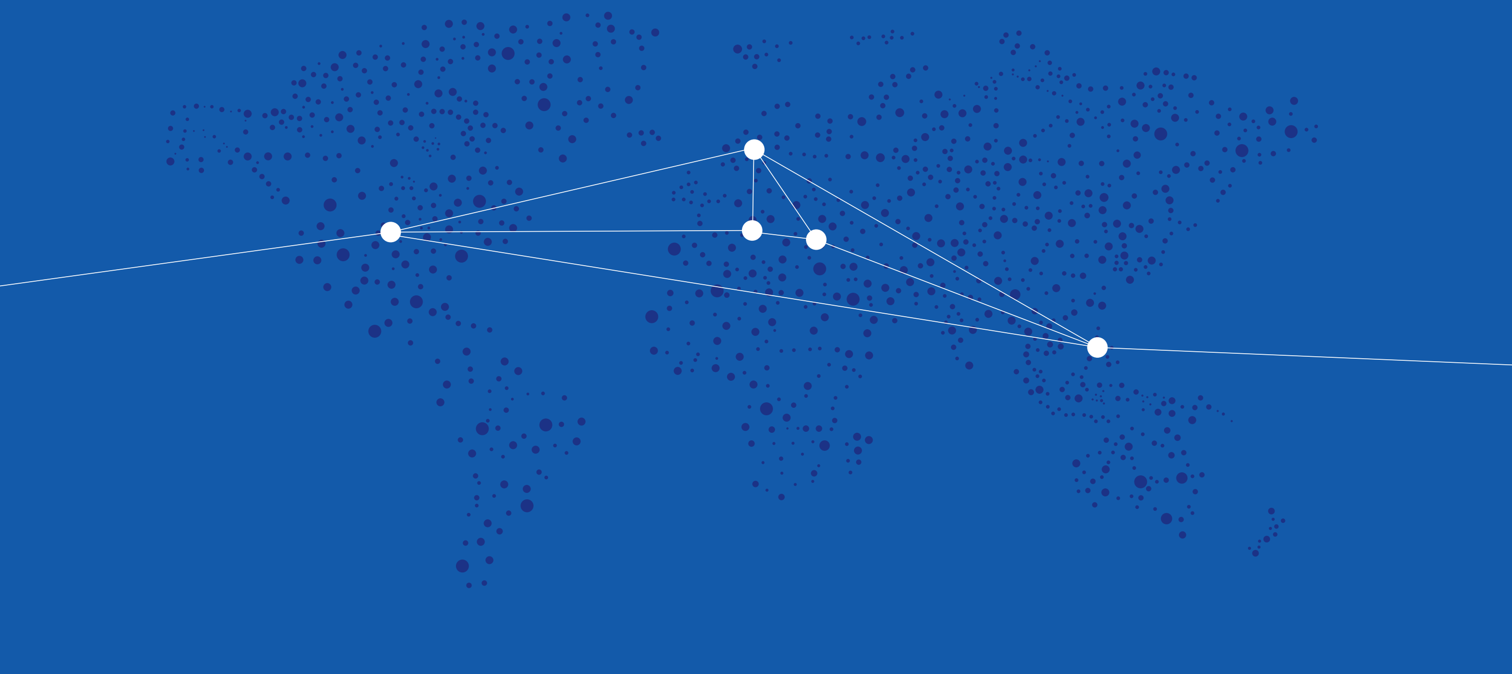
GROWING TOGETHER

RS2

Annual Report & Financial Statements

2017

CONNECTED



GROWTH

Our worldwide presence
encapsulates a clear way forward
to where RS2 is heading.

Focused on delivering a global payment processing solution to existing and multinational clients, by consolidating their business and optimising their profit by providing them with real-time information and reporting of their business around the globe.

RS2

Malta

Head Office of Group
Administration, Management & Board
Development of Core Product
Managed Service and Global Licensing to EMEA

EUROPE

OUR VISION

Enabling the future

Diversification • Product growth

Respect • Integrity • Partnership

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Germany

Business Unit that provides consultancy on
competitive Product Development in the market
Project Management for Europe & Scandinavia
Product Specialist on BankWORKS® for Licensed and Managed Services

MISSION STATEMENT
& BUSINESS PHILOSOPHY

We aim to exceed our Customers' expectations through the provision of superior technology and customer service excellence. We are unswerving in our efforts to achieve growth and reach our business objectives for the benefit of our loyal Shareholders. We hold our Employees in high esteem and aim to provide a pleasant environment in which to develop their full potential. We aim to carry out our corporate social responsibility functions and to support the Community of which we form part.

STATEMENT
CHAIRMAN

Strategic expansion, sustainable profitability, and product development remain the core objectives of the RS2 Group. I am pleased to confirm that our growth strategy supported by the recruitment of internationally recognized industry specialists and the continued growth of the Group's managed services arm has allowed us to attain these objectives.

These elements will enable the Group to increase market share and establish the Group as a reputable operator in all aspects of card management, front and back-end operations and managed services. We aim to ensure that our managed services arm, RS2 Smart Processing Ltd is at the forefront of our expansion strategies and we are highly confident that our platform BankWORKS®, as a product, is fully capable of supporting our service-centric objectives. RS2 Smart Processing Ltd is now a positive contributor to our financial statements and our expanding client base.

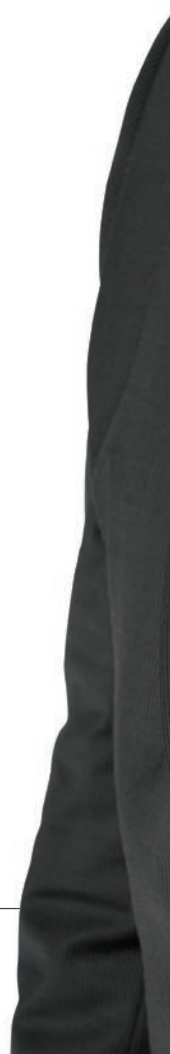
Our client base has expanded at all levels and today we are honoured to be able to offer our services, products, and support to leading international financial organisations and transaction processors. As stated by our CEO and with the US market in mind, we will strive to expand our business to include services to banks and new merchant relationships through outsourcing and acquiring services.

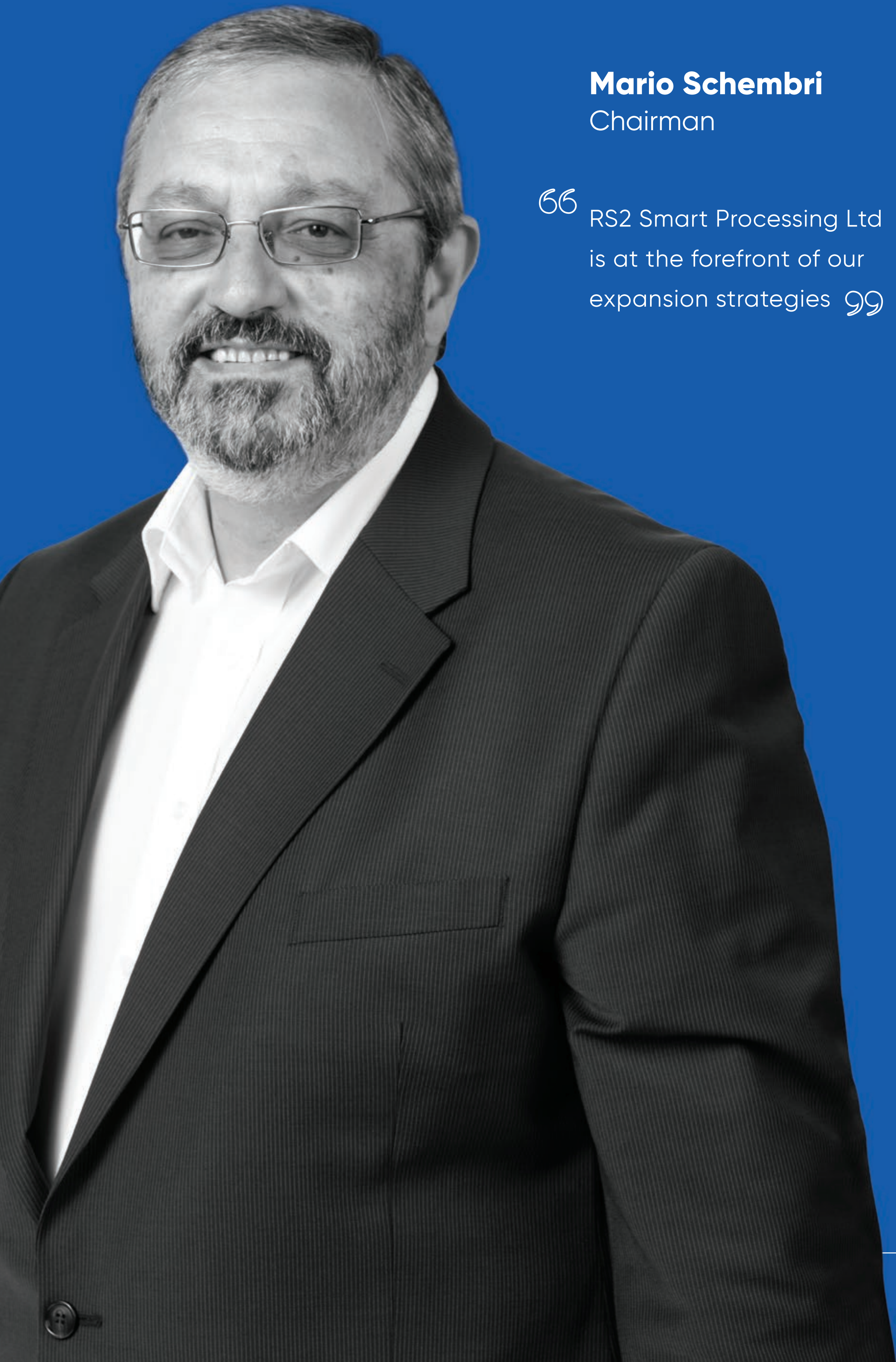
To ensure growth and strategic management competency we will continue to strengthen our structure at all levels including our Board of Directors, our C-Executives and our highly trained group of multi-national developers and analysts.

Finally, please allow me to thank our Board of Directors for their guidance and support throughout the past year, our CEO who has worked tirelessly to ensure that our global strategic objectives are achieved and to our management and staff for their continued dedication and hard work.

Mario Schembri
Chairman

25 April 2018





Mario Schembri
Chairman

"RS2 Smart Processing Ltd is at the forefront of our expansion strategies"

STATEMENT CEO

Dear Friends and Partners,

2017 has been a very successful year in terms of implementing the Group Strategy. Our continued investment in enhancing our products, technologies, and human resources particularly in our offices in the United States (US) and Asia Pacific (APAC) are steering us in the right direction to win customers in new regions and increasing our global market presence.

The Managed Services business continues to thrive, 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 strives to increase its portfolio of existing clients and expedite the embarking of new clients.

In a dynamic and challenging environment, we continue to strengthen our position in the market. The Group aims for a seamless integration of its strategy resulting in a ripple effect on its business development and turnover. To further enable our rapid expansion and growth, the Group continues to nurture its hub of internationally talented C-Level Executives and industry specialists.

Radi Abd El Haj
Chief Executive Officer

> "Our clients are always the focus of all our efforts in services offered, technology enhancements and our recruitment process."

OUR PRESENCE AND STRATEGY

The Group is implementing its strategy of international growth and increased focus on its Managed Services solution. Our internal network and investment in human capital are pivotal to bridge this transformation process.

During 2017 the Group experienced significant growth in its regional expansion plans. The US subsidiary is operating from its offices in Denver, while the APAC subsidiary is operating from its offices in Manila. We are now present in Europe, Middle East, United States, Latin America and Asia Pacific, which truly renders us an international company with worldwide presence.

