabilities	-	-	(1,136,156)	(1,593,281)	(1,136,156)	(1,593,281)

18.2 This deferred tax liability represents the temporary differences between the written down value and the net book value of the Company's assets.

18.3 Deferred tax assets have not been recognised in respect of tax losses, until such time as more definitive information becomes available that sufficient tax profit will be available against which the Group can use the benefits therefrom. The unrecognised deferred tax asset as at year end amount to €883,830 (2017: €619,537).

18.4 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR**The Group**

	Recognised		Balance 31 Dec 2017 €	IFRS9/15 adjustment 1 Jan 2018 €	Recognised		Balance 31 Dec 2018 €
	Balance	in profit			Balance	in profit	
	1 Jan 2017 €	or loss €			1 Jan 2018 €	or loss €	
Property, plant and equipment	(136,074)	10,800	(125,274)	-	(125,274)	14,849	(110,425)
Intangible assets	(2,126,533)	47,149	(2,079,384)	-	(2,079,384)	(6,336)	(2,085,720)
Impairment loss on receivables	182,522	(180,771)	1,751	-	1,751	21,191	22,942
Provision for exchange fluctuations	(15,830)	101,274	85,444	-	85,444	(8,781)	76,663
Unabsorbed losses	376,017	-	376,017	-	376,017	-	376,017
Unabsorbed capital allowances	961,633	(122,226)	839,407	-	839,407	(324,956)	514,451
Temporary difference on expected credit losses under IFRS 9	-	-	-	36,750	36,750	(8,400)	28,350
Temporary difference on revenues recognised in line with IFRS 15	-	-	-	2,130,288	2,130,288	(1,957,503)	172,785
	(758,265)	(143,774)	(902,039)	2,167,038	1,264,999	(2,269,936)	(1,004,937)

18 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

18.4 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR (CONTINUED)

The Company

	Balance 1 Jan 2017	Recognised in profit or loss	Balance 31 Dec 2017	IFRS9/15 adjustment	Balance 1 Jan 2018	Recognised in profit or loss	Balance 31 Dec 2018
	€	€	€	€	€	€	€
Property, plant and equipment	(136,144)	9,170	(126,974)	-	(126,974)	17,920	(109,054)
Intangible assets	(1,549,033)	(4,184)	(1,553,217)	-	(1,553,217)	(57,670)	(1,610,887)
Impairment loss on receivables	182,522	(180,771)	1,751	-	1,751	11,625	13,376
Provision for exchange fluctuations	(15,830)	100,989	85,159	-	85,159	(8,485)	76,674
Temporary difference on expected credit losses under IFRS 9	-	-	-	36,750	36,750	(8,400)	28,350
Temporary difference on revenues recognised in line with IFRS 15	-	-	-	2,466,521	2,466,521	(2,001,136)	465,385
	(1,518,485)	(74,796)	(1,593,281)	2,503,271	909,990	(2,046,146)	(1,136,156)

19 TRADE AND OTHER PAYABLES

19.1

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Trade payables	547,588	536,601	424,460	435,558
Other payables	61,938	35,099	-	-
Dividends payable	25,835	22,738	25,835	22,738
Other taxes and social securities	781,563	364,899	721,780	382,805
Amounts due to other related parties	35,082	238,090	279,813	352,038
	1,452,006	1,197,427	1,451,888	1,193,139

19.2 Transactions with related parties are set out in note 33 to these financial statements.

19.3 The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

20 ACCRUALS AND DEFERRED INCOME

20.1

ACCRUALS

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Current				
Accrued expenses owed to third parties	1,208,419	651,806	569,699	460,840

20.2

DEFERRED INCOME

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Current				
Contract liabilities owed by third parties	1,507,023	1,023,432	1,423,223	830,065
Contract liabilities owed by subsidiary	-	-	38,616	36,667
Contract liabilities owed by other related parties	542,620	625,035	542,620	625,035
	2,049,643	1,648,467	2,004,459	1,491,767
Deferred income owed by subsidiary	47,107	47,910	47,107	47,910
	2,096,750	1,696,377	2,051,566	1,539,677

20 ACCRUALS AND DEFERRED INCOME (CONTINUED)

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Category of activity				
Licence fees excluding customisation	550,828	26,250	584,161	26,250
Service fees, transaction processing and customisation	187,814	577,864	109,297	421,164
Maintenance fees	1,251,501	979,020	1,251,501	979,020
Comprehensive packages	59,500	65,333	59,500	65,333
	2,049,643	1,648,467	2,004,459	1,491,767
Deferred income	47,107	47,910	47,107	47,910
	2,096,750	1,696,377	2,051,566	1,539,677

	The Group	The Company
	€	€
Contract liabilities		
Balance at 31 December 2017 in terms of IAS 18	1,648,467	1,491,767
Additional contract liability upon initial adoption of IFRS 15 (note 3)	6,169,855	6,169,578
Balance at 1 January 2018 in terms of IFRS 15	7,818,322	7,661,345

Significant changes in the contract liabilities balances during the period are as follows:

	The Group	The Company
	€	€
Balance at 1 January 2018 in terms of IFRS 15	7,818,322	7,661,345
Release of opening contract liabilities to revenue	(5,701,568)	(5,701,568)
Increases due to cash received, excluding amounts recognised as revenue during the year	(496,676)	(441,051)
Other Movements	429,565	485,733
Balance at 31 December 2018	2,049,643	2,004,459

21 REVENUE

21.1 Disaggregation of revenue

Revenue is stated after deduction of sales rebates and indirect taxes and comprises of revenue from contracts with customers.

