

RS2 Software p.l.c.
COMPANY ANNOUNCEMENT

The following is a company announcement issued by RS2 Software p.l.c. pursuant to the Malta Financial Services Listing Authority Rules – Chapter 5.

Quote

At the meeting held on 28 August 2014, the Board of Directors of RS2 Software p.l.c. approved the interim financial statements for the period ended 30 June 2014. A copy of the interim financial statements is attached to this announcement.

The interim financial statements are available for viewing and download at the company's website www.rs2.com, and can also be viewed at the company's registered office.

Unquote



Dr Ivan Gatt
Company Secretary
28 August 2014



Interim Financial Statements

**For the six months ended
30 June 2014**

Company Registration Number: C 25829

RS2 Software p.l.c.

Condensed Interim Financial Statements

For the six months ended 30 June 2014

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RS2 Software p.l.c.

Director's Report

For the six months ended 30 June 2014

This report is published in terms of Chapter 5 of the Listing Rules as prescribed by the Listing Authority in accordance with the provisions of the Financial Markets Act, 1990.

The condensed financial statements have been extracted from the Group's unaudited consolidated accounts for the six months ended 30 June 2014 and its comparative period in 2013. The comparative balance sheet has been extracted from the audited financial statements as at 31 December 2013. The condensed interim financial statements have been prepared in accordance with accounting standards adopted for use in the EU for interim financial statements (EU adopted IAS 34 Interim Financial Reporting). In terms of Listing Rule 5.75.5, the directors state that the half-yearly financial report has not been audited or reviewed by the Group's independent auditors.

Principal activities

The Group is principally engaged in the development, installation, implementation and marketing of specialised computer software for financial institutions, under the trade mark of BANKWORKS, and processing of payment transactions with the use of BANKWORKS.

Review of performance and business developments

The core business of the Group continued to be strong and as already announced in June 2014 the Group has entered into further licence agreements one of which with a global payment processing company for a total contract value of €16.5 million whereby €12 million in licence and €4.5 in service fees.

Despite this fact, the Q2 revenues were affected by different revenue recognition criteria compared with previous contracts signed for sale of licences and the Group's first half results show a contraction in revenues of 20.2% compared with the same period last year. The Group member RS2 Smart Processing Ltd has shown an increase in revenues of 83.5% when compared to June 2013.

Gross profit for the period stood at 49.9% of revenue. Cost of sales and administration expenses for the period increased by 12.2% and 22.6% respectively. The major increase is attributed to the strengthening in the Group's employee base to meet the demand of current and future business.

The profit before tax (PBT) for the Group amounted to €2.9 million. In the previous years the Group has utilised the majority of its accumulated investment tax credits. Even though the Group continued to benefit from the utilisation of the remaining accumulated investment tax credit, the Group's the income tax expense for the period amounted to €0.7 million.

During the first six months of the year the Group is reporting a net profit after tax of €2.2 million, and earnings before interest, tax, depreciation and amortisation (EBITDA) margin stood at 48.3%.

The Group's cash generation remains very strong, generating €1.9 million from its operations and as at June 2014 the cash reserves stood at €4.4 million. The gross gearing of the Group is 16.7% a reduction of 2.7% on December 2013. The Group has also managed to secure further banking facilities to continue to invest in the expansion of the Group and up to the period under review there was no utilisation of these facilities.

The Board remains highly committed in delivering the best results to its shareholders and maintains a positive outlook for the year.

RS2 Software p.l.c.

Director's Report

For the six months ended 30 June 2014

Related party transactions

Similar to what was reported in the financial statements for the year ended 31 December 2013, the Group had related party transactions with its parent company and other entities in which the directors of the Company, or their immediate relatives, have an ownership interest.

Transactions with each category of related parties and the balances outstanding at the end of the reporting periods are set out in note 7 of the Notes to these Condensed Interim Financial Statements.

Dividends

Due to further substantial investment in infrastructure and business development, the Board is not declaring an interim dividend.

Approved by the Board of Directors on 28 August 2014 and signed on its behalf by:



Mario Schembri
Chairman



Radi El Haj
Director

RS2 Software p.l.c.