The Group is in implementation mode for the provision of Managed Services for its first client in the US and in the process of securing further businesses. In addition, it is currently undergoing the process of certifying its products and services so that our system becomes fully operative in the region. Our strategy for the US market is to focus on outsourcing and acquiring services to ISO's, Banks and Merchants. We will also provide issuing and acquiring services to help US companies expand internationally to facilitate their international exposure by connecting them through our network with Banks and Partners from around the globe.

The same concept applies to Asia Pacific, where the Group is in the process of securing significant business for both the Managed Services and Licensing businesses within the different countries in the region. This will translate into significant revenue over the coming years.

OUR CLIENTS

RS2 has been and continues to be client-centric. Our clients are always the focus of all our efforts in services offered, technology enhancements and our recruitment process. We are committed to making sure that we always deliver what is required for our clients' success. We treat our clients as partners. This approach allows our clients to differentiate themselves from their competitors.

Our products and services are offered to our global partners with the intention of supporting their business needs and requirements in an efficient and effective manner. This enables them to improve their performance and extend their presence to other geographies. For instance, our great team has enabled one of our partners, considered to be one of the largest acquirers in Europe, to go live with BankWORKS® and advance their launch date by three months.

INNOVATION AND TECHNOLOGY

The Group's flagship product BankWORKS® is unique worldwide coupled with cutting-edge technology and is a real differentiator in the market today.

Tier 1 clients depend on the performance and enhanced solutions that our technology offers. We enable our clients to process their Omni-channel businesses originated from E/M-Commerce, Point of Sales, Wallets, or In-app using one single platform worldwide. This provides them and their customers with one single view, (multi-lingual, multi-currency and multi-region) consolidation of their settlements, reporting, sales and cash position through an accessible web-based portal. A capability that assists our clients to optimise their pricing and manage their risks globally and holistically in a consolidated manner.

For the past two years, our team has been working closely with Hewlett-Packard (HP) to enhance our current offering for Switching and Routing to enable us to use non-stop technology. This will be first rolled out to our subsidiary RS2 Smart Processing Ltd in quarter two of 2018 which opens up RS2 Smart Processing to bigger opportunities, attracting and retaining high profile clients. This new development within BankWORKS® offers a much-needed alternative to the market, guarantees a significant improvement in performance, and will also introduce new authorisation methods.

Our back-end processing has been enhanced in terms of performance, allowing us to process in excess of 70 million transactions per hour using state of the art user experience on the front end.

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

The Group generated total revenues of €17.4m in 2017, showing a slight improvement over that earned in the previous year. This is reflective of the Group's strategy of greater focus on the managed services business. Such focus shifting from licensing towards managed services business means the Group will undergo an interim period of stable revenues until such strategy gives fruition to higher revenues in the long-term.

Licence fees amounted to 17% of total Group revenues, which is relatively lower to the prior year's licence to total revenues ratio. This decline was however overcome by the processing fees generated by the managed services business, which for this year showed an even a stronger increase of 54% over last year, compared to 24% increase registered in the prior year. Such additional revenues emanate from higher transaction fees earned from existing clients and additional fees earned from new clients subsequent to their contracting and implementation. Implementation fees are generated from customising and set-up of new clients contracted towards the end of 2016 and 2017.

For another consecutive year, service fees from both the licensing and the processing contributed to the largest portion of the revenue mix, 65% (2016: 61%) with maintenance fees remaining relatively stable.

The Group has intensified its efforts on expanding its client base not only in Europe, but especially through new clients which it is targeting to contract in the US and APAC region. In Europe, the Group managed to secure strategic deals for its managed services which will secure substantial revenue for the Group once the customers go into production. In the US market, the Group continued to implement its strategy by introducing a new CEO to run the North American business and strengthen the relationship with the Sponsor banks and the potential clients which are expected to be on board shortly.

Given its broad capabilities, the Group can serve many customer segments in the US market with different value propositions. Given that each customer and value proposition segment will require investments in product, capabilities and marketing and sales, RS2 has identified these opportunities as part of its market entry strategy.

Cost of sales for 2017 amount to €11.7m, which represents an increase of 13% over last year. This increase is mainly driven by the Group's momentum in investing heavily in human resources, with its operations staff complement being supplemented by an average 12% (2016: 11%) compared to the prior year. This highlights the Group's focus on empowering service delivery to its current client base and be in a striking position as new client opportunities arise.

The Group registered a Gross profit for the year of €5.7m, denoting a gross profit margin of 33% (2016: 40%). This is mainly attributable to the Group's investment in its operational man power in order to meet the demand of the business already contracted and is being contracted within the next 6 to 12 months.

Administrative expenses were higher by 13% over 2016 mainly reflecting the strengthening of the staff complement at the Head Office and the continued investment in the regional offices of the United States and the Philippines.

As part of its core objectives, the Group continued its investment in its platform, BankWORKS® with development costs reaching €0.9m, an increase of 83% over last year. Such effort highlights the Group's commitment to keeping its product versatile, innovative and a front runner with a leading edge over its competitors.

During 2017, the Group managed to curtail both its losses arising from fluctuations in foreign currency movements and impairment losses resulting from default and/or doubt on the recovery of trade receivables and accrued income. In fact, net foreign exchange losses as represented under finance costs added up to around €0.3m compared to the €1.4m of the prior year. Net impairment losses on trade and accrued income receivable amounted to €0.3m contrary to the €0.7m of the prior year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group for 2017 reached €2.6m, representing 15% of total revenue, an improvement of €0.3m over the prior year.

The Group reports a profit before tax of €1.23m, representing a net profit margin of 7%. After deducting income tax expense for 2017 of €0.6m, profit attributable to owners of the Company and other non-controlling interests total €0.6m.

Group assets decreased from €31.9m to €29.6m, with total equity decreasing from €21.9m to €20.7m. Notwithstanding this, the Group achieved a net cash generated from operating activities of €4.6m, an improvement of 71% compared to prior year mainly as a result of successfully accomplishing the completion of a licence implementation for a major European bank. After the payment of €0.4m in acquisition of property, plant and equipment, a payment of dividend of €1.6m and repayments of bank borrowings of €1m, the Group closes the year with a record cash balance of €7.8m, compared with €6.3m at end of 2016 – a hike of 23%. For another consecutive year, such strong cash flow position energises the Group to continue with its strategic expansion strategy and to reward our loyal Shareholders with another dividend payment.

Last, but not least, I take this opportunity to thank our committed members of staff and management, the Board of Directors and our Shareholders for their continued trust. I am honoured to be part of this product and organisation, to serve with my current position to build this Group and its subsidiaries further and to make RS2 a signature name in the payments industry.

Thank you for your continued support and dedication.

Radi Abd El Haj
Chief Executive Officer

25 April 2018

Denver

Implementation & support to local customers
Core Development of BankWORKS® complementing the Core Team in Europe
Managed Services for customers in the respective jurisdiction

BOARD OF DIRECTORS

Mario SCHEMBRI	Radi Abd EL HAJ	Robert TUFIGNO	Maurice XUEREB	Franco AZZOPARDI	Christopher WOOD	John ELKINS	Ivan GATT

MARIO SCHEMBRI
Chairman of the Board and Non-Executive Director

Mr Schembri has extensive knowledge related to card management systems, with diverse exposure to the international card organisations including VISA International, MasterCard and DINERS Club International. Mr Schembri has extensive knowledge relating to retail banking operations, product management and co-ordination. Up to the time of joining the Company, Mr Schembri had been in the banking industry for 26 years. He joined RS2 in 1999 as Regional Manager, Mediterranean Region and took on the role of Deputy Chief Executive Officer in 2006. Mr Schembri was appointed Chief Executive Officer in January 2008 and Chairman in January 2012.

RADI ABD EL HAJ
Chief Executive Officer and Executive Director

Mr El Haj joined RS2 in 1997 as a Project Manager for Tier 1 European banks where he was responsible for the implementation of corporate card programs, later promoted to Customer Relationship Manager in 2002 and Head of Sales and Implementation in 2004. In the cards and payments industry, Mr El Haj specialises in the areas of Issuing, Acquiring, Clearing and Settlement, e-Commerce and Accounting. His international experience, professional contacts in various regions and working closely with the Technical and Product Development Units within the Group, has contributed in providing RS2's clients with a global compliant platform. Mr El Haj was appointed Chief Executive Officer in January 2012.

Dr ROBERT TUFIGNO LL.D. Non-Executive Director

Dr Tufigno, LL.D., has vast experience in company law, contract law, financial services, employment law, maritime law and legislative drafting. Dr Tufigno, who is also an Arbitrator, has practised in the fields of general commercial law, property law and litigation. He has also acted as Chairman of Malta's Employment and Training Corporation and as Chairman of Malta's Housing Authority, and as past Board Director of Lohombus Bank. Dr Tufigno is a Partner of GTG Advocates.

MAURICE XUEREB Non-Executive Director

Mr Xuereb joined Barclays Bank - Dominion, Colonial and Overseas - a UK-based Barclays Bank subsidiary company in 1954. He joined Mid-Med Bank in 1975 and occupied various managerial and executive positions. He held the positions of Assistant and Deputy General Manager in various areas, including audit, human resources, advances, administration, finance, marketing and PR. He was instrumental in the setting up of the Bank's cards division and for several years occupied the position of Honorary Secretary of the Malta Banker's Association.

FRANCO AZZOPARDI Non-Executive Director

Mr Azzopardi, a Certified Public Accountant with a UK post-graduate MSc in Finance, spent twenty seven years working in public practice. In 2007, he decided to exit the firm he co-founded, to contribute more towards the strategic direction of boards of directors. He specialises in corporate strategy, governance, risk and finance. He is today a professional director and a registered fellow member of the UK Institute of Directors. His portfolio includes directorships on Boards, Audit Committees, and Risk and Compliance Committees of both listed and private companies in various sectors including banking, insurance, software, logistics, private equity, and professional services, among others. He is also CEO of the leading logistics company in Malta. As part of his social responsibility, he also contributes towards the development of the Malta Institute of Accountants, of which he is currently a fellow member having also served as President for a two-year term and Council Member since 2008.

CHRISTOPHER WOOD Non-Executive Director

Mr Wood is the Finance Director for Barclaycard International and a member of the Barclaycard Executive committee. He is accountable for financial performance management, corporate and business strategy, colleague and external communications, business-led regulatory interactions, innovation across the consumer cards businesses and leading the Group's commercial relationships with key payment schemes. Mr Wood is also Vice Chairman of EnterCard, Barclays' joint venture with Swedbank covering the Scandinavian market. Mr Wood has extensive knowledge of the payments industry, regulatory change and facilitating successful strategic transformation in various organisations. Prior to his current role, Mr Wood led the Barclaycard UK business, Barclaycard International and, prior to joining Barclays, led large-scale business advisory programmes at Accenture. Mr Wood holds a BSc (Hons) in Business Administration from Bath University and is a chartered accountant.

JOHN ELKINS Non-Executive Director

John Elkins currently serves on the boards of FINCA International, ELATERAL Ltd., TRAVELEX INC. and RS2 Software p.l.c. Mr Elkins retired as President, International Regions from First Data in June 2015. A global leader in electronic payments with operations in 35 countries, Mr Elkins had full P & L responsibility for over 8,000 employees and all markets outside of the United States. Since his appointment to the role in January 2011, Mr Elkins oversaw revenue growth from \$1.6b-\$2.0b and EBITDA growth from \$290m to \$600m. Mr Elkins served as a Senior Advisor at McKinsey & Company (2007-9). Between 2002-7 he served as Executive VP and Global CMO for Visa International. Mr Elkins was the founder, former Chairman and CEO of FutureBrand, built from a start up into one of the leading worldwide corporate brands and design consultancies.