In the following table, revenue is disaggregated by category of activity, primary geographical market and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Licensing		Processing		Total	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
21.1.1 Category of activity						
Licence fees excluding customisation*	9,717,162	2,895,000	-	-	9,717,162	2,895,000
Service fees, transaction processing and customisation	7,836,644	8,581,925	3,636,131	2,725,469	11,472,775	11,307,394
Maintenance fees	2,824,197	1,927,621	29,138	11,442	2,853,335	1,939,063
Comprehensive packages	737,333	784,000	-	-	737,333	784,000
Re-imbursment of expenses	162,121	445,869	65,669	8,700	227,790	454,569
	21,277,457	14,634,415	3,730,938	2,745,611	25,008,395	17,380,026

	Licensing		Processing		Total	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
21.1.2 Geographical markets						
Europe *	20,434,070	13,832,997	3,506,749	2,676,869	23,940,819	16,509,866
Middle East	751,282	641,401	50,177	25,884	801,459	667,285
North America	-	-	-	89,224	-	89,224
South America	-	-	117,043	23,119	117,043	23,119
Asia	60,443	90,532	88,631	-	149,074	90,532
	21,245,795	14,564,930	3,762,600	2,815,096	25,008,395	17,380,026

	Licensing		Processing		Total	
	2018	2017	2018	2017	2018	2017
	€	€	€	€	€	€
21.1.3 Timing of revenue recognition						
Transferred at a point in time *	9,150,000	2,280,000	-	-	9,150,000	2,280,000
Transferred over time **	12,095,662	12,168,881	3,762,733	2,931,145	15,858,395	15,100,026
	21,245,662	14,448,881	3,762,733	2,931,145	25,008,395	17,380,026

* Includes the release of deferred income as at 1 January 2018, amounting to €5.6m as detailed in note 3.1. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

** Where this relates to a licence that is not distinct from customised implementation, this refers to the period of customisation

21.2 Contract balances

The following table provides information about the Group and the Company's receivables, contract assets and contract liabilities from contracts with customers.

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Receivables, which are included in 'Trade and other receivables'	1,555,170	3,566,420	490,563	3,522,019
Contract assets	4,318,470	1,069,624	4,402,896	1,990,901
Contract liabilities	(2,049,643)	(1,648,467)	(2,004,459)	(1,491,767)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers, for which the revenue recognition criteria are not yet met.

21 REVENUE (CONTINUED)

21.3 The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	The Group			Total €
	2019 €	2020 €	2021 and beyond €	
Licence fees	1,055,756	-	-	1,055,756
Services fees	190,118	151,150	772,373	1,113,641

	The Company			Total €
	2019 €	2020 €	2021 and beyond €	
Licence fees	1,055,756	60,000	580,000	1,695,756
Services fees	158,906	6,000	58,000	222,906

The Group applies the practical expedient in paragraph 121 of IFRS15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The above also excludes fees from transaction processing services that are recognised in terms of 4.14.6.

22 PROFIT BEFORE INCOME TAX

22.1 The Group's profit before income tax includes total fees charged by the auditors of the Company for:

	2018 €	2017 €
Auditors' remuneration	41,075	63,000

The fee payable to the auditor of a subsidiary in relation to audit services for 2018 amounts to €7,425 (2017: €9,975).

22.2 The Group's profit before income tax includes professional fees which amounted to €618,843 for the Group (2017: €560,671) and €6,508 (2017: nil) for the Company. Consultancy services amounted to €318,215 and €329,273 for the Group and the Company respectively (2017: €240,687 for the Group and €195,323 for the Company). Profit before income tax also includes recharge of expenses amount to €233,216 for the Group (2017: €431,000) and €214,341 for the Company (2017: €428,228) which are included in note 21.1 to these financial statements.

22.3 Other income

	The Group		The Company	
	2018 €	2017 €	2018 €	2017 €
Realised operating exchange gains	-	-	11,966	-
Unrealised operating exchange gains	15,127	69,489	26,734	70,168
Other income	51,964	45,378	51,312	44,690
Gains from disposal of asset	-	6,900	-	6,900
	67,091	121,767	90,012	121,758

During the year ended 31 December 2018, the Company was granted funds through schemes administered by Malta Enterprise, MITA and other government bodies. These schemes consist of both Maltese government schemes as well as schemes emanating from European Union funds. For 2018, grants amounted to €51,312 (2017: €44,689) which are captured as part of other income in the note above.

22.4 Other expenses

	The Group		The Company	
	2018 €	2017 €	2018 €	2017 €
Realised operating exchange losses	4,462	31,867	-	24,314
Other expenses	8,487	14,864	10	-
	12,949	46,731	10	24,314

22 PROFIT BEFORE INCOME TAX (CONTINUED)

22.5	Impairment loss on trade receivables and contract assets	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
	Decrease in provision for impairment loss on trade receivables	-	(516,489)	-	(516,489)
	Increase in provision for impairment loss on trade receivables	60,907	-	33,216	-
	Accrued income written off	-	191,664	-	191,664
	Bad debts written off	-	630,017	-	630,017
	Reversal of bad debts written off	(160,300)	-	(160,300)	-
	Impairment loss on trade receivables	(49,000)	-	(49,000)	-
	Impairment loss on contract assets	25,000	-	25,000	-
		(123,393)	305,192	(151,084)	305,192

In relation to the profit and loss for 2017, the Group and the Company have netted through a reclassification, the capitalised development costs of €910,935 against cost of sales in that year, thus decreasing cost of sales of the Group and the Company by the said amount to €10,740,655 and €8,783,203 respectively and increasing gross profit to €6,639,371 and €6,025,945 respectively to better reflect the nature of such capitalised costs. This reclassification did not result in any changes to the results from operating activities and the pre-tax and post-tax profit for the year for the comparative year.

