

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 Thursday, 28 April 2016, the Board of Directors of RS2 Software p.l.c. approved the financial statements for the financial year ended 31 December 2015. 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 Thursday, 23 June 2016.

Shareholders appearing on the shareholders' register as at the close of business on Monday, 23 May 2016 will receive notice of the Annual General Meeting, together with the Annual Report and Financial Statements for the financial year ended 31 December 2015. The preliminary statement of results that is attached herewith was extracted from the financial statements that were audited by KPMG.

The Board of Directors resolved to recommend for approval at the Annual General Meeting, the payment of a net final dividend of €0.02c78 per share amounting to €2,500,000. This dividend, if approved at the Annual General Meeting, will be paid on Thursday, 30 June 2016 to shareholders who appear on the shareholders' register as at the close of business on Monday, 23 May 2016.

In addition to the cash dividend, the Board of Directors further resolved to recommend for approval at the Annual General Meeting, a bonus share issue of one (1) share for every eighteen (18) shares held by shareholders on the Company's share register as at close of business on Monday, 23 May 2016. The bonus issue amounting to 5,000,000 shares will be funded by capitalising €500,000 from the Share Premium Reserve of the Company. Application will be made for the necessary authorisation concerning the listing of the shares on the Malta Stock Exchange.

The Board believes that considering the current trading price of the Company's shares, and subject to obtaining all consents and authorisations, it is appropriate to recommend a 5 for 3 share split to be allotted proportionally to those members appearing on the register of members of the Company as at Monday, 4 July 2016 ("Eligible Members"). The proposed share split is expected to improve the marketability and liquidity of the shares of the Company as a result of the increase in the number of shares in issue. Furthermore, the adjustment in the market price of the shares is expected to make such shares more affordable and thus they will appeal to a wider group of investors.

Pursuant to the Malta Stock Exchange Bye-Laws, the shareholders' register as at close of business on Monday, 23 May 2016 will include trades undertaken up to and including Thursday, 19 May 2016.

Unquote



Dr. Ivan Gatt
Company Secretary

28 April 2016

RS2 Software p.l.c.

Statements of Financial Position

As at 31 December 2015

	The Group		The Company	
	2015	2014	2015	2014
	€	€	€	€
Assets				
Property, plant and equipment	9,059,244	8,081,423	8,834,473	7,816,089
Intangible assets	6,901,911	6,961,734	5,461,335	5,669,953
Investments in subsidiaries	-	-	2,730,104	1,148,774
Other investment	131,785	131,785	131,785	131,785
Loans and receivables from related parties	-	32,087	2,185,830	3,204,963
Accrued income	354,000	1,440,750	2,061,205	3,527,483
Trade and other receivables	-	764,731	-	764,731
Total non-current assets	16,446,940	17,412,510	21,404,732	22,263,778
Trade and other receivables	3,008,042	4,167,186	2,807,063	4,100,640
Loans and receivables from related parties	810,422	868,045	810,422	868,045
Prepayments	511,788	347,781	436,805	297,453
Accrued income	7,219,601	4,844,414	7,634,132	5,193,985
Cash at bank and in hand	7,193,681	4,520,446	6,634,403	3,731,903
Total current assets	18,743,534	14,747,872	18,322,825	14,192,026
Total assets	35,190,474	32,160,382	39,727,557	36,455,804

RS2 Software p.l.c.

Statements of Financial Position

As at 31 December 2015

	The Group		The Company	
	2015	2014	2015	2014
	€	€	€	€
Equity				
Share capital	8,999,991	8,999,991	8,999,991	8,999,991
Reserves	1,529,262	1,572,030	1,413,739	1,512,786
Retained earnings	15,323,249	12,357,823	19,426,460	16,287,701
Total equity attributable to equity holders of the Company	25,852,502	22,929,844	29,840,190	26,800,478
Non-controlling interest	(8,674)	10,940	-	-
Total equity	25,843,828	22,940,784	29,840,190	26,800,478
Liabilities				
Bank borrowings	2,465,781	2,710,067	2,465,781	2,710,067
Deferred tax liability	1,302,005	1,134,666	1,956,799	1,694,234
Derivatives	119,187	159,749	119,187	159,749
Total non-current liabilities	3,886,973	4,004,482	4,541,767	4,564,050
Bank borrowings	978,850	725,846	978,850	725,846
Trade and other payables	1,122,918	1,160,738	1,081,768	1,073,272
Current tax payable	1,436,346	1,355,350	1,436,346	1,355,350
Accruals	587,456	547,332	546,052	536,010
Deferred income	1,334,103	1,425,850	1,302,584	1,400,798
Total current liabilities	5,459,673	5,215,116	5,345,600	5,091,276
Total liabilities	9,346,646	9,219,598	9,887,367	9,655,326
Total equity and liabilities	35,190,474	32,160,382	39,727,557	36,455,804