Dr IVAN GATT LL.D. Company Secretary

Dr Gatt LL.D. represents clients in a broad spectrum of substantive legal areas. Having vast experience in advising companies and board committees on corporate governance, he has facilitated a variety of transactions, including securities offerings, venture capital investments and corporate acquisitions. In addition, he assists clients with annual general meeting preparation and gives advice on numerous regulatory and compliance matters. Dr Gatt has presided over the Levy Appeals Board and the Customs and Excise Tax Appeals Board of the Ministry of Finance. Dr Gatt is the Managing Partner of GTG Advocates.

CORPORATE SOCIAL RES

RS2 prides itself in being an active contributor to the local society through various philanthropic initiatives, some of which have received a contribution for the past number of years and consider RS2 to be one of their loyal partners. The Company sits in the hub of FinTech and therefore it goes without saying 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 these young people to give 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 various positions within the Technical Department, Project Delivery, and Managed Services. This opportunity gives the students the hands-on experience required to unlock their potential with the guidance 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.

The Group supports and encourages employees who engage in extracurricular fundraising activities for charitable institutions. The Company also assists clubs and local talent to further promote the heritage and assist in enriching the Maltese culture. The RS2 Events Committee comprises five employees who volunteer their personal time in the efforts to create activities on behalf of the Company. Throughout the year, the team is highly involved in organising fundraising activities, teambuilding activities, and Company get-togethers, which proceeds are then distributed towards various charitable institutions. They also collect funds for people in different circumstances that require diverse assistance. The events also help to promote a healthy working relationship amongst the staff, which proves to be highly beneficial given the extensive growth the Company has experienced in the past couple of years.

The Group is confident that it will continue to achieve a balanced and wholistic 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 Group this year. RS2 will continue to positively affirm its efforts in becoming a sustainable Company and a leader on the forefront within the FinTech Industry.

PONSIBILITY

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

- Schola Cantorum Jubilate
- Kavallieri Club
- Malta Young Sailors Club
- Din l-Art Helwa
- Right2Smile
- Moviment Missjunarju Gesu fil-Proxxmu
- Pink October
- Nicholas Micallef - UCI Grandfondo World Championships
- Cospicua Scout Group
- Dar Tal-Providenza
- Puttinu Cares

DIRECTORS' REPORT

For the year ended 31 December 2017

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 LLC, RS2 Software LAC LTDA and RS2 Software APAC Inc. (collectively referred to the "Group"), for the year ended 31 December 2017.

Board of Directors

Mr Mario Schembri (Chairman)
Mr Radi Abd El Haj (CEO)
Mr Maurice Xuereb
Dr Robert Tufigno
Mr Franco Azzopardi
Mr Christopher Wood
Mr John Elkins

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 its subsidiaries, the Group is also engaged in processing of payment transactions with the use of BankWORKS®. Consistent with previous years, there were no significant changes in the activity of the Group.

Business review and future developments

In line with its strategy, the Group continued its implementation of establishing new footholds and developing in new regions across the globe, particularly following the opening of new offices in Colorado, US and Manila, Philippines in 2014 and 2016. Getting these new offices fully operational and extending its global reach form an integral part of the future developments of the Group.

During the year under review, the Company registered revenues from its principal activities of €14.8m (2016: €15.6m) and a profit before tax of €1.8m (2016: €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 €2.9m (2016: €1.9m) and a profit before tax of €0.1m (2016: loss before tax of €0.5m). RS2 Software APAC Inc. is currently supporting the Company in product development and its expansion in the Asia Pacific region. RS2 Software LLC serves as the US arm of the Group with specific focus on the provision of managed services in North America.

During the year under review, on consolidation all of its activities, the Group generated revenues of €17.4m (2016: €17.2m) and registered profit before tax of €1.2m (2016: €0.9m). At 31 December 2017, the Group's total assets amounted to €29.6m (2016: €31.9m).

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 12 to 20 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 6 and 27 to these financial statements.

Dividends

The directors recommend that at the next Annual General Meeting, the shareholders approve the declaration of a dividend of €0.01c46 per share amounting to €2,504,303 payable on 26 June 2018.

Reserves

Retained earnings amounting to €16,453,444 for the Company and €10,718,444 for the Group are being carried forward.

Important events since end of the accounting period

In 2018, the Group has in line with its strategy, recruited Daniela Mielke, a veteran in the Payments and FinTech industry in the US, as CEO for its North American business in February 2018. She will be spearheading sales and market entry strategy as well as project delivery in the region, together with customer relationship management and product development for the US market. On a global level, she will also be working with corporate management in the Group's overall strategy.

The Group successfully formed a strategic joint venture with one of the largest players in the travel and tourism industry in order to deliver Global Acquiring Services to international airlines, travel agents, hotels and car rental around the globe offering an efficient and streamlined operation and consolidating payments and reporting to these businesses covering all payment Omni-channels.

It also commenced its second implementation in Latin America of its managed services solution to a major European player in the payment and technology services. The Group managed to close a contract with a European partner in offering the latter's clients non-EU processing and global acquiring services for both card present and card not present payment transactions. Furthermore, the Group is in different stages of negotiations with two other potential managed services clients – one being a leading payment service provider and one of the top merchant acquirers in the ASEAN region and the other being a registered online leader in online payment processing operating in the US.

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

On 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; and

- to capitalise a sum not exceeding €791,666 from the Company's non-distributable reserves of the share premium account and to allot the amount so capitalised as fully paid bonus shares to the shareholders of the Company. Following the allotment of 13,194,432 ordinary shares as bonus shares, 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;

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 2017, 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 this same shareholders' resolution, the Company approved the proposed Bonus Issue of one (1) Ordinary Share for each twelve (12) Ordinary Shares held by the Shareholders as at close of business on Friday, 19 May 2017. This was done through the capitalisation of €791,666 standing to the credit of the share premium account equivalent to thirteen million, one hundred and ninety four thousand and four hundred and thirty two (13,194,432) Ordinary Shares of six Euro cents each (€0.06). After approval, this left a balance of twenty-eight million, four hundred seventy-two thousand, three hundred eighty one (28,472,381) unissued Ordinary Shares.

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 2017, 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.

After the year end, 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 10% of the subsidiary's authorised share capital, with vesting taking place evenly over 36 months during which the employee must be in office. 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, on termination of employment, any award shares that have not vested shall automatically be forfeited.

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 2017 amounted to €1,443,729 (2016: €1,303,040).

Approved by the Board of Directors on 25 April 2018 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE

For the year ended 31 December 2017

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 2017, 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 2017, 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 2017, 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 Maurice Xuereb, an independent non-executive director appointed by the Board, acted and served as Chairman until 10 August 2017, whilst Dr Robert Tufigno and Mr Franco Azzopardi, both independent non-executive directors, act as members. As of 10 August 2017, Mr Franco Azzopardi was appointed as Chairman instead of Mr Maurice Xuereb, with the latter retaining the role of a member. 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.

Mr Franco Azzopardi is a qualified accountant and auditor who the Board considers as the person competent in accounting and auditing. Mr Maurice Xuereb occupied various managerial and executive positions within the industry 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: 12 **Attended**
Mr Franco Azzopardi	12
Dr Robert Tufigno	11
Mr Maurice Xuereb	12

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: 7 **Attended**
Executive Directors	
Mr Radi Abd El Haj (Chief Executive Officer)	7
Non-executive Directors	
Mr Mario Schembri (Chairman)	7
Mr Maurice Xuereb	7
Dr Robert Tufigno	7
Mr Franco Azzopardi	7
Mr Christopher Wood	7
Mr John Elkins	7

Dr Ivan Gatt occupies the position of Company Secretary.

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 interest 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 44 to 46. 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 shareholders' 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

25 April 2018

REMUNERATION COMMITTEE REPORT

For the year ended 31 December 2017

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 four (4) non-executive directors, Dr Robert Tufigno (Chairman), Mr Maurice Xuereb, 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 no meetings 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 2018.

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 2017.

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.

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	€ 150,231
Variable Remuneration	Nil
Fixed Remuneration as full time employees of the Group	€ 555,281
Others	€ 39,692

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	€ 535,791
Variable Remuneration	Nil
Share Options	Nil
Others	Nil

Dr Robert Tufigno
Chairman, Remuneration Committee

25 April 2018

STATEMENT OF THE DIRECTORS PURSUANT TO LISTING RULE 5.68

For the year ended 31 December 2017

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 51 to 132 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 25 April 2018 by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

COMPANY INFORMATION

For the year ended 31 December 2017

Directors	Mr Mario Schembri (Chairman) Mr Radi Abd El Haj (CEO) Dr Robert Tufigno Mr Franco Azzopardi Mr Maurice Xuereb Mr Christopher Wood Mr John Elkins
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	KPMG Portico Building Marina Street Pietà PTA 9044 Malta
Legal Advisors	Gatt Tufigno Gauci Advocates 66, Old Bakery Street Valletta VLT 1454 Malta

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of directors on 25 April 2018 by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

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FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

		THE GROUP		THE COMPANY	
	Note	**2017**	2016	**2017**	2016
Assets		**€**	€	**€**	€
Property, plant and equipment	8	**8,903,559**	9,034,813	**8,615,205**	8,713,657
Intangible assets	9	**6,892,988**	6,815,112	**5,585,264**	5,327,256
Investments in subsidiaries	10	**-**	-	**6,819,753**	5,737,262
Other investment	11	**131,785**	131,785	**131,785**	131,785
Loans and receivables from related parties	12	**-**	-	**20,810**	23,751
Accrued income	13	**-**	-	**844,369**	1,241,928
Trade and other receivables	12	**40,018**	-	**-**	-
Total non-current assets		**15,968,350**	15,981,710	**22,017,186**	21,175,639
Trade and other receivables	12	**1,590,593**	1,999,483	**1,433,312**	1,804,112
Loans and receivables from related parties	12	**2,710,355**	918,566	**2,972,191**	1,554,951
Prepayments		**509,784**	624,578	**416,076**	425,540
Accrued income	13	**1,069,624**	6,011,551	**1,645,795**	6,314,841
Cash at bank and in hand	14	**7,789,159**	6,344,155	**7,083,067**	5,535,139
Total current assets		**13,669,515**	15,898,333	**13,550,441**	15,634,583
Total assets		**29,637,865**	31,880,043	**35,567,627**	36,810,222

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

Approved and authorised for issue by the Board of Directors on 25 April 2018 and signed on its behalf by:

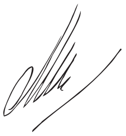
Mario Schembri
Chairman

Radi Abd El Haj
Director

	Note	THE GROUP 2017	THE GROUP 2016	THE COMPANY 2017	THE COMPANY 2016
Equity		**€**	€	**€**	€
Share capital	15	**10,291,657**	9,499,991	**10,291,657**	9,499,991
Reserves	15	**68,189**	1,000,910	**162,733**	891,139
Retained earnings	15	**10,718,444**	11,506,618	**16,453,444**	16,791,843
Total equity attributable to equity holders of the Company		**21,078,290**	22,007,519	**26,907,834**	27,182,973
Non-controlling interest		**(357,876)**	(142,187)	**-**	-
Total equity		**20,720,414**	21,865,332	**26,907,834**	27,182,973
Liabilities					
Bank borrowings	16	**835,369**	1,859,899	**835,369**	1,859,899
Employee benefits	26	**1,994,164**	1,922,045	**1,397,218**	1,356,070
Deferred tax liability	17	**902,039**	758,265	**1,593,281**	1,518,485
Derivatives	16	**48,108**	84,254	**48,108**	84,254
Total non-current liabilities		**3,779,680**	4,624,463	**3,873,976**	4,818,708
Bank borrowings	16	**1,022,016**	993,937	**1,022,016**	993,937
Trade and other payables	18	**1,197,427**	849,711	**1,193,139**	729,543
Current tax payable		**458,723**	958,215	**458,723**	958,215
Accruals	19	**651,806**	828,974	**460,840**	372,183
Employee benefits	26	**111,422**	111,422	**111,422**	111,422
Deferred income	19	**1,696,377**	1,647,989	**1,539,677**	1,643,241
Total current liabilities		**5,137,771**	5,390,248	**4,785,817**	4,808,541
Total liabilities		**8,917,451**	10,014,711	**8,659,793**	9,627,249
Total equity and liabilities		**29,637,865**	31,880,043	**35,567,627**	36,810,222