Statements of Financial Position

As at 30 June 2014

	The Group		The Company	
	30.06.14 Unaudited	31.12.13 Audited	30.06.14 Unaudited	31.12.13 Audited
	€	€	€	€
Assets				
Property, plant and equipment	7,733,183	7,735,414	7,409,083	7,357,640
Intangible assets	7,336,385	7,657,368	5,967,773	6,301,955
Accrued Income	2,968,688	2,968,688	5,168,688	5,168,688
Investment in subsidiaries	-	-	758,942	758,942
Other investment	218,978	218,978	218,978	218,978
Loans receivable from other related parties	172,789	422,129	1,572,946	1,565,268
Trade and other receivables	647,220	647,220	647,220	647,220
Total non-current assets	19,077,243	19,649,797	21,743,630	22,018,691
Trade and other receivables	3,846,632	2,806,491	3,575,386	2,617,669
Loans and receivables from related parties	821,702	941,701	2,284,718	2,458,276
Prepayments	271,022	283,533	169,398	238,576
Accrued income	3,519,700	2,985,070	3,459,702	2,944,097
Cash at bank and in hand	4,359,079	3,643,250	4,025,512	3,264,175
Total current assets	12,818,135	10,660,045	13,514,716	11,522,793
Total assets	31,895,378	30,309,842	35,258,346	33,541,484

RS2 Software p.l.c.

Statements of Financial Position

As at 30 June 2014

	The Group		The Company	
	30.06.14 Unaudited	31.12.13 Audited	30.06.14 Unaudited	31.12.13 Audited
	€	€	€	€
Equity				
Share capital	8,999,991	8,499,991	8,999,991	8,499,991
Reserves	1,523,575	2,227,075	1,518,386	2,227,438
Retained earnings	12,214,158	10,757,376	15,297,228	13,743,043
Total equity attributable to equity holders of the Company	22,737,724	21,484,442	25,815,605	24,470,472
Non-controlling interest	(137,962)	(112,281)	-	-
Total equity	22,599,762	21,372,161	25,815,605	24,470,472
Liabilities				
Bank borrowings	2,751,562	3,154,238	2,751,562	3,154,238
Deferred tax liability	1,158,748	1,089,455	1,516,630	1,358,499
Derivatives	166,170	149,263	166,170	149,263
Total non-current liabilities	4,076,480	4,392,956	4,434,362	4,662,000
Bank borrowings	1,036,673	1,022,180	1,036,673	1,022,180
Trade and other payables	1,506,262	945,664	1,351,301	821,180
Accruals	520,403	762,572	466,649	757,239
Deferred income	2,155,798	1,814,309	2,153,756	1,808,413
Total current liabilities	5,219,136	4,544,725	5,008,379	4,409,012
Total liabilities	9,295,616	8,937,681	9,442,741	9,071,012
Total equity and liabilities	31,895,378	30,309,842	35,258,346	33,541,484

RS2 Software p.l.c.

Statements of Changes in Equity

As at 30 June 2014

THE GROUP

Attributable to equity holders of the Company

	Share capital €	Share premium €	Translation reserve €	Fair value reserve €	Statutory reserve €	Share Option reserve €	Retained earnings €	Total €	Non-controlling interest €	Total equity €
Balance at 1 January 2013	7,999,991	2,292,743	25,464	21,187	8,424	60,586	8,787,043	19,195,438	(43,250)	19,152,188
Comprehensive income for the year										
Profit or loss	-	-	-	-	-	-	3,726,881	3,726,881	(67,314)	3,659,567
Other comprehensive income										
Total other comprehensive income for the year	-	-	5,468	(21,187)	-	-	-	(15,719)	(653)	(16,372)
Total comprehensive income for the year	-	-	5,468	(21,187)	-	-	3,726,881	3,711,162	(67,967)	3,643,195
Transactions with owners recorded directly in equity										
Bonus issue	500,000	(500,000)	-	-	-	-	-	-	-	-
Unrealised gains	-	-	-	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	(1,000,000)	(1,000,000)	-	(1,000,000)
Transfer from retained earnings	-	-	-	-	(16,520)	-	16,520	-	-	-
Balance at 30 Jun 2013	8,499,991	1,792,743	30,932	-	(8,096)	60,586	11,530,444	21,906,600	(111,217)	21,795,383
Balance at 1 January 2014	8,499,991	1,792,743	(363)	-	-	434,695	10,757,376	21,484,442	(112,281)	21,372,161
Comprehensive income for the year										
Profit or loss	-	-	-	-	-	-	2,247,329	2,247,329	(24,506)	2,222,823
Other comprehensive income										
Foreign currency translation differences	-	-	5,552	-	-	-	-	5,552	(1,175)	4,377
Total other comprehensive income for the year	-	-	5,552	-	-	-	-	5,552	(1,175)	4,377
Total comprehensive income for the year	-	-	5,552	-	-	-	2,247,329	2,252,881	(25,681)	2,227,200
Transactions with owners recorded directly in equity										
Bonus Issue	500,000	(500,000)	-	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	-	(999,599)	(999,599)	-	(999,599)
	500,000	(500,000)	-	-	-	-	(999,599)	(999,599)	-	(999,599)
Transfer from retained earnings:										
Unrealised gains	-	-	-	-	-	(209,052)	209,052	-	-	-
Transfer of translation reserve	-	-	-	-	-	-	-	-	-	-
Balance at 30 Jun 2014	8,999,991	1,292,743	5,189	-	-	225,643	12,214,158	22,737,724	(137,962)	22,599,762