22.6 Term licence with an option to perpetuity

As further detailed in note 3.1, profit before tax includes the release of the deferred income at 1 January 2018 of €5.6m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

23 FINANCE COSTS AND INCOME

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Bank interest income	651	1,167	624	1,107
Interest on loans receivables	10,447	10,447	10,447	10,447
Discount unwind of trade receivables and accrued income	-	25,184	42,441	83,190
Change in fair value of interest rate swap	20,431	36,145	20,432	36,145
Finance income	31,529	72,943	73,944	130,889
Bank interest expense	(64,825)	(101,825)	(64,805)	(101,801)
Other expenses	(5,233)	(6,852)	(5,193)	(6,720)
Non-operating unrealised exchange loss	(2,089)	(357,939)	(2,488)	(357,805)
Finance costs	(72,147)	(466,616)	(72,486)	(466,326)
Net finance (costs)/income	(40,618)	(393,673)	1,458	(335,437)

All the above items of finance income and cost are recognised in profit or loss.

24 INCOME TAX EXPENSE

24.1 RECOGNISED IN PROFIT OR LOSS

	Note	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
Current tax expense					
Current tax charge for the year		(1,053,344)	(453,786)	(1,051,432)	(451,654)
Tax withheld in foreign jurisdictions		1,072	(12,021)	1,072	(12,021)
Withholding tax on interest received		(95)	(175)	(92)	(166)
Foreign tax charge for the year		(1,359)	(1,285)	-	-
		(1,053,726)	(467,267)	(1,050,452)	(463,841)
Deferred tax expense					
Origination and reversal of temporary differences	18.3	(2,269,940)	(143,774)	(2,046,145)	(74,796)
Income tax expense		(3,323,666)	(611,041)	(3,096,597)	(538,637)

24 INCOME TAX EXPENSE (CONTINUED)**24.2 RECONCILIATION OF EFFECTIVE TAX RATE**

The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Company's country of incorporation, are reconciled as follows:

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Profit before tax	6,564,966	1,225,837	8,912,334	1,839,451
Income tax using the domestic income tax rate of 35%	(2,297,738)	(429,043)	(3,119,317)	(643,808)
Effect of tax rates in foreign jurisdictions	(23,438)	(122,159)	1,072	(12,021)
Tax credit against tax paid in foreign jurisdictions	-	1,010	-	1,010
Tax effect of:				
Non-taxable income	32,938	56,051	32,942	56,039
Non-deductible expenses	(1,037,502)	(229,503)	(15,856)	(17,103)
Different tax rates on bank interest income	125	221	125	221
Depreciation charges not deductible by way of capital allowances	904	(7,714)	4,437	(10,096)
Unrecognised deferred tax assets on unrelieved tax losses	(4,085)	(18,356)	-	-
Investment tax credit given by Business Promotion Act incentives enacted in Malta	-	87,121	-	87,121
Elimination of inter-company transaction	5,130	51,331	-	
Income tax expense	(3,323,666)	(611,041)	(3,096,597)	(538,637)

The applicable rate represents the statutory local income tax rate of 35% under the Income Tax Act.

25 EARNINGS PER SHARE

The calculation of basic earnings per share at the respective reporting dates is calculated on the profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding during the year.

The earnings per share was derived by dividing the profit attributable to ordinary shareholders of the Group and the Company by 171,527,619, being the equivalent weighted-average number of ordinary shares outstanding during the year.

During 2017, there was an increase in the number of ordinary shares held through a bonus issue (see note 16.1). The calculation of earnings per share in 2017 had therefore been adjusted to be based on the revised number of shares held at the end of the respective year.

Earnings per share of the Group and Company for the year ended 31 December 2018 amounted to €0.025 and €0.034 respectively (2017: €0.005 and €0.008).

As further detailed in note 3.1, profit before tax includes the release of the deferred income at 1 January 2018 of €3.64m (net of tax), representing revenues of €5.6m and deferred tax of €1.96m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

26 PERSONNEL EXPENSES

26.1 Personnel expenses incurred by the Group and the Company during the year are analysed as follows:

	Note	The Group		The Company	
		2018	2017	2018	2017
		€	€	€	€
Directors' emoluments:					
Fees		173,340	150,231	173,340	150,231
Remuneration		601,774	552,363	481,774	432,363
Non-competition benefits	27	31,510	43,450	25,272	36,238
Indemnity insurance		12,210	12,210	12,210	12,210
Fringe benefits		95,045	64,626	95,045	64,626
Key management personnel emoluments:					
Remuneration		1,318,542	656,685	481,391	368,360
Non-competition benefits	27	6,828	28,669	4,525	4,910
Employee Benefits	29	681,970	65,385	100,000	65,385
Fringe benefits		12,740	13,290	7,002	7,693
		2,933,959	1,586,909	1,380,559	1,142,016
Wages and salaries		8,645,913	7,407,857	6,427,447	6,227,749
Social security contributions		571,449	506,238	491,299	461,101
		12,151,321	9,501,004	8,299,305	7,830,866

Personnel expenses incurred during the year do not include long term and termination benefits. Further to the above, share based payments arrangements are disclosed in note 29.

26.2 The weekly average number of persons employed by the Group and the Company during the year were as follows:

	The Group		The Company	
	2018	2017	2018	2017
	No.	No.	No.	No.
Operating	227	194	190	176
Management and administration	55	50	47	45
	282	244	237	221

27 POST-EMPLOYMENT BENEFITS

27.1 Non-competition post-employment benefits due to employees holding senior management positions are payable upon cessation based on an agreed fixed amount or the then applicable annual salary. Such benefits are commensurate to the non-compete clauses which bind personnel not to compete with the Company, or its subsidiaries, for periods ranging between one and three years. This liability is recognised in the statement of financial position and represents the present value of the defined benefit obligation as at 31 December 2018 based on the following:

- (i) Discount rate, determined by reference to market yields at the end of the reporting period. This discount rate is used to discount the liability to the net present value
- (ii) The expectation of the respective employees' termination date
- (iii) The expected future salary growth in line with the Group's policies

The discount rate is based on market yields arising on Malta Government Bonds. Such yields are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the estimated termination date. The Directors consider such rates to be an appropriate proxy to a high quality corporate bond.

When estimating the expected years to retirement, the directors considered the current age and the respective tenure of the key management personnel so far. It was concluded that a maximum term of 10 years, from 2016, is a more realistic time period to consider compared to other term periods.