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

Approved and authorised for issue by the Board of Directors on 25 April 2018 and signed on its behalf by:



Mario Schembri
Chairman

Radi Abd El Haj
Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2017

THE GROUP

	Attributable to equity holders of the Company								
	Share capital €	Share premium €	Translation reserve €	Other reserves €	Share option reserve €	Retained earnings €	Total €	Non-controlling interest €	Total equity €
Balance at 1 January 2016	8,999,991	1,292,743	115,523	-	120,996	13,409,110	23,938,363	(8,674)	23,929,689
Comprehensive income for the year (restated)									
Profit for the year	-	-	-	-	-	576,906	576,906	(123,773)	453,133
Other comprehensive income									
Foreign currency translation differences	-	-	(5,752)	-	-	-	(5,752)	(9,740)	(15,492)
Total other comprehensive income for the year	-	-	(5,752)	-	-	-	(5,752)	(9,740)	(15,492)
Total comprehensive income for the year (restated)	-	-	(5,752)	-	-	576,906	571,154	(133,513)	437,641
Transactions with owners of the Company									
Bonus issue	500,000	(500,000)	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(2,501,998)	(2,501,998)	-	(2,501,998)
Share options exercised	-	-	-	-	(22,600)	22,600	-	-	-
Balance at 31 December 2016	9,499,991	792,743	109,771	-	98,396	11,506,618	22,007,519	(142,187)	21,865,332
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)**
Share options excercised	-	**-**	**-**	**-**	**(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**

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

THE COMPANY

	Share capital €	Share premium €	Other reserves €	Share option reserve €	Retained earnings €	Total €
Balance at 1 January 2016	8,999,991	1,292,743	-	120,996	18,068,040	28,481,770
Comprehensive income for the year (restated)						
Profit for the year	-	-	-	-	1,232,154	1,232,154
Total comprehensive income for the year (restated)	-	-	-	-	1,232,154	1,232,154
Transactions recorded directly in equity						
Discount unwind	-	-	-	-	(28,953)	(28,953)
	-	-	-	-	(28,953)	(28,953)
Transactions with owners of the Company						
Bonus issue	500,000	(500,000)	-	-	-	-
Dividend to equity holders	-	-	-	-	(2,501,998)	(2,501,998)
Share options exercised	-	-	-	(22,600)	22,600	-
Balance at 31 December 2016	9,499,991	792,743	-	98,396	16,791,843	27,182,973
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 excercised	**-**	**-**	**-**	**(2,125)**	**2,125**	**-**
Balance at 31 December 2017	**10,291,657**	**1,077**	**65,385**	**96,271**	**16,453,444**	**26,907,834**

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

		THE GROUP		THE COMPANY	
	Note	**2017**	2016	**2017**	2016
Continuing Operations		**€**	€	**€**	€
Revenue	20	**17,380,026**	17,171,291	**14,809,148**	15,629,023
Cost of sales		**(11,651,590)**	(10,307,069)	**(9,694,138)**	(8,895,042)
Gross profit		**5,728,436**	6,864,222	**5,115,010**	6,733,981
Other income	21	**638,256**	41,048	**638,247**	30,582
Marketing and promotional expenses		**(694,985)**	(803,681)	**(609,402)**	(731,003)
Administrative expenses		**(4,094,720)**	(3,609,731)	**(3,033,907)**	(2,732,932)
Capitalised development costs	9	**910,935**	498,177	**910,935**	498,177
Other expenses	21	**(868,412)**	(2,146,434)	**(845,995)**	(2,142,477)
Results from operating activities		**1,619,510**	843,601	**2,174,888**	1,656,328
Finance income	22	**72,943**	191,033	**130,889**	243,493
Finance costs	22	**(466,616)**	(153,818)	**(466,326)**	(142,308)
Net finance (costs)/ income		**(393,673)**	37,215	**(335,437)**	101,185
Profit before income tax	21	**1,225,837**	880,816	**1,839,451**	1,757,513
Income tax expense	23	**(611,041)**	(427,683)	**(538,637)**	(525,359)
Profit for the year		**614,796**	453,133	**1,300,814**	1,232,154
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences on foreign operations		**(241,767)**	(15,492)	**-**	-
Total comprehensive income		**373,029**	437,641	**1,300,814**	1,232,154
Profit for the year attributable to:					
Owners of the Company		**793,033**	576,906	**1,300,814**	1,232,154
Non-controlling interest		**(178,237)**	(123,773)	**-**	-
Profit for the year		**614,796**	453,133	**1,300,814**	1,232,154
Total comprehensive income attributable to:					
Owners of the Company		**588,718**	571,154	**1,300,814**	1,232,154
Non-controlling interest		**(215,689)**	(133,513)	**-**	-
Total comprehensive income for the year		**373,029**	437,641	**1,300,814**	1,232,154
Earnings per share	24	**€ 0.005**	€ 0.003	**€ 0.008**	€ 0.007

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

		THE GROUP		THE COMPANY	
	Note	**2017**	2016	**2017**	2016
Cash flows from operating activities		**€**	€	**€**	€
Profit for the year		**614,796**	453,133	**1,300,814**	1,232,154
Adjustments for:					
Depreciation	8	**629,738**	653,518	**524,312**	481,867
Amortisation of intangible assets	9	**652,927**	632,256	**652,927**	632,256
Capitalised development costs	9	**(910,935)**	(498,177)	**(910,935)**	(498,177)
Provision for impairment loss on receivables	21	**(516,489)**	364,787	**(516,489)**	364,787
Bad debts written off	21	**630,017**	347,423	**630,017**	347,423
Interest payable	22	**101,825**	124,491	**101,801**	124,466
Interest receivable	22	**(11,614)**	(12,293)	**(11,554)**	(46,988)
Unwinding of discount on post-employment benefit	26	**72,119**	119,328	**41,148**	109,072
Unwinding of discount on accrued income	22	**(25,184)**	11,189	**(83,190)**	(17,766)
Unwinding of discount on deposit		**(688)**	-	**-**	-
Employee share benefits		**65,385**	-	**65,385**	-
Income tax	23	**611,041**	427,683	**538,637**	525,359
Provision for exchange fluctuations	21	**288,727**	809,339	**287,637**	809,110
Gain on disposal of asset	21	**(6,900)**	(8,004)	**(6,900)**	(8,004)
Change in fair value of cash flow hedge	22	**(36,145)**	(34,933)	**(36,145)**	(34,933)
		2,158,620	3,389,740	**2,577,465**	4,020,626
Changes in trade and other receivables		**2,827,774**	951,892	**3,045,230**	905,055
Changes in trade and other payables		**645,674**	(88,313)	**460,156**	(231,389)
Change in other related parties' balances		**-**	-	**511,112**	-
Cash generated from operating activities		**5,632,068**	4,253,319	**6,593,963**	4,694,292
Interest paid		**(103,088)**	(138,977)	**(103,065)**	(138,977)
Interest received		**1,183**	1,839	**1,123**	1,680
Income taxes paid		**(966,759)**	(1,446,642)	**(963,333)**	(1,441,803)
Net cash from operating activities		**4,563,404**	2,669,539	**5,528,688**	3,115,192
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(437,084)**	(568,252)	**(301,505)**	(355,037)
Proceeds on sale of property, plant and equipment		**6,900**	9,000	**6,900**	9,000
Investment in subsidiary	10	**-**	-	**-**	(112,105)
Advances to subsidiaries		**-**	-	**(1,048,469)**	(842,307)
Repayment of advances to subsidiaries		**-**	-	**-**	28,458
Net cash used in investing activities		**(430,184)**	(559,252)	**(1,343,074)**	(1,271,991)

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

		THE GROUP		THE COMPANY	
	Note	**2017**	2016	**2017**	2016
		€	€	**€**	€
Cash flows from financing activities					
Dividends paid		**(1,579,196)**	(2,495,477)	**(1,579,196)**	(2,495,477)
Proceeds from bank borrowings		**-**	377,791	**-**	377,791
Repayments of bank borrowings		**(996,451)**	(968,585)	**(996,451)**	(968,585)
Net cash used in financing activities		**(2,575,647)**	(3,086,271)	**(2,575,647)**	(3,086,271)
Net increase/(decrease) in cash and cash equivalents		**1,557,573**	(975,984)	**1,609,967**	(1,243,070)
Cash and cash equivalents at 1 January		**6,344,155**	7,193,681	**5,535,139**	6,634,403
Effect of exchange rate fluctuations on cash held		**(112,569)**	126,458	**(62,039)**	143,806
Cash and cash equivalents at 31 December	14	**7,789,159**	6,344,155	**7,083,067**	5,535,139

The accompanying Notes on pages 60 to 132 are an integral part of these financial statements

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MIDDLE EAST

NOTES TO THE FINANCIAL

STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 REPORTING ENTITY

RS2 Software p.l.c. (the "Company") is a public limited liability company domiciled and incorporated in Malta. The consolidated financial statements of the Company as at and for the year ended 31 December 2017 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 for financial periods starting on or after 1 January 2008 were also adhered to when preparing and presenting these financial statements.

2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

The methods used to measure fair values are discussed further in note 5.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

2 BASIS OF PREPARATION (Continued)

2.4 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.

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 2018 is included in the following notes:

Note 2.4.1	impairment reviews
Note 9.4	impairment test for cash-generating unit containing goodwill: key assumptions underlying recoverability
Note 26	measurement of defined benefit obligations: key actuarial assumptions
Note 28.1.2	recoverability assessment on trade and other receivables

2.4.1 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 on the next page.

2 BASIS OF PREPARATION (Continued)

2.4 USE OF ESTIMATES AND JUDGEMENTS (Continued)

2.4.1 IMPAIRMENT REVIEWS (Continued)

With respect to goodwill, 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 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.

3.1 BASIS OF CONSOLIDATION

3.1.1 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 BASIS OF CONSOLIDATION (Continued)

3.1.1 SUBSIDIARIES (Continued)

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.

3.1.2 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.

3.2 FOREIGN CURRENCY

3.2.1 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. 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.

3.2.2 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 FOREIGN CURRENCY (Continued)

3.2.2 FOREIGN OPERATIONS (Continued)

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, and are presented within equity in the foreign currency translation reserve.

3.3 FINANCIAL INSTRUMENTS

3.3.1 NON-DERIVATIVE FINANCIAL ASSETS

The Group initially recognises loans and receivables and deposits on the date that they 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.

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 non-derivative financial assets: loans, receivables and available-for-sale financial assets and cash and cash equivalents.

3.3.1.1 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 FINANCIAL INSTRUMENTS (Continued)

3.3.1 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

3.3.1.1 LOANS AND RECEIVABLES (Continued)

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

3.3.1.2 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) and foreign currency differences on available-for-sale equity instruments (see note 3.2.1), 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.

3.3.2 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 FINANCIAL INSTRUMENTS (Continued)

3.3.3 DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING

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

On initial designation of the derivative as a hedge instrument, the Group formally documents the relationship between the hedge instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged item attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%.

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 as described below:

3.3.3.1 CASH FLOW HEDGES

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

3.3.4 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.

3.4 PROPERTY, PLANT AND EQUIPMENT

3.4.1 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 PROPERTY, PLANT AND EQUIPMENT (Continued)

3.4.1 RECOGNITION AND MEASUREMENT (Continued)

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.

3.4.2 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.

3.4.3 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 INTANGIBLE ASSETS

3.5.1 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.

3.5.2 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.

3.5.3 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.

3.5.4 SOFTWARE RIGHTS

Software rights that are identifiable 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 INTANGIBLE ASSETS (Continued)

3.5.5 SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

3.5.6 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.

3.6 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.