THE GROUP

Attributable to equity holders of the Company

	Share capital €	Share premium €	Translation reserve €	Share option reserve €	Retained earnings €	Total €	Non-controlling interest €	Total equity €
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 for the year	-	-	-	-	2,875,403	2,875,403	(98,163)	2,777,240
Other comprehensive income								
Foreign currency translation differences	-	-	59,607	-	-	59,607	(15,757)	43,850
Total other comprehensive income for the year	-	-	59,607	-	-	59,607	(15,757)	43,850
Total comprehensive income for the year	-	-	59,607	-	2,875,403	2,935,010	(113,920)	2,821,090
Transfer of non-controlling interest at date of investment in subsidiary	-	-	-	-	(490,009)	(490,009)	237,141	(252,868)
Transactions with owners of the Company								
Bonus issue	500,000	(500,000)	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	(999,599)	(999,599)	-	(999,599)
Share options exercised	-	-	-	(214,652)	214,652	-	-	-
Balance at 31 December 2014	8,999,991	1,292,743	59,244	220,043	12,357,823	22,929,844	10,940	22,940,784
Balance at 1 January 2015	8,999,991	1,292,743	59,244	220,043	12,357,823	22,929,844	10,940	22,940,784
Comprehensive income for the year								
Profit for the year	-	-	-	-	4,866,357	4,866,357	(9,386)	4,856,971
Other comprehensive income								
Foreign currency translation differences	-	-	56,279	-	-	56,279	(10,228)	46,051
Total other comprehensive income for the year	-	-	56,279	-	-	56,279	(10,228)	46,051
Total comprehensive income for the year	-	-	56,279	-	4,866,357	4,922,636	(19,614)	4,903,022
Transactions with owners of the Company								
Dividend to equity holders	-	-	-	-	(1,999,978)	(1,999,978)	-	(1,999,978)
Share options exercised	-	-	-	(99,047)	99,047	-	-	-
Balance at 31 December 2015	8,999,991	1,292,743	115,523	120,996	15,323,249	25,852,502	(8,674)	25,843,828

RS2 Software p.l.c.

Statements of Changes in Equity

For the year ended 31 December 2015

THE COMPANY

	Share capital €	Share premium €	Share option reserve €	Retained earnings €	Total €
Balance at 1 January 2014	8,499,991	1,792,743	434,695	13,743,043	24,470,472
Comprehensive income for the year					
Profit for the year	-	-	-	3,329,605	3,329,605
Total comprehensive income for the year	-	-	-	3,329,605	3,329,605
Transactions with owners of the Company					
Bonus issue	500,000	(500,000)	-	-	-
Dividend to equity holders	-	-	-	(999,599)	(999,599)
Share options exercised	-	-	(214,652)	214,652	-
Balance at 31 December 2014	8,999,991	1,292,743	220,043	16,287,701	26,800,478
Balance at 1 January 2015	8,999,991	1,292,743	220,043	16,287,701	26,800,478
Comprehensive income for the year					
Profit for the year	-	-	-	4,957,940	4,957,940
Total comprehensive income for the year	-	-	-	4,957,940	4,957,940
Transactions recorded directly in equity					
Equity portion of financial asset	-	-	-	113,267	113,267
Discount unwind	-	-	-	(31,517)	(31,517)
	-	-	-	81,750	81,750
Transactions with owners of the Company					
Dividend to equity holders	-	-	-	(1,999,978)	(1,999,978)
Share options exercised	-	-	(99,047)	99,047	-
Balance at 31 December 2015	8,999,991	1,292,743	120,996	19,426,460	29,840,190

RS2 Software p.l.c.