A reasonable growth rate was used when determining the future salary growth rates to be deployed in the valuation model, which assumption took into account the general percentage increases of the more recent years and also the Group's budgeted projections.

27 POST-EMPLOYMENT BENEFITS (CONTINUED)

The movement in the liability is as follows:

	The Group 2018	2017	The Company 2018	2017
	€	€	€	€
Post-employment liabilities				
Present value at 1 January	2,105,586	2,033,467	1,508,640	1,467,492
Recognised in profit or loss:				
Recognised during the year	-	-	-	-
Discount unwind	38,338	72,119	29,797	41,148
Remeasurement adjustment	385,992	-	385,470	-
Present value at 31 December	2,529,916	2,105,586	1,923,907	1,508,640

The remeasurement adjustment is as a result of financial actuarial losses resulting from an adjustment in the annual salary of certain executive.

	The Group 2018	2017	The Company 2018	2017
	€	€	€	€
Non-current liabilities				
Employee benefits	2,418,494	1,994,164	1,812,485	1,397,218
Current liabilities				
Employee benefits	693,392	111,422	111,422	111,422

The post employment benefit exposes the Group and Company to the following risks:

- (i) Interest risk, since a decrease in market yield will increase the liability
- (ii) Longevity risk, since the longer the key management person remains in office the higher the liability

The significant assumptions applied by the Company in respect of post-employment benefit were as follows:

	The Group 2018	2017	The Company 2018	2017
Discount rates	1.34% - 3.14%	1.33% - 2.97%	1.45%-3.14%	1.46% - 2.97%
Expected years to termination (weighted average)	8.1 yrs	7.49 yrs	8.37 yrs	7.2 yrs

The cost of providing for these post-employment benefits is determined using the projected unit credit method, with estimations being carried out at each reporting date. Due to the nature of the assumptions, in accordance with the provisions of IAS 19, the Group and the Company did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

The Group and Company are providing sensitivity analysis in connection for the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the liability would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in the post-employment benefits obligation. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The present value of the post-employment obligation were calculated using the projected unit credit method at the end of the reporting period.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the net present value of the post-employment benefit obligation decreases by €119,925 (increases by €130,121) at Company level and €161,815 (increases by €175,338) at Group level.
- If the expected years to termination increases (decreases) by two years with all other assumptions held constant, the net present value of the post-employment benefit obligation increases by €25,920 (decreases by €40,638) at Company level and by €30,391 (decreases by €92,739) at Group level.
- If the salaries of key management personnel increase (decrease) by an additional 1% over the budgeted increase with all other assumptions held constant, the net present value of the post-employment benefit obligation increases by €117,098 (decreases by €109,405) at Company level and by €175,338 (decreases by €163,000) at Group level.

28 FINANCIAL INSTRUMENTS**28.1 CREDIT RISK****28.1.1 EXPOSURE TO CREDIT RISK**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was as follows:

	Carrying Amount			
	The Group 2018	2017	The Company 2018	2017
	€	€	€	€
Non-current assets				
Trade and other receivables	-	40,018	-	-
Amounts receivable from related parties	775,722	-	810,592	20,810
Accrued income	-	-	-	844,369
	775,722	40,018	810,592	865,179
Current assets				
Trade and other receivables	1,555,170	3,526,402	1,140,058	3,630,957
Loans and receivables from related parties	7,438	774,546	7,438	774,546
Accrued income and contract costs	4,653,542	1,069,624	4,689,437	1,645,795
Cash at bank	3,395,335	7,780,050	2,792,451	7,074,612
	9,611,485	13,150,622	8,629,384	13,125,910

Further to the above, the Company's maximum credit exposure to the financial guarantee is disclosed in note 11.8.

The maximum exposure to credit risk for trade and other receivables, loans receivables, and accrued income, at the respective reporting dates by geographic region was as follows:

	Carrying Amount			
	The Group 2018	2017	The Company 2018	2017
	€	€	€	€
Non-current assets				
Europe	775,722	-	775,722	844,369
South America	-	-	34,870	20,810
Asia	-	40,018	-	-
	775,722	40,018	810,592	865,179
Current assets				
Europe	5,596,808	4,161,237	5,306,982	4,998,354
Middle East	221,532	1,121,252	211,486	578,969
South America	44,052	-	-	-
North America	180,000	81,239	167,282	162,928
Asia	173,758	6,844	151,183	311,047
	6,216,150	5,370,572	5,836,933	6,051,298

The above amounts include amounts due by the Group's and the Company's two major customers in the banking and payments industry as per below. Revenues from these customers are disclosed in note 8.4.

	The Group 2018	2017	The Company 2018	2017
	€	€	€	€
Customers situated in Europe	3,409,053	2,445,252	3,409,053	2,445,252

28.1.2 IMPAIRMENT LOSSES

The ageing of loans receivable and trade and other receivables at the respective reporting dates was as follows:

	The Group			
	Gross 2018	Impairment 2018	Gross 2017	Impairment 2017
	€	€	€	€
Not past due	700,003	-	1,226,542	-
31 days to 60 days	370,473	-	403,110	-
61 days to 90 days	174,842	-	486,725	-
Over 90 days	1,172,562	79,550	2,229,590	5,003
	2,417,880	79,550	4,345,967	5,003

28 FINANCIAL INSTRUMENTS (CONTINUED)**28.1 CREDIT RISK (CONTINUED)****28.1.2 IMPAIRMENT LOSSES (CONTINUED)**

	The Company			
	Gross 2018 €	Impairment 2018 €	Gross 2017 €	Impairment 2017 €
Not past due	148,295	-	1,097,976	-
31 days to 60 days	198,488	-	423,737	-
61 days to 90 days	92,173	-	534,976	-
Over 90 days	1,571,351	52,219	2,374,625	5,003
	2,010,307	52,219	4,431,314	5,003

The tables below detail, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on financial guarantee contracts.