3.7 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 IMPAIRMENT

3.8.1 INVESTMENTS IN SUBSIDIAIRES

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.

3.8.2 NON-DERIVATIVE FINANCIAL ASSETS

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 IMPAIRMENT (Continued)

3.8.2 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

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.

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.

3.8.3 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 IMPAIRMENT (Continued)

3.8.3 NON-FINANCIAL ASSETS (Continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the 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.

3.9 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.

3.10 SHARE-BASED PAYMENT TRANSACTIONS

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The 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.

3.11 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 or 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 EMPLOYEE BENEFITS (Continued)

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.

3.12 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.

3.13 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.

3.14 REVENUE

3.14.1 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 REVENUE (Continued)

3.14.1 LICENCES (Continued)

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).

3.14.2 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.

3.14.3 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.

3.14.4 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 REVENUE (Continued)

3.14.4 COMPREHENSIVE PACKAGES (Continued)

Revenue from comprehensive package agreements is recognised rateably 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 3.14.1 to 3.14.3.

3.15 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.

3.16 FINANCE INCOME AND COSTS

Finance income comprises interest income on bank balances, loans and 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 hedging instruments recognised in the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

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 and loss on hedging instruments 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.

3.17 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 INCOME TAX (Continued)

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, using tax rates enacted or substantively enacted at the reporting date.

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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 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.

3.19 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 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted, however the Group has not early adopted the new or amended standards in preparing these financial statements. Those which may be relevant to the Group are set out below.

The following standards are expected to have a material impact on the Group's and the Company's financial statements in the period of initial application.

4.1 ESTIMATED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15

The Group is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on the consolidated and separate financial statements. The estimated impact of these standards on the Group's and the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change and related judgements applied in the supporting assessments are to be confirmed until the Group presents its first financial statements that include the date of initial application.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.1 ESTIMATED IMPACT OF THE ADOPTION OF IFRS 9 AND IFRS 15 (Continued)

The Group expects the impact on the opening balance of its equity at 1 January 2018 to be as follows:

- A decrease in retained earnings varying between €400,000 and €520,000 (Company: €945,000 and €1,055,000) due to deferral of revenue under IFRS 15.

- A decrease in retained earnings of €3,640,000 (Company: €3,640,000) due to the deferral of revenue, according to IFRS 15 in respect of a material right provided in a term licence agreement. This estimate is based on significant judgements that could be subjects to revisions (refer to note 4.3.1.2).

- A decrease in retained earnings varying between €105,000 and €175,000 (Company: €105,000 and €175,000), due to impairment losses on financial assets including trade receivables and accrued income, recognised on initial application of IFRS 9.

4.2 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Intruments: Recognition and Measurement*.

IFRS 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Based on its assessment, the Group does not beleive that the new classification requirements will have a material impact on its accounting for trade receivables, accrued income, loans, investments in equity securities that are managed on a fair value basis. At 31 December 2017, the Group and the Company had equity investments classified as available-for-sale with a fair value of €131,785 that is being held for long-term strategic purposes. Under IFRS 9, the Group has designated this investment as measured at FVOCI. Consequently, a prior year impairment loss of €85,000 will, as from 1 January 2018, be reclassified out of retained earnings to a fair value reserve for both the Group and the Company. Subsequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

4.2.1 TRADE AND OTHER RECEIVABLES

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 FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade debtors to approximately range between 4% and 7% of trade receivables and accrued income.

The Group's estimated ECLs were calculated based on lifetime expected credit losses on trade receivables and accrued income in line with the requirements of IFRS 9.

The application of IFRS 9's impairment requirements at 1 January 2018 is estimated to result in an increase varying between €105,000 and €175,000 over the impairment recognised under IAS 39, none of which relate to additional trade receivables recognised on adoption of IFRS 15. This has been worked out based on debtor balances written-off over the past 7 years and covers a percentage of non-related trade receivables and accrued income outstanding at 31 December 2017. The amount will be debited to retained earnings and credited to receivables and accrued income. This will be regularly monitored and adjusted as appropriate.

4.2.2 CASH AT BANK AND IN HAND

The cash and cash equivalents are held with banks which are rated BBB+ to AA-, based on Standard and Poor's ratings as at 21st December 2017.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group and Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings.

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

4.2.3 CLASSIFICATION - FINANCIAL LIABILITIES

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group's assessment did not indicate that there will be an impact on the Group'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 de-recognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

4.2.4 HEDGE ACCOUNTING

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Upon initial application of IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has elected to retain the IAS 39 accounting requirements.

4.2.5 TRANSITION

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

According to IFRS 15 *Revenue from Contracts with Customers*, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

IFRS 15 supersedes IAS 11, *Construction Contracts* and IAS 18, *Revenue* as well as related interpretations. As opposed to IAS 18 that specifically address revenue from (i) sale of goods, (ii) rendering of services and (iii) interest, royalties and dividends, IFRS 15 contains a single model that will apply to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

Revenue is recognized when, or as, the customer obtains control of the goods or services. When revenue is recognized over time, the amount of revenue to be recognised in the income statement is determined by using a measure of progress. Revenue from contracts that do not qualify for recognition over time will be recognized at the point in time that the Group satisfies the performance obligation. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements as follows:

4.3.1 LICENCES

4.3.1.1 PERPETUAL LICENCES

For perpetual licences, revenue under IAS 18 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. This has been interpreted to be the date of execution (or signing) of the licence agreement. Fees from perpetual licences have therefore been recognised in full upon signing of the licence agreement. Where licence agreements are time-based, revenue from such licences has been recognised rateably over the term of the agreement.

Normally, the Group promises to grant BankWORKS® licence as well as implementation and customisation services for the client to go live with the system. Under IAS 18, the Group recognises revenue from customisation and implementation services over time, by reference to the stage of completion. With the adoption of IFRS 15, the Group is required to assess each arrangement to understand whether licences are distinct from the services provided with that licence. 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.

In this respect, management has assessed that in the majority of the Group's contracts, the licence and customisation are to be considered as one performance obligation (or 'sales promise'), since the customer cannot obtain a benefit from the licence without the customisation and implementation services provided.

The Group has determined that revenue from this performance obligation should be recognised over time provided an enforceable right to payment exists. In this case, under IFRS 15, revenue is to start being 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.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

4.3.1 LICENCES (Continued)

4.3.1.1 PERPETUAL LICENCES (Continued)

As a result of applying the requirements of IFRS 15, licence revenue previously recognised under IAS 18 on signing of the contract must be deferred and recognised either over time, or at the point in time when implementation is complete. Management has estimated that the effect on retained earnings at 1 January 2018 as a result of changes emanating from IFRS 15 on revenue recognised on licence fee income amounts to a decrease in retained earnings. This decrease may vary between €420,000 and €605,000 for the Group, while for the Company the effect is expected to be between €915,000 and €1,100,000. The decrease mainly results from the deferral under IFRS 15 of licence revenue which were recognised under IAS 18 on signing of the contract. The impact of these changes for the Group on other items in the statement of financial position is a decrease in accrued income ranging between €90,000 and €210,000, an increase in deferred income varying from €555,000 to €720,000, and an increase in deferred tax assets of around €225,000 to €325,000 as a result of the above changes. The impact for the Company is a decrease in accrued income ranging between €850,000 and €970,000, an increase in deferred income varying from €555,000 to €720,000, and an increase in deferred tax assets of around €490,000 to €590,000 as a result of the above changes.

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 fee per transaction processed by the customer. Under IFRS 15, revenue from such contracts will be recognised, over time or at a point in time (as applicable), only to the extent that it is probable that a significant reversal in the amount of revenue recognised will not occur. In practice, this will be at the earlier of when the Group can initially determine the transaction price based on its best estimate of the amounts to be received under the contract or when the Group becomes contractually entitled to such amounts under the contract.

4.3.1.2 TERM LICENCE WITH AN OPTION TO PERPETUITY

The Group is party to an annually-renewable term licence agreement with an option of converting to perpetuity at the end of the initially-agreed period. Under IAS 18, the Group considered the said option to be substantive and hence did not consider the option as another element in the arrangement. Accordingly, the Group recognised revenue from annual licences as agreed in each year upon renewal. Under IFRS 15, the Group will be considering the option to represent a material right in the hands of the customer to be considered as another performance obligation in the arrangement. Using criteria under IFRS 15 the Group will be allocating 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 to be allocated to the option to perpetuity. Accordingly, under IFRS 15, the Group will recognise the fair value attributable to the term-licence on an annual basis, immediately upon renewal of the licence agreement to the next year and defer the difference between the agreed annual licence fee and the fair value attributable to the annual licence.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

4.3.1 LICENCES (Continued)

4.3.1.2 TERM LICENCE WITH AN OPTION TO PERPETUITY (Continued)

The cumulative differences attributable to the option, together with the additional one-time payment that will fall due upon exercise of the option to convert the licence to perpetuity, will be 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.

The impact of applying the requirements of IFRS 15 to this licence agreement may result in a reduction of approximately €3.64m, net of deferred tax, from retained earnings as of 1 January 2018 with corresponding impacts on deferred income and deferred tax assets amounting to €5.6m and €1.96m respectively. The quantum of the impact is based on assumptions and estimates made by management when determining the fair value of the arrangement to be allocated to the option. These assumptions and estimates involve significant judgement and small revisions to these assumptions could result in an impact that is materially different from that disclosed above. This is particularly so in respect to the standalone selling price of an annual licence and the expected term of a similar licence. In accordance with IFRS 15, the resulting deferred income associated with this licence is to be released to the income statement whether the option is exercised or not. In view of the term of the contract reaching expiry, the Group expects to recognise any accumulated deferred income from this contract in the income statement during the year ending 31 December 2018. The deferral of revenues from this contract as at 1 January 2018 is therefore not expected to have any impact on the retained earnings at 31 December 2018.

4.3.2 SERVICES

The Group provides customisation and implementation services both when licencing BankWORKS® and providing transaction processing services. Under IAS 18, revenue from such services has been recognized in the profit or loss as it accrued in proportion to the stage of completion of the agreed services at the reporting date. The stage of completion was assessed by reference to surveys of work performed.

As noted in 4.3.1 above, management will be considering the customisation and implementation services as one performance obligation together with the sale of the licence following the application of additional guidance provided in IFRS 15. Transaction processing has been determined to be a distinct performance obligation. In accordance with IFRS 15, revenue from such performance obligation will be recognised over time when an enforceable right to payment exists, by measuring the progress transferred to the client towards the complete satisfaction of the obligation relative to the remaining services promised.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

4.3.2 SERVICES (Continued)

From above-mentioned services, the Group estimates that the initial application of IFRS 15 will approximately result in an increase in deferred income ranging between €15,000 and €35,000, an increase in deferred costs ranging between €40,000 and €165,000, a decrease in deferred tax assets that may spread between €10,000 and €45,000, and a net decrease in retained earnings ranging between €15,000 and €85,000. The effect on the Company would estimate to a decrease in accrued income of €75,000, an increase in deferred income of €15,000, an increase in deferred costs ranging between €40,000 and €155,000, a movement in deferred tax assets that may spread between an increase of €15,000 and a decrease of €25,000, and a net decrease in retained earnings ranging between €35,000 and €40,000 as a result of the above changes.

Revenue from other services requested by the client outside the scope of the original contract, such as change requests and remote and on-site support, are treated as distinct performance obligations and recognised at a point in time or over time, depending on whether IFRS 15's criteria for over time recognition are met. Management assesses each contract individually to determine whether such a right exists.

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; this service is therefore considered to be one performance obligation that is satisfied over time. The consideration in respect of such services contains variable elements that are dependent on the volume of transactions processed; management has however assessed that the Group will be able to allocate the variable fees charged for each transaction to the time period in which it has the contractual right to bill the customer. The Group will accordingly recognise the monthly billings to customers as revenue in the month of billing, and this revenue stream will have no impact on revenue recognition when compared to IAS 18.