Statements of Comprehensive Income

For the year ended 31 December 2015

	The Group		The Company	
	2015	2014	2015	2014
	€	€	€	€
Continuing Operations				
Revenue	19,437,614	15,240,925	18,005,849	14,461,120
Cost of sales	(10,049,062)	(8,394,080)	(8,770,299)	(7,326,744)
Gross profit	9,388,552	6,846,845	9,235,550	7,134,376
Other income	622,804	730,093	622,865	730,093
Marketing and promotional expenses	(552,551)	(328,617)	(549,495)	(285,294)
Administrative expenses	(2,532,283)	(2,038,147)	(2,277,253)	(1,723,476)
Capitalised development costs	860,844	388,829	860,844	388,829
Other expenses	(1,196,243)	(986,388)	(1,196,243)	(731,546)
Results from operating activities	6,591,123	4,612,615	6,696,268	5,512,982
Finance income	84,350	90,569	174,573	146,210
Finance costs	(211,395)	(512,747)	(210,680)	(626,012)
Net finance costs	(127,045)	(422,178)	(36,107)	(479,802)
Profit before income tax	6,464,078	4,190,437	6,660,161	5,033,180
Income tax expense	(1,607,107)	(1,413,197)	(1,702,221)	(1,703,575)
Profit for the year	4,856,971	2,777,240	4,957,940	3,329,605
Other comprehensive income				
<i>Items that are or may be reclassified to profit or loss</i>				
Foreign currency translation differences on foreign operations	46,051	43,850	-	-
Total comprehensive income	4,903,022	2,821,090	4,957,940	3,329,605
Profit attributable to:				
Owners of the Company	4,866,357	2,875,403	4,957,940	3,329,605
Non-controlling interest	(9,386)	(98,163)	-	-
Profit for the year	4,856,971	2,777,240	4,957,940	3,329,605
Total comprehensive income attributable to:				
Owners of the Company	4,922,636	2,935,010	4,957,940	3,329,605
Non-controlling interest	(19,614)	(113,920)	-	-
Total comprehensive income for the year	4,903,022	2,821,090	4,957,940	3,329,605
Earnings per share	€ 0.054	€ 0.032	€ 0.055	€ 0.037

RS2 Software p.l.c.

Statements of Cash Flows

For the year ended 31 December 2015

	The Group		The Company	
	2015	2014	2015	2014
	€	€	€	€
Cash flows from operating activities				
Profit for the year	4,856,971	2,777,240	4,957,940	3,329,605
Adjustments for:				
Depreciation	617,127	496,055	452,979	362,817
Amortisation of intangible assets	1,069,462	1,020,831	1,069,462	1,020,831
Capitalised development costs	(860,844)	(388,829)	(860,844)	(388,829)
Provision for impairment loss on receivables	(1,169,280)	643,102	(1,169,280)	643,102
Bad debts written off	2,365,523	-	2,365,523	-
Impairment of obsolete assets	-	226,495	-	-
Interest payable	151,997	169,932	151,997	169,306
Interest receivable	(13,551)	(14,878)	(72,257)	(71,490)
Discounting on trade receivables and accrued income	-	331,941	-	445,208
Unwinding of discount on accrued income	(30,237)	-	(61,754)	-
Impairment loss on other investment	-	87,193	-	87,193
Income tax	1,607,107	1,413,197	1,702,221	1,703,575
Provision for exchange fluctuations	(196,789)	(698,405)	(196,789)	(698,405)
Change in fair value of cash flow hedge	(40,562)	10,486	(40,562)	10,486
	8,356,924	6,074,360	8,298,636	6,613,399
Changes in trade and other receivables	(435,723)	(2,417,051)	(95,514)	(2,590,504)
Changes in trade and other payables	(183,417)	(281,378)	(173,050)	(590,647)
Changes in parent company's balance	-	95,679	-	95,679
Cash generated from operating activities	7,737,784	3,471,610	8,030,072	3,527,927
Interest paid	(149,749)	(171,832)	(149,749)	(171,832)
Interest received	5,451	16,544	53,676	26,500
Income taxes paid	(1,358,772)	(12,481)	(1,358,661)	(12,481)
Net cash from operating activities	6,234,714	3,303,841	6,575,338	3,370,114
Cash flows from investing activities				
Acquisition of property, plant and equipment	(1,510,230)	(620,660)	(1,386,365)	(599,898)
Investment in subsidiary	-	(389,832)	(1,499,580)	(389,832)
Advances to subsidiaries	-	-	(608,901)	(631,046)
Repayment of advances to subsidiaries	-	-	1,873,257	140,190
Repayment of advances to other related parties	-	262,357	-	262,357
Net cash used in investing activities	(1,510,230)	(748,135)	(1,621,589)	(1,218,229)

RS2 Software p.l.c.