RS2 Software p.l.c.

Statements of Changes in Equity

As at 30 June 2014

THE COMPANY

	Share capital €	Share premium €	Fair value reserve €	Statutory reserve €	Share Option reserve €	Retained earnings €	Total €
Balance at 1 January 2013	7,999,991	2,292,743	21,187	8,424	60,586	11,303,693	21,686,624
Comprehensive income for the year							
Profit or loss	-	-	-	-	-	3,936,847	3,936,847
Other comprehensive income							
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	(21,187)	-	-	-	(21,187)
Total other comprehensive income for the year	-	-	(21,187)	-	-	-	(21,187)
Total comprehensive income for the year	-	-	(21,187)	-	-	3,936,847	3,915,660
Transactions with owners recorded directly in equity							
Bonus issue	500,000	(500,000)	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(1,000,000)	(1,000,000)
Transfer to retained earnings:							
Unrealised gains	-	-	-	(16,520)	-	16,520	-
Balance at 30 Jun 2013	8,499,991	1,792,743	-	(8,096)	60,586	14,257,060	24,602,284
Balance at 1 January 2014	8,499,991	1,792,743	-	-	434,695	13,743,043	24,470,472
Comprehensive income for the period							
Profit or loss	-	-	-	-	-	2,344,732	2,344,732
Total comprehensive income for the period	-	-	-	-	-	2,344,732	2,344,732
Transactions with owners recorded directly in equity							
Bonus Issue	500,000	(500,000)	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(999,599)	(999,599)
Realised fair value gain upon disposal of AFS financial asset	-	-	-	-	(209,052)	209,052	-
Balance at 30 Jun 2014	8,999,991	1,292,743	-	-	225,643	15,297,228	25,815,605

RS2 Software p.l.c.

Statements of Comprehensive Income

As at 30 June 2014

	The Group		The Company	
	30.06.2014 Unaudited	30.06.2013 Unaudited	30.06.2014 Unaudited	30.06.2013 Unaudited
	€	€	€	€
Continuing Operations				
Revenue	7,775,372	9,739,609	7,196,796	9,468,911
Cost of sales	(3,896,522)	(3,472,227)	(3,356,888)	(3,017,783)
Gross profit	3,878,850	6,267,382	3,839,908	6,451,128
Other income	175,746	19,719	197,067	19,823
Marketing and promotional expenses	(224,192)	(301,127)	(195,500)	(222,384)
Administrative expenses	(955,464)	(779,416)	(781,732)	(681,737)
Capitalised development costs	172,758	140,470	172,757	140,470
Other expenses	(10,309)	-	(10,309)	-
Results from operating activities	3,037,389	5,347,028	3,222,191	5,707,300
Finance income	33,460	113,618	58,084	124,384
Finance costs	(108,525)	(115,464)	(107,280)	(110,554)
Net finance income	(75,065)	(1,846)	(49,196)	13,830
Profit before income tax	2,962,324	5,345,182	3,172,995	5,721,130
Income tax expense	(739,501)	(1,685,615)	(828,263)	(1,784,283)
Profit for the period	2,222,823	3,659,567	2,344,732	3,936,847
Other comprehensive income				
Foreign currency translation differences on foreign operations	4,377	4,815	-	-
Net change in fair value of available-for-sale financial assets	-	(21,187)	-	(21,187)
Total comprehensive income	2,227,200	3,643,195	2,344,732	3,915,660
Profit attributable to:				
Owners of the Company	2,247,329	3,726,881	2,344,732	3,936,847
Non-controlling interest	(24,506)	(67,314)	-	-
Profit for the period	2,222,823	3,659,567	2,344,732	3,936,847
Total comprehensive income attributable to:				
Owners of the Company	2,252,881	3,711,162	2,344,732	3,915,660
Non-controlling interest	(25,681)	(67,967)	-	-
Total comprehensive income for the period	2,227,200	3,643,195	2,344,732	3,915,660
Earnings per share	€ 0.050	€ 0.083	€ 0.052	€ 0.087

RS2 Software p.l.c.