4.3.3 MAINTENANCE

Under IAS 18, revenue from maintenance has been recognised on a pro-rata basis with reference to the period to which it relates. Maintenance services, which may include the provision of support, software enhancements and software upgrades are each determined to be distinct performance obligations under IFRS 15, since the customer enjoys the benefit from such services in conjunction with the licence and implementation that would have already been obtained by the customer. Consistently with the requirements in IAS 18, revenues allocated to the maintenance performance obligations will be 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.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

4.3.4 COMPREHENSIVE PACKAGES

Revenue from comprehensive package agreements has been recognised rateably over the term of the agreement under IAS 18, unless revenue arising from separately identifiable deliverables could have been measured reliably to reflect the substance of the transactions. Where separable deliverables could have been identified, revenue was recognised upon satisfaction of the criteria for recognition of these deliverables and presented in accordance with the respective categories.

The Group has assessed the impact of IFRS 15 on comprehensive packages and has determined that revenue should continue to be recognised over time under IFRS 15; accordingly, management does not anticipate any impact on revenue recognition for such contracts.

4.3.5 COSTS TO FULFIL CUSTOMER CONTRACTS

Costs to fulfill a contract are capitalised to be later amortised on a systematic basis that is consistent with the transfer of the service to the customer. In view that the majority of the revenue is still being recognised over time under IFRS 15, then the recognition of revenue, and therefore amortisation, will follow approximately the same patterns as the costs incurred, if not capitalised.

The Group does not expect the application of IFRS 15 to result in a different recognition of contract costs except for contracts that do not meet the criteria for enforceable right to payment. The revenue for such contracts, particularly licence and implementation revenue, will be recognised at a point in time and the respective contracts costs will be recognised consistently with revenue.

4.3.6 PRESENTATION

Under the new IFRS 15-based policies, the Group will no longer present in the Statements of Financial Position items for deferred income and accrued income. Instead, the Group will present a customer contract as either a contract liability or a contract asset once either party to the contract has started to perform.

Under current accounting policies, the Group recognized accrued income as receivables once the amounts were invoiced and the respective service had started. Simultaneously, the Group recognized respective deferred income for services prepaid by the customers. Under the new IFRS 15-based policies, the Group will recognize contract assets only as far as services will be delivered in excess of payment made or consideration becoming due. Consequently, compared to the recognition of trade receivables and deferred income under our current policies, the Group presents contract liabilities for payments made in advance of the delivery of the respective service.

This change is of a presentation nature only and thus does not affect revenues and profits.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.3 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

4.3.7 TRANSITION

Effective January 1, 2018, the Group started to apply the new standard retrospectively, using the cumulative catch-up approach and the practical expedient to apply the new standard only to contracts that were not completed as of January 1, 2018. This practical expedient will affect both the transition adjustment amount recognized in retained earnings and the Group's future revenues and expenses as outlined above. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

4.4 IFRS 16 LEASES

The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

IFRS 16 can be applied, by a lessee, using either the retrospective approach or the modified retrospective approach with optional practical expedients. Application should be consistent to all the leases.

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

5 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.

5.1 INTANGIBLE ASSETS

The fair value of rights of use of software acquired in a business combination is estimated by reference to the fair value established upon acquisition of these rights by the acquiree in 2008 and to the incremental benefits expected to be derived by the Group.

5.2 INVESTMENTS IN EQUITY AND DEBT SECURITIES

The fair value of quoted available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date, whenever this is reasonably measurable.

5.3 TRADE AND OTHER RECEIVABLES

The fair value of trade and other 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.

5.4 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.

5.5 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of the interest rate swap is based on the banker's quote.

5 DETERMINATION OF FAIR VALUES (Continued)

5.6 SHARE-BASED PAYMENT TRANSACTIONS

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

6 FINANCIAL RISK MANAGEMENT

6.1 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.

6.2 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.

6.3 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 receivables from customers and cash held with financial institutions.

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 CREDIT RISK (Continued)

6.3.1 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.

63% of the Group's revenue is attributable to sales transactions with two major customers (2016: 58% attributable to sales transactions with two major customers) as per note 7.4. The Group's revenue is mainly generated through sales transactions concluded with customers situated in Europe (2016: 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.

6.3.2 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.

6.4 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, such as natural disasters.

6 FINANCIAL RISK MANAGEMENT (Continued)

6.5 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.

6.5.1 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 is 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.

6.5.2 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.

6.6 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.

7 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.

7 OPERATING SEGMENTS (Continued)

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.

7.1 INFORMATION ABOUT REPORTABLE SEGMENTS

	Licensing		Processing		Total	
	2017 €	2016 €	**2017 €**	2016 €	**2017 €**	2016 €
External revenues	**14,448,881**	15,267,519	**2,931,145**	1,903,772	**17,380,026**	17,171,291
Inter-segment revenues	**360,267**	361,504	**-**	-	**360,267**	361,504
Segment revenues	**14,809,148**	15,629,023	**2,931,145**	1,903,772	**17,740,293**	17,532,795
Finance income	**130,889**	243,493	**60**	159	**130,949**	243,652
Finance expense	**(466,367)**	(142,607)	**(58,255)**	(63,744)	**(524,622)**	(206,351)
Depreciation and amortisation	**(1,214,850)**	(1,120,335)	**(214,482)**	(312,106)	**(1,429,332)**	(1,432,441)
Movement in provision for impairment loss on receivables	**516,489**	(364,787)	**-**	-	**516,489**	(364,787)
Movement in amounts written off	**(821,681)**	(347,423)	**-**	-	**(821,681)**	(347,423)
Reportable segment profit/(loss) before income tax	**1,461,676**	1,540,932	**(382,502)**	(806,697)	**1,079,174**	734,235
Income tax (expense)/credit	**(542,054)**	(531,905)	**(68,987)**	104,222	**(611,041)**	(427,683)
Reportable segment assets	**29,159,402**	31,413,448	**5,043,197**	5,329,521	**34,202,599**	36,742,969
Capital expenditure	**425,862**	520,267	**95,260**	110,178	**521,122**	630,445
Reportable segment liabilities	**8,783,976**	9,740,202	**3,362,226**	3,673,050	**12,146,202**	13,413,252

7 OPERATING SEGMENTS (Continued)

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

	2017 €	2016 €
External Revenues		
Total revenue for reportable segments	17,740,293	17,532,795
Elimination of inter-segment transactions	(360,267)	(361,504)
Consolidated revenue	17,380,026	17,171,291
Finance income		
Total finance income for reportable segments	130,949	243,652
Elimination of inter-segment transactions	(58,006)	(52,619)
Consolidated finance income	72,943	191,033
Finance expense		
Total finance expense for reportable segments	524,622	206,351
Elimination of inter-segment transactions	(58,006)	(52,533)
Consolidated finance expense	466,616	153,818
Depreciation and amortisation		
Total depreciation and amortisation for reportable segments	1,429,332	1,432,441
Elimination of inter-segment transactions	(146,667)	(146,667)
Consolidated depreciation and amortisation	1,282,665	1,285,774
Reportable segment profit before income tax		
Total reportable segment profit before income tax for reportable segments	1,079,174	734,235
Elimination of inter-segment transactions	146,663	146,581
Consolidated reportable segment profit before income tax	1,225,837	880,816
Assets		
Total assets for reportable segments	34,202,599	36,742,969
Elimination of inter-segment balances	(4,564,734)	(4,862,926)
Consolidated total assets	29,637,865	31,880,043
Liabilities		
Total liabilities for reportable segments	12,146,202	13,413,252
Elimination of inter-segment balances	(3,228,751)	(3,398,541)
Consolidated total liabilities	8,917,451	10,014,711

7 OPERATING SEGMENTS (Continued)

7.3 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 2017		
Malta	**582,629**	**13,589,908**
UK and Ireland	**11,808,672**	**-**
Other countries	**4,988,725**	**2,206,639**
	17,380,026	**15,796,547**
31 December 2016		
Malta	581,764	14,148,221
UK and Ireland	10,714,953	-
Other countries	5,874,574	1,701,704
	17,171,291	15,849,925

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

7.4 MAJOR CUSTOMERS

For the year ended 31 December 2017, revenues from two (2016: two) major customers of the licensing segment amounted to €5,241,057 and €5,681,390 (2016: €4,344,633 and €5,616,808) of the Group's total revenues.

8 PROPERTY, PLANT AND EQUIPMENT

8.1 THE GROUP

Cost	Land and buildings €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Balance at 1 January 2016	7,675,766	3,894,177	180,750	11,750,693
Additions	155,551	449,271	25,623	630,445
Disposals	-	-	(29,891)	(29,891)
Effects of movement in exchange rates	-	3,735	-	3,735
Balance at 31 December 2016	7,831,317	4,347,183	176,482	12,354,982
Balance at 1 January 2017	7,831,317	4,347,183	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	7,967,999	4,634,659	197,432	12,800,090
Depreciation				
Balance at 1 January 2016	235,985	2,349,303	106,161	2,691,449
Depreciation for the year	98,826	523,204	31,488	653,518
Released on disposals	-	-	(28,895)	(28,895)
Effects of movement in exchange rates	9	4,084	4	4,097
Balance at 31 December 2016	334,820	2,876,591	108,758	3,320,169
Balance at 1 January 2017	334,820	2,876,591	108,758	3,320,169
Depreciation for the year	105,517	484,457	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	439,720	3,352,475	104,336	3,896,531
Carrying amounts				
At 1 January 2016	7,439,781	1,544,874	74,589	9,059,244
At 31 December 2016	7,496,497	1,470,592	67,724	9,034,813
At 31 December 2017	**7,528,279**	**1,282,184**	**93,096**	**8,903,559**

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

8.2 THE COMPANY

Cost	Land and buildings €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Balance at 1 January 2016	7,675,767	3,123,397	180,750	10,979,914
Additions	129,029	233,018	-	362,047
Disposals	-	-	(29,891)	(29,891)
Balance at 31 December 2016	7,804,796	3,356,415	150,859	11,312,070
Balance at 1 January 2017	7,804,796	3,356,415	150,859	11,312,070
Additions	140,021	217,801	68,038	425,860
Disposals	-	-	(43,863)	(43,863)
Balance at 31 December 2017	7,944,817	3,574,216	175,034	11,694,067
Depreciation				
Balance at 1 January 2016	235,986	1,803,294	106,161	2,145,441
Depreciation for the year	97,264	353,752	30,851	481,867
Released on disposals	-	-	(28,895)	(28,895)
Balance at 31 December 2016	333,250	2,157,046	108,117	2,598,413
Balance at 1 January 2017	333,250	2,157,046	108,117	2,598,413
Depreciation for the year	97,263	392,069	34,980	524,312
Released on disposals	-	-	(43,863)	(43,863)
Balance at 31 December 2017	430,513	2,549,115	99,234	3,078,862
Carrying amounts				
At 1 January 2016	7,439,781	1,320,103	74,589	8,834,473
At 31 December 2016	7,471,546	1,199,369	42,742	8,713,657
At 31 December 2017	**7,514,304**	**1,025,101**	**75,800**	**8,615,205**

9 INTANGIBLE ASSETS

9.1 THE GROUP

Cost	Goodwill €	Internally generated computer software €	Software rights €	Other computer software €	Total €
Balance at 1 January 2016	684,170	13,334,833	3,000,000	756,406	17,775,409
Additions	-	498,177	-	-	498,177
Effects of movement in exchange rates	22,457	-	-	24,823	47,280
Balance at 31 December 2016	706,627	13,833,010	3,000,000	781,229	18,320,866
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
Amortisation					
Balance at 1 January 2016	-	10,048,498	825,000	-	10,873,498
Charge for the year	-	432,256	200,000	-	632,256
Balance at 31 December 2016	-	10,480,754	1,025,000	-	11,505,754
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
Carrying amounts					
At 1 January 2016	684,170	3,286,335	2,175,000	756,406	6,901,911
At 31 December 2016	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**

9 INTANGIBLE ASSETS (Continued)

9.2 THE COMPANY

Cost	**Internally generated computer software €**	**Software rights €**	**Total €**
Balance at 1 January 2016	13,334,833	3,000,000	16,334,833
Additions	498,177	-	498,177
Balance at 31 December 2016	13,833,010	3,000,000	16,833,010
Balance at 1 January 2017	13,833,010	3,000,000	16,833,010
Additions	910,935	-	910,935
Balance at 31 December 2017	14,743,945	3,000,000	17,743,945
Amortisation			
Balance at 1 January 2016	10,048,498	825,000	10,873,498
Amortisation for the year	432,256	200,000	632,256
Balance at 31 December 2016	10,480,754	1,025,000	11,505,754
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	10,933,681	1,225,000	12,158,681
Carrying amounts			
At 1 January 2016	3,286,335	2,175,000	5,461,335
At 31 December 2016	3,352,256	1,975,000	5,327,256
At 31 December 2017	**3,810,264**	**1,775,000**	**5,585,264**

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

9 INTANGIBLE ASSETS (Continued)

9.4 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, 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. For this purpose management prepared forecasts of net cash flows for the five-year period 2018 – 2022 (2016: five-year period 2017 - 2021) and applied growth rates for subsequent years.