Statements of Cash Flows

For the year ended 31 December 2015

	The Group		The Company	
	2015	2014	2015	2014
	€	€	€	€
Cash flows from financing activities				
Dividends paid	(1,996,827)	(997,510)	(1,996,827)	(997,510)
Proceeds from bank borrowings	874,809	35,505	874,809	35,505
Repayments of bank borrowings	(866,091)	(776,010)	(866,091)	(776,010)
Advances by non-controlling interest	-	6,317	-	-
Net cash used in financing activities	(1,988,109)	(1,731,698)	(1,988,109)	(1,738,015)
Net increase in cash and cash equivalents	2,736,375	824,008	2,965,640	413,870
Cash and cash equivalents at 1 January	4,512,037	3,634,966	3,723,494	3,255,891
Effect of fair value movements	-	(670)	-	-
Effect of exchange rate fluctuations on cash held	(54,731)	53,857	(54,731)	53,857
Movement in cash pledged as guarantee	-	(124)	-	(124)
Cash and cash equivalents at 31 December	7,193,681	4,512,037	6,634,403	3,723,494

Basis of Preparation

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”) to the extent that such provisions do not conflict with the applicable framework.

Principal activities

The Group is principally engaged in the development, installation, implementation and marketing of computer software for financial institutions under the trademark of BankWORKS® and the processing of payment transactions with the use of BankWORKS®.

Review of Performance

The Group generated record total revenues of €19.4m in 2015, an increase of 28% when compared to 2014 revenues. This increase in revenue is mostly attributable to an additional demand for services corresponding to a 43% increase over 2014. In 2015 revenue derived from service fees amounted to 62% of total Group revenues. This increased demand for services ensures a higher level of recurrent revenue to the Group and contributes towards the smoothening of the effects of fluctuations that may be created by the recognition of licence revenues as was experienced in past years.

Licence fees amounted to 20% of total Group revenues. These are made up of licences sold during the year to new clients, as well as licences from existing clients. Maintenance fees increased by 32% in 2015. This is mainly due to new maintenance agreements coming in force as new implementations are completed, but is partly offset by a 19% decrease in comprehensive packages as one of the Group’s clients terminated its comprehensive package agreement and shifted to a maintenance agreement.

Cost of sales for 2015 amount to €10m, which represents an increase of 20% over last year. Although less than proportionate, this increase is in line with the increased business and is mainly attributable to salaries and other services received by the Group during the year.

Gross profit for the year amounts to €9.4m, with a gross profit margin of 48%, an improvement of 3% over 2014 margin.

Group administrative expenses increased by 24% when compared to 2014, mainly attributable to increased human resources cost, software licence fees, higher travelling expenses as a direct result of the global expansion efforts and depreciation. Sales and marketing efforts increased considerably in 2015. The Group enhanced its sales team and increased participation in major industry events, resulting in an increased cost of 68% when compared with 2014. Investment in capitalised development costs increased by 121% as the Group more than doubled its efforts on enhancements to the BankWORKS® platform.

During 2015 the Group was positively impacted by fluctuations in foreign currency movements as represented under Other Income. On the other hand during 2015 the Group recognised a net amount of €1.2m in impairment losses on trade receivables (after reversing the effect of provisions for impairment accounted for in previous years and after eliminating the effect of unwinding of amortisation on the receivable balances). These impairment losses relate to the default on receivables accumulated over the past few years from two particular clients despite the Group’s various efforts to recover such balances. The Group’s client base remains strong and diverse, and although the amount of the impairment loss is substantial, it has no bearing on the Group’s ability to meet payments when due, future operations and growth plans.

EBITDA for 2015 stands at €8.3m, representing 43% of total revenue and an increase of 35% over 2014. Eliminating the effect of the impairment loss, EBITDA would increase to €9.5m, representing 49% of total revenue.

Review of Performance (continued)

Finance income is mainly composed of interest receivable, favourable movements in the fair value of the interest rate swap and discount unwind on trade receivables and accrued income. Finance expense is mainly composed of interest payable on bank borrowings and unrealised exchange losses on bank balances in foreign currency. Finance expense for the year has decreased substantially from 2014, in which year the Group recognised a cost of amortisation of long-term receivables, part of which is being unwound over time and other part is netted off against the impairment loss as described above.

The Group is reporting a profit before tax of €6.5m, representing a net profit margin of 33% and an increase of 54% over 2014. Income tax expense for 2015 amounts to €1.6m, resulting in profit after tax of €4.9m, an increase of 75% over 2014.

Group assets increased from €32.2m to €35.2m and total equity increased from €22.9m to €25.8m. Net cash generated from operating activities amounts to €6.2m when compared with €3.3m in 2014. After payment of €1.5m in acquisition of property, plant and equipment and a payment of dividend of €2m, the Group closes the year with a cash balance of €7.2m, compared with €4.5 at end of 2014. This places the Group in a very strong position to balance the financing of future expansion plans and rewarding our loyal shareholders with yet another dividend payment.