Statements of Cash flows

As at 30 June 2014

	The Group		The Company	
	30.06.14	30.06.13	30.06.14	30.06.13
	Unaudited	Unaudited	Unaudited	Unaudited
	€	€	€	€
Cash flows from operating activities				
Profit for the period	2,222,823	3,659,567	2,344,732	3,936,847
Adjustments for:				
Depreciation	214,118	224,095	148,631	142,752
Amortisation of intangible assets	580,274	493,893	506,940	493,893
Capitalised development costs	(172,757)	(140,470)	(172,757)	(140,470)
Interest payable	91,331	126,160	90,085	110,488
Interest receivable	(10,644)	(35,312)	(35,267)	(35,312)
Income tax	739,501	1,685,615	828,263	1,784,283
Provision for exchange fluctuations	(190,414)	(3,078)	(190,414)	(3,078)
Gain on disposal of assets	-	(39,968)	-	(39,968)
Changes in fair value of cash flow hedges	16,907	(48,006)	16,907	(48,006)
	3,491,139	5,922,496	3,537,120	6,201,429
Change in trade and other receivables	(1,382,351)	(5,891,092)	(1,158,687)	(5,566,985)
Change in trade and other payables	(101,563)	491,373	(97,714)	407,706
Cash generated from operating activities	2,007,225	522,777	2,280,719	1,042,150
Interest paid	(91,326)	(110,488)	(91,326)	(110,488)
Interest received	11,575	28,070	21,385	28,070
Income taxes paid	(51)	697	(51)	697
Net cash from operating activities	1,927,423	441,056	2,210,727	960,429
Cash flows from investing activities				
Acquisition of property, plant and equipment	(192,845)	(281,001)	(181,034)	(225,100)
Disposal of available-for-sale financial assets	-	573,953	-	573,953
Advances to parent company	-	(6,544)	-	(6,544)
Advances to subsidiaries	-	-	(389,844)	(581,396)
Repayment of advances to parent company	95,679	571,608	95,679	571,608
Repayment of advances to subsidiaries	-	-	140,190	-
Repayment of Advances to Other Companies	248,090	-	248,090	-
Net cash used in investing activities	150,924	858,016	(86,919)	332,521
Cash flows from financing activities				
Dividends paid	(997,103)	(997,440)	(997,104)	(997,440)
Advances by related parties	(39)	-	-	-
Proceeds from bank borrowings	35,505	-	35,505	-
Repayments of bank borrowings	(423,689)	(488,860)	(423,689)	(488,860)
Net cash used in financing activities	(1,385,326)	(1,486,300)	(1,385,288)	(1,486,300)
Net decrease in cash and cash equivalents	693,021	(187,228)	738,520	(193,350)
Cash and cash equivalents at 1 January	3,643,227	915,911	3,264,175	892,218
Effect of exchange rate fluctuations on cash held	22,831	2,008	22,817	1,097
Cash and cash equivalents at 30 June	4,359,079	730,691	4,025,512	699,965

RS2 Software p.l.c.

Notes to the Condensed Interim Financial Statements

For the six months ended 30 June 2014

1 Reporting entity

RS2 Software p.l.c. (the "Company") is a public limited liability company domiciled and incorporated in Malta.

The condensed interim financial statements of the Company as at and for the six months ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

2 Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU for interim financial statements (EU adopted IAS 34 *Interim Financial Reporting*).

The interim financial statements do not include all information required for full annual financial statements, and should be read in conjunction with the financial statements of the Group for the year ended 31 December 2013.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed interim financial statements are the same as those applied by the Group in its financial statements as at and for the year ended 31 December 2013.

4 Segment reporting

4.1 Information about the Group's reportable segments

	Licensing		Processing		Total	
	30.06.14	30.06.13	30.06.14	30.06.13	30.06.14	30.06.13
	€	€	€	€	€	€
External revenues	7,074,498	9,357,698	700,874	381,911	7,775,372	9,739,609
Inter-segment revenues	122,298	110,200	-	-	122,298	110,200
Segment Revenues	7,196,796	9,467,898	700,874	381,911	7,897,670	9,849,809
Reportable segment profit/ (loss) before income tax	3,172,991	5,681,131	(284,001)	(405,949)	2,888,990	5,275,182

4.2 Reconciliation of the Group's reportable segment profit or loss

	30.06.14	30.06.13
	€	€
Total Revenue for reportable segments	7,897,670	9,849,809
Elimination of intersegment transactions	(122,298)	(110,200)
Revenues	7,775,372	9,739,609

RS2 Software p.l.c.