	The Group	The Company
	12m ECL	
	€	€
Bank balances		
External rating grades		
AA - BBB-	3,395,335	2,792,451
Gross/ Net carrying amount at 31 December 2018	3,395,335	2,792,451

	The Group	The Company
	12m ECL	
	€	€
Loans receivable		
Internal rating grades		
Performing ⁽¹⁾	783,160	818,030
Gross/ Net carrying amount at 31 December 2018	783,160	818,030

	The Company
	12m ECL
	€
Financial guarantee contract	
Internal rating grades	
Performing ⁽¹⁾	131,565
Maximum exposure at 31 December 2018	131,565

⁽¹⁾ The contracting party has a low risk of default and does not have any past due amounts (12m ECL).

	The Group		Lifetime ECL
	Lifetime ECL	Not-credit impaired	credit impaired
	Individual Impairments	Collective impairments	Individual Impairments
	€	€	€
Trade debtors and contract assets			
Internal rating grades			
Not in default - simplified model applied	3,409,053	2,545,587	-
In default	-	-	65,550
Gross carrying amount at 31 December 2018	3,409,053	2,545,587	65,550
Loss allowance at 31 December 2018	(49,000)	(32,000)	(65,550)
Net carrying amount at 31 December 2018	3,360,053	2,513,587	-

	The Company		Lifetime ECL
	Lifetime ECL	Not-credit impaired	credit impaired
	Individual Impairments	Collective impairments	Individual Impairments
	€	€	€
Trade debtors and contract assets			
Internal rating grades			
Not in default - simplified model applied	4,854,539	769,415	-
In default	-	-	38,219
Gross carrying amount at 31 December 2018	4,854,539	769,415	38,219
Loss allowance at 31 December 2018	(49,000)	(32,000)	(38,219)
Net carrying amount at 31 December 2018	4,805,539	737,415	-

28 FINANCIAL INSTRUMENTS (CONTINUED)

Write-offs during the reporting period amounted to €23,410. Reversals of write-offs during the period amounted to €160,300.

The following table shows the movement in lifetime ECLs that has been recognised for trade receivables and contract assets in accordance with the simplified approach set out in IFRS 9:

Trade receivables and Contract assets	The Group		
	Lifetime ECL Not-credit impaired		Lifetime ECL credit impaired
	Individual Impairments	Collective impairments	Individual Impairments
	€	€	€
Balance at 31 December 2017 under IAS 39	160,300	-	5,003
Adjustment upon initial application of IFRS 9 (note 3)	-	105,000	-
Opening balance at 1 January 2018 under IFRS 9	160,300	105,000	5,003
Movement during the year	(111,300)	(73,000)	60,547
Closing balance 31 December 2018	49,000	32,000	65,550

Trade receivables and Contract assets	The Company		
	Lifetime ECL Not-credit impaired		Lifetime ECL credit impaired
	Individual Impairments	Collective impairments	Individual Impairments
	€	€	€
Balance at 31 December 2017 under IAS 39	160,300	-	5,003
Adjustment upon initial application of IFRS 9 (note 3)	-	105,000	-
Opening balance at 1 January 2018 under IFRS 9	160,300	105,000	5,003
Movement during the year	(111,300)	(73,000)	33,216
Closing balance 31 December 2018	49,000	32,000	38,219

28.2 LIQUIDITY RISK

The following are the contractual maturities of financial liabilities, including estimated interested payments.

	Carrying amount	Contractual Cash flows				More than 5 years
		12 months or less	1 - 2 years	2 - 5 years	years	
	€	€	€	€	€	€
31 December 2018						
The Group						
Secured bank loans	834,017	(852,162)	(647,584)	(136,560)	(68,018)	-
Interest rate swap	27,677	(25,174)	(16,764)	(7,846)	(563)	-
Accrued expenses	1,208,419	(1,208,419)	(1,208,419)	-	-	-
Trade and other payables	1,452,006	(1,452,006)	(1,452,006)	-	-	-
Post employment benefits	2,529,916	(2,790,309)	(381,512)	-	-	(2,408,798)
	6,052,035	(6,328,070)	(3,706,285)	(144,406)	(68,581)	(2,408,798)
The Company						
Secured bank loans	834,017	(852,162)	(647,584)	(136,560)	(68,018)	-
Interest rate swap	27,677	(25,174)	(16,764)	(7,846)	(564)	-
Accrued expenses	569,699	(569,699)	(569,699)	-	-	-
Trade and other payables	1,451,888	(1,451,888)	(1,451,888)	-	-	-
Post employment benefits	1,923,907	(2,118,604)	(381,512)	-	-	(1,737,092)
	4,807,188	(5,017,527)	(3,067,447)	(144,406)	(68,582)	(1,737,092)

28 FINANCIAL INSTRUMENTS (CONTINUED)**28.2 LIQUIDITY RISK (CONTINUED)**

31 December 2017

	Carrying amount	Contractual Cash flows	12 months or less	1 - 2 years	2 - 5 years	More than 5 years
	€	€	€	€	€	€
The Group						
Secured bank loans	1,857,385	(1,914,487)	(1,060,956)	(649,206)	(204,325)	-
Interest rate swap	48,108	(50,880)	(25,707)	(16,764)	(8,409)	-
Accrued expenses	651,806	(651,806)	(651,806)	-	-	-
Trade and other payables	1,197,427	(1,197,427)	(1,197,427)	-	-	-
Post employment benefits	2,105,586	(2,351,955)	(111,422)	(270,090)	-	(1,970,443)
	5,860,312	(6,166,555)	(3,047,318)	(936,060)	(212,734)	(1,970,443)
The Company						
Secured bank loans	1,857,385	(1,914,487)	(1,060,956)	(649,206)	(204,325)	-
Interest rate swap	48,108	(50,880)	(25,707)	(16,764)	(8,409)	-
Accrued expenses	460,840	(460,840)	(460,840)	-	-	-
Trade and other payables	1,193,139	(1,193,139)	(1,193,139)	-	-	-
Post employment benefits	1,508,640	(1,680,548)	(111,422)	(270,090)	-	(1,299,036)
	5,068,112	(5,299,894)	(2,852,064)	(936,060)	(212,734)	(1,299,036)