9.4.1 PAST PERFORMANCE AND OUTLOOK

Various factors such as the brand's newness to the market, high competition, lack of the right momentum by potential clients slowed down implementation of the Group's plan for market penetration. This has led to the Group not meeting its 2017 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.

9.4.2 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.

9 INTANGIBLE ASSETS (Continued)

9.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL (Continued)

9.4.2 ASSUMPTIONS (Continued)

The key assumptions used in the calculation of the value-in-use of RS2 Software LLC, 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*:

	2017 €	2018 €	2019 €	2020 €	2021 €	2022 €
31 December 2017 (risk-adjusted)	Not applicable	(5,253,797)	(4,153,024)	338,215	4,461,239	4,907,363
31 December 2016	(2,043,281)	(330,849)	810,095	1,990,551	3,064,791	Not applicable

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 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 2017	100%	57%	37%	26%	26%

- 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.

(* Whereas in 2016 the projection risk was reflected in the discount rate, the 2017 methodology was modified to reflect such risk in the forecast net cash (outflows)/inflows.)

9 INTANGIBLE ASSETS (Continued)

9.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL (Continued)

9.4.2 ASSUMPTIONS (Continued)

(ii) Discount rate*:

	2017	2016
Post-tax	**12.8%**	17.9%
Pre-tax	**15.7%**	24.2%

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.

9.4.3 TERMINAL GROWTH RATE

Cash flows beyond 2022 have been extrapolated using a terminal growth rate of 0.12% (2016: 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.

9.4.4 ASSESSMENT

At Company level, the recoverable amount of RS2 Software LLC 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 LLC at 31 December 2017 which stood at €3.1m. The estimated recoverable amount of RS2 Software LLC exceeds its carrying amount by approximately €3.9m.

At Group level, the carrying amount of the Cash Generating Unit amounts to €1.3m, of which goodwill amounts to €0.6m. In this case, the estimated recoverable amount of RS2 Software LLC exceeds the net carrying amount by approximately €10.0m.

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

9 INTANGIBLE ASSETS (Continued)

9.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL (Continued)

9.4.4 ASSESSMENT (Continued)

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 LLC 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 2018 to 2022 (2016: 2017 to 2021), 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:

	2017	2016
Detoriation of annual net cash flows by:	**-12.6%**	-7.3%
Increase of discount rate by:	**+5.9%**	+1.3%

10 INVESTMENTS IN SUBSIDIARIES

10.1

	THE COMPANY	
	2017	2016
	€	€
Balance at 1 January	**5,737,262**	2,730,104
Acquisitions	**-**	112,105
Loans to subsidiaries	**1,140,497**	2,840,727
Discount unwind on accrued income receivable from subsidiary	**(58,006)**	54,326
Balance at 31 December	**6,819,753**	5,737,262

10.2 Loans to subsidiaries are unsecured, interest free and repayable at the discretion of the borrower.

10 INVESTMENTS IN SUBSIDIARIES (Continued)

10.3

	Place of business	Ownership interest fully paid-up 2017 %	2016 %	Nature of business
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 LLC	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

10.4 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.

10.5 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.

10.6 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.

10.7 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.

10 INVESTMENTS IN SUBSIDIARIES (Continued)

10.8 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 2017, the guarantee amounted to €378,496.

11 OTHER INVESTMENT

11.1

	GROUP AND COMPANY	
	2017 **€**	2016 €
Non-current		
Available-for-sale financial asset	**131,785**	131,785

11.2 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. The investment is carried at cost less any impairment losses. Fair value information for this investment has not been attributed because the investment is an investment in an equity instrument that does not have a quoted market price and its fair value cannot be measured reliably. Fair value cannot be measured reliably because the range of reasonable fair values is significant and the probabilities of the various estimates cannot be reasonably measured.

12 TRADE AND OTHER RECEIVABLES

12.1

	THE GROUP		THE COMPANY	
	2017 **€**	2016 €	**2017** **€**	2016 €
Non-current				
Trade receivable owed by third parties	**40,018**	-	**-**	-
Loans and receivables from subsidiaries	**-**	-	**20,810**	23,751
	40,018	-	**20,810**	23,751
Current				
Trade receivables owed by third parties	**1,441,046**	1,879,777	**1,400,589**	1,804,112
Other receivables	**149,547**	119,706	**32,723**	-
	1,590,593	1,999,483	**1,433,312**	1,804,112

12.2 Non-current amounts receivable from subsidiaries were reclassified and included as part of equity investment. These are unsecured, interest free and repayable at the discretion of the borrower (refer to note 10.1).

12.3 Trade receivables for the Group and Company are shown net of impairment losses amounting to €5,002 (2016: €165,992).

12 TRADE AND OTHER RECEIVABLES (Continued)

12.4

	THE GROUP		THE COMPANY	
	2017	2016	**2017**	2016
	€	€	**€**	€
Current				
Loans and receivables from related parties				
Amounts owed by parent company	**765,275**	754,834	**765,275**	754,834
Amounts owed by subsidiaries	**-**	-	**261,836**	636,385
Amounts owed by other related parties	**1,945,080**	163,732	**1,945,080**	163,732
	2,710,355	918,566	**2,972,191**	1,554,951

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

12.6 Amounts due by subsidiaries and other related parties as at 31 December 2017 were unsecured, repayable on demand and did not bear any interest.

12.7 Transactions with related parties are set out in note 32 to these financial statements.

12.8 The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

13 ACCRUED INCOME

13.1

	THE GROUP		THE COMPANY	
	2017	2016	**2017**	2016
	€	€	**€**	€
Non-current				
Accrued income owed by subsidiary	**-**	-	**844,369**	1,241,928
	-	-	**844,369**	1,241,928
Current				
Accrued income owed by third parties	**932,597**	1,071,201	**416,462**	868,753
Accrued income owed by parent company	**120,000**	120,000	**120,000**	120,000
Accrued income owed by subsidiary	**-**	-	**1,092,306**	505,746
Accrued income owed by related parties	**17,027**	4,820,350	**17,027**	4,820,342
	1,069,624	6,011,551	**1,645,795**	6,314,841

13 ACCRUED INCOME (Continued)

13.2 As at 31 December 2016, accrued income owed by third parties for the Group and Company are shown net of impairment losses amounting to €355,500. No provision for impairment losses was recorded as at 31 December 2017.

13.3 Transactions with related parties are set out in note 32 to these financial statements.

14 CASH AND CASH EQUIVALENTS

14.1

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Cash at bank	**7,780,050**	6,335,626	**7,074,612**	5,526,674
Cash in hand	**9,109**	8,529	**8,455**	8,465
	7,789,159	6,344,155	**7,083,067**	5,535,139

14.2 The Company provided a guarantee to one of its clients of $111,126 which shall become payable if the Company fails to fulfil the contractual obligations under the agreement with the client.

15 CAPITAL AND RESERVES

15.1 SHARE CAPITAL

	GROUP AND COMPANY	
ISSUED SHARE CAPITAL	**2017 No.**	2016 No.
Ordinary Shares		
On issue at 1 January - fully paid-up	**158,333,187**	89,999,912
Bonus issue	**13,194,432**	5,000,000
Share split	**-**	63,333,275
On issue at 31 December - fully paid-up	**171,527,619**	158,333,187

15 CAPITAL AND RESERVES (Continued)

15.1 SHARE CAPITAL (Continued)

AUTHORISED SHARE CAPITAL

At 31 December 2017, the authorised share capital comprised 200,000,000 (2016: 166,666,667) ordinary shares at a nominal value of €0.06 each (2016: €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.

15.2 SHARE PREMIUM

Share premium amounting to €1,077 (2016: €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.

15.3 RESERVES

15.3.1 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.

15.3.2 SHARE OPTION RESERVE

The share option reserve represents the fair value of the employees expense in respect of share-based payments.

15 CAPITAL AND RESERVES (Continued)

15.4 DIVIDENDS

The following dividends were declared and paid by the Company:

For the year ended 31 December	2017 €	2016 €
Dividend, net of income tax	**1,583,332**	2,501,998
Dividend per ordinary share	**0.0100**	0.0278

After 31 December 2017, the following dividend was proposed by the directors for 2017. This dividend has not been provided for and there are no income tax consequences.

	2017 €
€0.01c46 per ordinary share	€2,504,303

15.5 AVAILABILITY OF RESERVES FOR DISTRIBUTION

	THE GROUP		THE COMPANY	
	2017 **€**	2016 €	**2017** **€**	2016 €
Distributable	**10,718,444**	11,506,618	**16,453,444**	16,791,843
Non-distributable	**68,189**	1,000,910	**162,733**	891,139
	10,786,633	12,507,528	**16,616,177**	17,682,982

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

16 BANK BORROWINGS

16.1

	GROUP AND COMPANY	
	2017	2016
	€	€
Non-current liabilities		
Non-current portion of secured bank loan:		
Repayable between one and five years	**835,369**	1,849,509
Repayable after five years	**-**	10,390
At end of year	**835,369**	1,859,899
Current liabilities		
Current portion of secured bank loan	**1,022,016**	993,937

16.2 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.

16.3 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 asset.

16.4 The Group's exposure to interest rate risk for financial assets and liabilities are disclosed in note 27.

16.5 The Group's exposure to liquidity risk is disclosed in note 27.

17 DEFERRED TAX ASSETS AND LIABILITIES

17.1 DEFERRED TAX ASSETS AND LIABILITIES ARE ATTRIBUTABLE TO THE FOLLOWING:

The Group	Assets		Liabilities		Balance	
	2017 €	2016 €	**2017 €**	2016 €	**2017 €**	2016 €
Plant and equipment	**1,700**	70	**(126,974)**	(136,144)	**(125,274)**	(136,074)
Intangible assets	**-**	-	**(2,079,384)**	(2,126,533)	**(2,079,384)**	(2,126,533)
Impairment loss on receivables	**1,751**	182,522	**-**	-	**1,751**	182,522
Provision for exchange fluctuations	**85,444**	-	**-**	(15,830)	**85,444**	(15,830)
Unabsorbed losses	**376,017**	376,017	**-**	-	**376,017**	376,017
Unabsorbed capital allowances	**839,407**	961,633	**-**	-	**839,407**	961,633
Tax assets/(liabilities)	**1,304,319**	1,520,242	**(2,206,358)**	(2,278,507)	**(902,039)**	(758,265)
Set off of tax	**(1,304,319)**	(1,520,242)	**1,304,319**	1,520,242	**-**	-
Net tax liabilities	**-**	-	**(902,039)**	(758,265)	**(902,039)**	(758,265)

The Company	Assets		Liabilities		Balance	
	2017 €	2016 €	**2017 €**	2016 €	**2017 €**	2016 €
Plant and equipment	**-**	-	**(126,974)**	(136,144)	**(126,974)**	(136,144)
Intangible assets	**-**	-	**(1,553,217)**	(1,549,033)	**(1,553,217)**	(1,549,033)
Impairment loss on receivables	**1,751**	182,522	**-**	-	**1,751**	182,522
Provision for exchange fluctuations	**85,159**	-	**-**	(15,830)	**85,159**	(15,830)
Tax assets/(liabilities)	**86,910**	182,522	**(1,680,191)**	(1,701,007)	**(1,593,281)**	(1,518,485)
Set off of tax	**(86,910)**	(182,522)	**86,910**	182,522	**-**	-
Net tax liabilities	**-**	-	**(1,593,281)**	(1,518,485)	**(1,593,281)**	(1,518,485)

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

17.3 Deferred tax assets have not been recognised in respect of tax losses, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom. The unrecognised deferred tax asset as at year end amount to €619,537 (2016: €619,167).