Notes to the Condensed Interim Financial Statements

For the six months ended 30 June 2014

4 Segment reporting (continued)

4.2 Reconciliation of the Group's reportable segment profit or loss (continued)

	30.06.14	30.06.13
	€	€
Total profit for reportable segments	2,888,990	5,275,182
Elimination of intersegment transactions	73,334	70,000
Profit before income tax	<u>2,962,324</u>	<u>5,345,182</u>

5 Property, plant and equipment

During the six months ended 30 June 2014, the Group acquired assets with a cost of €211,891 (six months ended 30 June 2013: €316,301), and there were no disposal of assets (six months ended 30 June 2013: €0).

6 Intangible assets

During the six months ended 30 June 2014, the Group capitalised expenditure on the development of computer software amounting to €172,758 (six months ended 30 June 2013: €140,470).

7 Related parties

7.1 Related party transactions

Similar to what was reported in the financial statements for the six months ended 30 June 2013, the Group had the following the transactions with related parties:

	<u>The Group</u>		<u>The Company</u>	
	30.06.14	30.06.13	30.06.14	30.06.13
	Unaudited	Unaudited	Unaudited	Unaudited
	€	€	€	€
Parent company				
Advances to	-	6,544	-	6,544
Repayments of advances to	95,678	285,868	95,678	285,868
Payments for assignment of receivables	-	195,741	-	195,741
Interest charged to	2,198	3,855	2,198	3,855
Payment of interest charged to	4,322	17,391	4,322	17,391
Dividend payable to	500,231	589,000	500,231	589,000
Dividend paid	500,231	589,000	500,231	589,000
Subsidiaries				
Advances to	-	29,878	-	29,878
Repayments of advances to	140,190	-	140,190	-
Services provided to	127,400	71,213	127,400	71,213
Payments for services provided to	183,950	1,013	183,950	1,013
Services not yet invoiced provided to	5,103	40,000	5,103	40,000
Interest charged to	25,131	14,784	25,131	14,784
Payments on behalf of	389,844	551,518	389,844	551,518
Interest paid	9,810	-	9,810	-

RS2 Software p.l.c.

Notes to the Condensed Interim Financial Statements

For the six months ended 30 June 2014

7 Related parties (continued)

7.1 Related party transactions (continued)

	<u>The Group</u>		<u>The Company</u>	
	30.06.14	30.06.13	30.06.14	30.06.13
	Unaudited	Unaudited	Unaudited	Unaudited
	€	€	€	€
Other related entities				
Services provided by	611,817	724,679	611,817	724,679
Payments for services provided by	596,700	717,712	596,700	717,712
Repayment of Advances	248,090	-	248,090	-
Interest charged to	5,659	9,683	5,659	9,683
Interest charged by	1,246	888	1,246	888
Repayment of Interest	6,910	-	6,910	-

All transactions entered into with related parties have been accounted for at fair and reasonable prices.

7.2 Related party balances

	<u>The Group</u>		<u>The Company</u>	
	30.06.14	31.12.13	30.06.14	31.12.13
	Unaudited	Audited	Unaudited	Audited
	€	€	€	€
Amounts receivable				
Amounts owed by parent company	385,842	483,645	385,842	483,645
Amounts owed by subsidiary companies	-	-	2,863,174	2,659,714
Amounts owed by key management personnel	350,000	350,000	350,000	350,000
Amounts owed by other related entities	258,648	530,185	258,648	530,185
Amounts payable				
Trade payables due to other related entities	124,960	120,128	4,402	11,487

RS2 Software p.l.c.

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

As at 30 June 2014

We confirm that to the best of our knowledge:

- the condensed interim financial statements which have been prepared in compliance with International Financial Reporting Standards as adopted by the EU for interim financial statements (EU adopted IAS 34, *Interim Financial Statements*), give a true and fair view of the financial position of the Group as at 30 June 2014, as well as the financial performance and cash flows for the period ended 30 June 2014; and
- the interim Directors' report includes a fair review of the information required in terms of Listing Rules 5.81 to 5.84.



Mario Schembri
Chairman



Radi El Haj
Director