28.3 CURRENCY RISK

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2018				
	PHP	USD	JOD	BRL	GBP
The Group					
Trade receivables	7,030,078	389,605	-	1,155	1,946
Accrued Income	-	212,340	-	-	966,431
Cash at bank	397,887	194,168	-	39,637	509,792
Trade payables	(898,862)	(233,397)	-	(12,577)	(24,043)
Deferred Income	-	(745,108)	-	-	(484,676)
Gross statement of financial position exposure	6,529,103	(182,392)	-	28,215	969,450
The Company					
Trade receivables	-	389,605	-	13,732	1,946
Accrued Income	-	212,236	-	-	966,431
Cash at bank	-	402,309	-	-	509,792
Trade payables	36,615	(229,243)	-	-	(24,043)
Deferred Income	-	(744,503)	-	-	(484,676)
Gross statement of financial position exposure	36,615	30,404	-	13,732	969,450

28 FINANCIAL INSTRUMENTS (CONTINUED)**28.3 CURRENCY RISK (CONTINUED)**

	PHP	USD	2017 JOD	BRL	GBP
The Group					
Trade receivables	11,675,722	796,858	-	55,766	1,729,104
Accrued Income	-	392,434	-	-	-
Cash at bank	5,055,962	241,575	-	11,459	2,629,241
Trade payables	(4,705,622)	(234,540)	(4,340)	(180,719)	750
Contract liabilities	-	(165,508)	-	-	(277,400)
Gross statement of financial position exposure	12,026,062	1,030,819	(4,340)	(113,494)	4,081,695
The Company					
Trade receivables	-	796,858	-	83,855	1,729,104
Accrued Income	-	392,434	-	-	-
Cash at bank	-	201,569	-	-	2,629,241
Trade payables	(3,359,806)	(218,915)	(4,340)	-	750
Contract liabilities	-	(165,508)	-	-	(277,400)
Gross statement of financial position exposure	(3,359,806)	1,006,438	(4,340)	83,855	4,081,695

The following significant exchange rates applied during the year:

		Average rate 2018	2017	Reporting date spot rate 2018	2017
USD	1	0.8468	0.8852	0.8734	0.8338
JOD	1	1.1943	1.2480	1.2262	1.1796
BRL	1	0.2321	0.2774	0.2250	0.2517
PHP	1	0.0161	0.0176	0.0166	0.0167
GBP	1	1.1303	1.1407	1.1179	1.1271

SENSITIVITY ANALYSIS

A 10 percent strengthening of the Euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

	The Group		The Company	
	Equity €	Profit or loss €	Equity €	Profit or loss €
31 December 2018				
USD	(23,575)	(23,575)	(2,655)	(2,655)
JOD	-	-	-	-
BRL	(636)	(636)	(310)	(310)
PHP	(10,861)	10,861	(61)	(61)
GBP	(108,375)	(108,375)	(108,375)	(108,375)
CAD	(17,759)	(17,759)	-	-
31 December 2017				
USD	(85,952)	(85,952)	(83,919)	(83,919)
JOD	512	512	512	512
BRL	2,826	2,826	794	794
PHP	(20,112)	(20,112)	5,619	5,619

A 10 percent weakening of the Euro against the above currencies as at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

28 FINANCIAL INSTRUMENTS (CONTINUED)**28.4 INTEREST RATE RISK****28.4.1 PROFILE**

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Fixed rate instruments				
Financial assets	775,722	765,281	775,722	765,281
Variable rate instruments				
Financial assets	3,395,335	7,780,050	2,792,451	7,074,612
Financial liabilities	(861,694)	(1,905,493)	(861,693)	(1,905,493)
	2,533,641	5,874,557	1,930,758	5,169,119

28.4.2 INTEREST RATE RISK

The Group is exposed to interest rate risk on its financial instruments arising from movements in the Bank's 3-month Euribor rate. Part of this interest rate risk exposure is hedged through the use of an interest rate swap.

28.4.3 CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

A change of 100 basis points in interest rates at the reporting date would increase/(decrease) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	The Group			
	Profit or loss		Equity	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
	€	€	€	€
31 December 2018				
Variable rate instruments	35,114	(28,786)	35,114	(28,786)
31 December 2017				
Variable rate instruments	75,259	(66,845)	75,259	(66,845)
	The Company			
	Profit or loss		Equity	
	100 bp	100 bp	100 bp	100 bp
	increase	decrease	increase	decrease
	€	€	€	€
31 December 2018				
Variable rate instruments	29,085	(22,757)	29,085	(22,757)
31 December 2017				
Variable rate instruments	68,205	(59,791)	68,205	(59,791)

28 FINANCIAL INSTRUMENTS (CONTINUED)**28.5 FAIR VALUES****28.5.1 FAIR VALUES VERSUS CARRYING AMOUNTS**

The reported carrying amounts at the respective reporting dates of the Group's and Company's current financial instruments are a reasonable approximation of their fair values in view of their short-term maturities. Derivative financial instruments are carried at fair value.

The Group's and Company's carrying amounts of other financial assets and liabilities, other than the Company's investment in subsidiaries, in the statement of financial position are a reasonable approximation of their respective fair values.

The basis for determining fair value is disclosed in note 6.

28.6 MEASUREMENT OF FAIR VALUES**28.6.1 FAIR VALUES HIERARCHY**

The fair value measurements for other investments have been categorised as Level 3 fair values based on the inputs to the valuation techniques used. Bank borrowings and derivatives have been categorised as Level 2 fair values.

The key assumptions used in the calculation of the equity value of the other investment are the forecasted net cash flows and the discount rate which are used in a risk adjusted cash flow forecast. The forecasted pre-tax net cash inflows range from €0.8m to €5.5m, with the discount rate used being 14.37%.

For the other investments in note 12, the Group and Company are providing sensitivity analysis in connection for the key assumption applied. This analysis is prepared at the end of the reporting period and shows how the investment would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in the value of this investment. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The fair value of such investment was calculated using the discounted cash flow method which served as the basis to determine the equity value of this investment at the end of the reporting period.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the equity value of this investment decreases by €14,978 (increases by €17,062). The higher the discount rate, the lower the fair value.

- If the revenue growth rate is 100 basis points higher (lower) with all other assumptions held constant, the equity value of this investment increases by €14,803 (decreases by €14,530). The higher the growth rate, the higher the fair value.

29 SHARE-BASED PAYMENT ARRANGEMENTS**29.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS**

At 31 December 2018, the Group had the following share-based payment arrangements:

RS2 employee share option scheme (equity-settled)

An RS2 Employee Trust was setup during the year ended 31 December 2010 to purchase and hold 750,000 ordinary shares in the Company in order to satisfy the future exercise of options by employees in accordance with the scheme.

The number of shares in respect of which share options were granted under the Scheme in a three-year period is limited to 2% of the issued share capital of the Company (850,000 shares), and options are exercisable at any time up to eight (8) years from the date on which the options are granted.

The scheme was implemented during 2011, being the first year of performance, and 2013, being the last year of performance.

Performance-related share based payment (equity settled)

During 2017, the Company recruited a new member of senior management personnel. His contract stipulates that, provided the employee has reached the Performance Targets linked to Net Profit for each of the three consecutive calendar years commencing from the date of commencement of Employment, the Company may in its absolute discretion, grant to the Employee a one-time assignment of shares. The Company is accruing for the eventuality of such settlement over the period that the Performance Targets need to be met so as to have as to have a full provision for this amount by the end of the three year period.

The share based payment recorded during the year by the Group and Company with respect to key management personnel amounted to €100,000 (2017: €65,385). No share based payments are recorded during the year with respect to share based payments to directors.

Performance-related share based payment (cash-settled)

In terms of an agreement entered into in February 2018, an executive of RS2 Software Inc was granted 12,500 new shares in the subsidiary (the 'Award shares'), with certain vesting conditions and restrictions. In terms of the agreement, upon transfer of the Award shares to the individual, the latter obtained all the rights of a shareholder, including the right to vote and to receive any dividends with respect to such shares, provided however that the individual may not sell, transfer, pledge or assign unvested Award shares.

The Award shares shall vest monthly in equal instalments over a service period of 36 months with an accelerated vesting upon a Change of Control Event during the vesting period and with the requirement to forfeit all Award Shares (whether vested or unvested) in the case of termination or resignation during a fixed specified period from the date of grant.

The arrangement also includes the right by the Company to repurchase and the right by the executive to sell the vested Award shares at fair market value in the case of termination or resignation happening after the expiration of a fixed specified period.

The expense recognised in profit or loss during 2018 (and the corresponding liability at year end) amounted to €581,970, which was computed on the basis of a graded vesting approach amounting to 49% of the Award shares by 31 December 2018. None of these shares had vested by the end of the current reporting period.

29 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

The key assumptions used in the calculation of the value of the cash-settled share based awards are the forecasted net cash flows and the discount rate which are used in a risk adjusted cash flow forecast. The forecasted pre-tax net cash flows range from net cash outflows of €1.8m to net cash inflows of €3.1m, with the discount rate used being 14.37%.

The Group is providing sensitivity analysis in connection for the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the liability would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in this shared-based payment obligation. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The present value of such liability was calculated using the projected unit credit method at the end of the reporting period.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the net present value of the share based payment obligation decreases by €55,872 (increases by €65,558).

- If the revenue growth rate is 100 basis points higher (lower) with all other assumptions held constant, the net present value of the share based payment obligation increases by €56,902 (decreases by €56,902).

29.2 OUTSTANDING SHARE OPTIONS

There were 157,248 (2017: 167,000) share options outstanding at 31 December 2018.

30 OPERATING LEASES

30.1 During 2018, the Company was a party to an agreement for leased premises at Imgarr Road, Xewkija, Gozo under a deed with the Government of Malta. The lease is for a twenty five-year term, lasting until April 2039 with the option to terminate the concession only in case of specific reasons which hinder the Company's operations. Upon expiration of the emphyteutical grant, the emphyteutical site and any improvements thereon shall devolve on the Government without any obligation on the latter to compensate the Company.

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Less than one year	28,409	25,826	28,409	25,826
Between one and five years	113,634	113,634	113,634	113,634
More than five years	531,043	559,452	531,043	559,452
	673,086	698,912	673,086	698,912

The following amounts were recognised as administrative expenses in the statements of comprehensive income in respect of this operating lease:

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Operating lease expense	25,826	25,826	25,826	25,826

30.2 During 2018, the Group was a party to an agreement with a computer hardware company to obtain a combination of managed hosting services and a private cloud infrastructure. The agreement was for a three year period commencing in September 2012. This was renewed in September 2015 and again in September 2018 and will expire in April 2019. The Group had the following non-cancellable payments which include both lease and non-lease elements.

	The Group	
	2018	2017
	€	€
Less than one year	163,879	378,495
	163,879	378,495

The following amounts were recognised as cost of sales in the statements of comprehensive income in respect of this operating lease:

	The Group	
	2018	2017
	€	€
Operating lease expense	510,060	549,554

30 OPERATING LEASES (CONTINUED)

30.3 During 2018, the Group was a party to an agreement for leased offices in Denver, USA. The lease is for a five-year term, commencing during 2016, lasting until March 2021 with an option to renew for a further five-year-term and to terminate subject to a notice in writing provided that the conditions of the contract agreement are satisfied. The Group had the following non-cancellable payments:

	The Group	
	2018	2017
	€	€
Less than one year	97,969	91,994
Between one and five years	124,578	212,471
	222,547	304,465

The following amounts were recognised as administrative expenses in the statements of comprehensive income in respect of this operating lease:

	The Group	
	2018	2017
	€	€
Operating leases	89,347	94,377

30.4 During 2017, the Group was a party to an agreement for leased offices in Manila, Philippines. The lease is for a three years term, lasting until end of June 2019 with an option to renew the lease term provided that both parties mutually agree on the new contract provisions. The lease may not be terminated prior to the lease termination date, however in so doing the lessee will be liable to penalties. The Group had the following non-cancellable payments:

	The Group	
	2018	2017
	€	€
Less than one year	41,735	81,916
Between one and five years	-	41,957
	41,735	123,873

The following amounts were recognised as administrative expenses in the statements of comprehensive income in respect of this operating lease:

	The Group	
	2018	2017
	€	€
Operating lease expense	70,962	77,485

30.5 During 2018, the Company was a party to an agreement for leased apartment in Mosta Malta. The lease is for a two-years term, lasting until end of June 2019 with an option to renew or extend the lease term provided that both parties mutually agree. The lease can be terminated provided that the lessee gives one months' notice. The Company had the following non-cancellable payments:

	The Group	
	2018	2017
	€	€
Less than one year	5,100	10,200
Between one and five years	-	5,100
	5,100	15,300

The following amounts were recognised as administrative expenses in the statements of comprehensive income in respect of this operating lease:

	The Group	
	2018	2017
	€	€
Operating lease expense	10,200	5,100

31 CAPITAL COMMITMENTS

Capital commitments in 2019 amount to €122,271 relating to hardware for an application development in the US for US customers. Capital commitments in 2018 amounting to €13,025 related to the renovation of the leased offices in Manila, Philippines.

32 CONTINGENCIES

A contingent liability may arise on certain claims against the Group on warranties arising in the ordinary course of the Group's business. Based on historical facts, the likelihood of any future warranty claims is deemed to be remote and thus not require to be disclosed.

33 RELATED PARTIES**33.1 PARENT AND ULTIMATE CONTROLLING PARTY**

The Company is owned up to 50.04% by ITM (Information Technology Management) Holding Limited, a local registered company, the registered office of which is 66, Old Bakery Street, Valletta, Malta. The ultimate parent company of the Group is Yellow Stone Investment Limited, a company registered in British Virgin Islands. In his capacity as ultimate shareholder of ITM (Information Technology Management) Holding Limited, Radi Abd El Haj indirectly holds 50.04% of the issued share capital of the Company.

33.2 IDENTITY OF RELATED PARTIES

The Company has a related party relationship with its parent company, its subsidiaries, the Company's key management personnel (including directors and the Company's senior management), and entities in which the directors or their immediate relatives have an ownership interest and management entities that provide key management personnel services to the group ("other related parties"). The compensation of such management entities amount to €49,211 and is included in the table below as part of the legal and administrative services.

The Company uses the legal services of GTG Advocates in relation to advice given to the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The Company also uses consultancy services by one of the Directors amounting to €50,593.

Directors of the Company hold directly and indirectly 51.70% (2015: 51.93%) of the voting shares of the Company.

33.3 RELATED PARTY TRANSACTIONS

	The Group		The Company	
	2018	2017	2018	2017
	€	€	€	€
Key management personnel				
Dividend paid to	26,331	26,331	26,331	26,331
Parent company				
Interest charged to	10,447	10,447	10,447	10,447
Dividend paid to	1,253,232	792,350	1,253,232	792,350
Subsidiaries				
Support services provided to			507,536	360,267
Support services provided by			(477,852)	238,677
Recharge of salaries to			719,134	484,869
Recharge of overhead to			209,195	203,378
Recharge of salaries by			142,788	112,500
Other related parties				
Dividend paid to	457,036	288,958	457,036	288,958
Legal and administrative services provided by	146,167	166,261	96,956	106,337
Support services provided by	1,228,263	1,443,729	1,228,263	1,443,729
Support services provided to	3,251,369	12,243,520	3,251,369	12,243,520
Support services not yet invoiced provided by	220,000	110,000	220,000	110,000
Support services not yet invoiced provided to	1,119,865	17,027	1,119,865	17,027

33.4 RELATED PARTY BALANCES

During the current and the prior year, the Group and the Company entered into transactions during the course of their normal business, with key management personnel. Transactions with key management personnel are set out in note 26 and 28 to these financial statements but are not included in note 33.3. Additional information on amounts due to/by related parties is set out in notes 13, 14 and 19 to these financial statements. The following amounts in notes 14, 19 and 20 were unsecured, repayable on demand and did not bear any interest.

34 SUBSEQUENT EVENTS

34.1 The Group continued to engage with the potential pipeline of US managed services clients and currently is in contract negotiation with 4 customers to be boarded this year and in very advanced stages of negotiations with another 5 potential customers.

34.2 Managed Services customers in the APAC region will be rolling out the service on the platform this year during the second and third quarter. Our team in APAC is also engaged in advanced negotiation with other customers in the region mainly for the managed services. The Group also signed an LOI with one of the largest Money transfer companies in the Philippines to partner on issuing of remittance pre-paid card for its customers in the region and globally.

34.3 In 2019, the Group will be using its new offices in Germany to solidify its standing in mainland Europe and serve as an attraction to potential new clients in the region.

Through these offices, the Group is preparing its application to apply for a financial institution license in order to carry out its acquiring services in Europe working very closely in partnership with its clients utilizing their relationship with the scheme to provide whitelabel acquiring services, where the Group will be provided direct services to Merchants acquiring and servicing its acquiring business and provide pre-paid services to consumer. To start conducting these Services the Group has signed a sponsorship agreement with a European Acquirer to start rolling out the services, which is planned for the first quarter of 2020.

34.4 The Group is also preparing to launch the services with its Alliance partner for the travel industry during quarter three of this year, starting in Europe and following up in LATAM.