17 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

17.4 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

The Group	Balance 1 Jan 2016 €	Recognised in profit or loss €	Balance 1 Jan 2017 €	Recognised in profit or loss €	Balance 31 Dec 2017 €
Plant and equipment	(143,269)	7,195	**(136,074)**	**10,800**	**(125,274)**
Intangible assets	(2,020,594)	(105,939)	**(2,126,533)**	**47,149**	**(2,079,384)**
Impairment loss on receivables	69,823	112,699	**182,522**	**(180,771)**	**1,751**
Provision for exchange fluctuations	(299,041)	283,211	**(15,830)**	**101,274**	**85,444**
Unabsorbed losses	375,915	102	**376,017**	**-**	**376,017**
Unabsorbed capital allowances	715,161	246,472	**961,633**	**(122,226)**	**839,407**
	(1,302,005)	543,740	**(758,265)**	**(143,774)**	**(902,039)**

The Company	Balance 1 Jan 2016 €	Recognised in profit or loss €	Balance 1 Jan 2017 €	Recognised in profit or loss €	Balance 31 Dec 2017 €
Plant and equipment	(143,321)	7,177	**(136,144)**	**9,170**	**(126,974)**
Intangible assets	(1,584,260)	35,227	**(1,549,033)**	**(4,184)**	**(1,553,217)**
Impairment loss on receivables	69,823	112,699	**182,522**	**(180,771)**	**1,751**
Provision for exchange fluctuations	(299,041)	283,211	**(15,830)**	**100,989**	**85,159**
	(1,956,799)	438,314	**(1,518,485)**	**(74,796)**	**(1,593,281)**

18 TRADE AND OTHER PAYABLES

18.1

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Trade payables	**536,601**	448,131	**435,558**	287,350
Other payables	**35,099**	-	**-**	42,758
Dividends payable	**22,738**	18,604	**22,738**	18,604
Other taxes and social securities	**364,899**	362,790	**382,805**	351,453
Amounts due to other related parties	**238,090**	20,186	**352,038**	29,378
	1,197,427	849,711	**1,193,139**	729,543

18.2 Transactions with related parties are set out in note 32 to these financial statements.

18.3 The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

19 ACCRUALS AND DEFERRED INCOME

19.1 ACCRUALS

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Current				
Accrued expenses owed to third parties	**651,806**	828,974	**460,840**	372,183

19.2 Deferred income classified as current liabilities for the Group amounting to €1,696,377 (2016: €1,647,989) and Company amounting to €1,539,677 (2016: €1,643,241) consists of customer advances for contracted work and maintenance fees recognised on a pro-rata basis with reference to the period to which they relate.

20 REVENUE

Revenue is stated after deduction of sales rebates and indirect taxes.

20.1 CATEGORY OF ACTIVITY

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Licence fees	**2,895,000**	3,370,000	**2,895,000**	3,370,000
Service fees	**11,307,394**	10,506,310	**8,581,925**	8,812,169
Maintenance fees	**1,939,063**	2,007,102	**2,102,354**	2,150,143
Comprehensive packages	**784,000**	784,000	**784,000**	784,000
Re-imbursement of expenses	**454,569**	503,879	**445,869**	512,711
	17,380,026	17,171,291	**14,809,148**	15,629,023

20.2 GEOGRAPHICAL MARKETS

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Europe	**16,509,866**	16,411,709	**14,077,215**	14,869,441
Middle East	**667,285**	595,342	**641,401**	595,342
North America	**89,224**	-	**-**	-
South America	**23,119**	-	**-**	-
Asia	**90,532**	164,240	**90,532**	164,240
	17,380,026	17,171,291	**14,809,148**	15,629,023

21 PROFIT BEFORE INCOME TAX

21.1 The Group's profit before income tax includes total fees charged by the auditors of the Company during 2017 for:

	€
Auditors' remuneration	**79,322**
Tax advisory services	**80,540**
Other non-audit services	**40,394**

The fee payable to the auditor of a subsidiary in relation to audit services for 2017 amounts to €9,975 (2016: €5,800).

21.2 The Group's profit before income tax includes professional fees and recharge of expenses which amounted to €560,671 and €431,000 (Company: nil & €428,228) respectively. The latter are recharges to clients and included in note 20.1 to these financial statements.

21.3 OTHER INCOME

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Realised operating exchange gains	**-**	9,807	**-**	-
Unrealised operating exchange gains	**69,489**	-	**70,168**	-
Decrease in provision for impairment loss on trade receivables	**516,489**	-	**516,489**	-
Other income	**45,378**	23,237	**44,690**	22,578
Gains from disposal of asset	**6,900**	8,004	**6,900**	8,004
	638,256	41,048	**638,247**	30,582

21.4 OTHER EXPENSES

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Realised operating exchange losses	**31,867**	477,350	**24,314**	477,350
Unrealised operating exchange losses	**-**	953,146	**-**	952,917
Accrued income written off	**191,664**	-	**191,664**	-
Increase in provision for impairment loss on trade receivables	**-**	364,787	**-**	364,787
Bad debts written off	**630,017**	347,423	**630,017**	347,423
Other expenses	**14,864**	3,728	**-**	-
	868,412	2,146,434	**845,995**	2,142,477

22 FINANCE INCOME AND COSTS

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Bank interest income	**1,167**	1,840	**1,107**	1,681
Interest on loans and receivables	**10,447**	10,453	**10,447**	45,307
Non-operating unrealised exchange gain	**-**	143,807	**-**	143,806
Discount unwind on trade receivables and accrued income	**25,184**	-	**83,190**	17,766
Change in fair value of interest rate swap	**36,145**	34,933	**36,145**	34,933
Finance income	**72,943**	191,033	**130,889**	243,493
Bank interest expense	**(101,825)**	(124,491)	**(101,801)**	(124,466)
Interest on late payment	**(6,852)**	(18,138)	**(6,720)**	(17,842)
Non-operating unrealised exchange loss	**(357,939)**	-	**(357,805)**	-
Discount unwind on trade receivables and accrued income	**-**	(11,189)	**-**	-
Finance costs	**(466,616)**	(153,818)	**(466,326)**	(142,308)
Net finance (costs)/income	**(393,673)**	37,215	**(335,437)**	101,185

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

23 INCOME TAX EXPENSE

23.1 RECOGNISED IN PROFIT OR LOSS

		THE GROUP		THE COMPANY	
Current tax expense	**Note**	**2017 €**	2016 €	**2017 €**	2016 €
Current tax charge for the year		**(453,786)**	(966,381)	**(451,654)**	(963,421)
Tax withheld in foreign jurisdictions		**(12,021)**	-	**(12,021)**	-
Withholding tax on interest received		**(175)**	(276)	**(166)**	(252)
Foreign tax charge for the year		**(1,285)**	(4,766)	**-**	-
		(467,267)	(971,423)	**(463,841)**	(963,673)
Deferred tax expense					
Origination and reversal of temporary differences	17.3	**(143,774)**	543,740	**(74,796)**	438,314
Income tax expense		**(611,041)**	(427,683)	**(538,637)**	(525,359)

23 INCOME TAX EXPENSE (Continued)

23.2 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	
	2017 **€**	2016 €	**2017** **€**	2016 €
Profit before tax	**1,225,837**	880,816	**1,839,451**	1,757,513
Income tax using the domestic income tax rate of 35%	**(429,043)**	(308,286)	**(643,808)**	(615,130)
Effect of tax rates in foreign jurisdictions	**(122,159)**	-	**(12,021)**	-
Tax credit against tax paid in foreign jurisdictions	**1,010**	-	**1,010**	-
Tax effect of:				
Non-taxable income	**56,051**	34,143	**56,039**	34,143
Non-deductible expenses	**(229,503)**	(334,689)	**(17,103)**	(116,933)
Different tax rates on bank interest income	**221**	368	**221**	336
Depreciation charges not deductible by way of capital allowances	**(7,714)**	(13,854)	**(10,096)**	(12,208)
Unrecognised deferred tax assets on unrelieved tax losses	**(18,356)**	-	**-**	-
Investment tax credit given by Business Promotion Act incentives enacted in Malta	**87,121**	143,331	**87,121**	143,331
Surrendering of loss from subsidiary	**-**	-	**-**	41,102
Elimination of inter-company transaction	**51,331**	51,304	**-**	-
Income tax expense	**(611,041)**	(427,683)	**(538,637)**	(525,359)

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

24 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 165,382,267, 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 15.1). The calculation of earnings per share for the comparative year has been therefore adjusted retrospectively and based on the revised number of shares held at the end of the current year.

Earnings per share of the Group and Company for the year ended 31 December 2017 amounted to €0.005 and €0.008 respectively (2016: €0.003 and €0.007).

25 PERSONNEL EXPENSES

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

		THE GROUP		THE COMPANY	
	Note	**2017 €**	2016 €	**2017 €**	2016 €
Directors' emoluments:					
Fees		**150,231**	120,665	**150,231**	120,665
Remuneration		**552,363**	480,889	**432,363**	360,889
Non-competition benefits	26	**43,450**	27,250	**36,238**	21,103
Indemnity insurance		**12,210**	12,189	**12,210**	12,189
Fringe benefits		**64,626**	64,080	**64,626**	64,080
Key management personnel emoluments:					
Remuneration		**515,963**	486,178	**368,360**	334,596
Non-competition benefits	26	**28,669**	92,078	**4,910**	87,969
Fringe benefits		**13,290**	61,145	**7,693**	56,320
		1,380,802	1,344,474	**1,076,631**	1,057,811
Wages and salaries		**7,613,964**	6,104,926	**6,293,134**	5,417,515
Social security contributions		**506,238**	425,416	**461,101**	385,141
		9,501,004	7,874,816	**7,830,866**	6,860,467

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

	THE GROUP		THE COMPANY	
	2017 No.	2016 No.	**2017 No.**	2016 No.
Operating	**194**	173	**176**	165
Management and administration	**50**	44	**45**	39
	244	217	**221**	204

26 EMPLOYEE BENEFITS

26.1 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 2017 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

26 EMPLOYEE BENEFITS (Continued)

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.

The movement in the liability is as follows:	THE GROUP		THE COMPANY	
Post-employment liabilities	**2017 €**	2016 €	**2017 €**	2016 €
Present value at 1 January	**2,033,467**	1,914,139	**1,467,492**	1,358,420
Recognised in profit or loss:				
Recognised during the year	**-**	79,896	**-**	79,896
Discount unwind	**72,119**	39,432	**41,148**	29,176
Present value at 31 December	**2,105,586**	2,033,467	**1,508,640**	1,467,492

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Non-current liabilities				
Employee benefits	**1,994,164**	1,922,045	**1,397,218**	1,356,070
Current liabilities				
Employee benefits	**111,422**	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

26 EMPLOYEE BENEFITS (Continued)

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

	THE GROUP		THE COMPANY	
	2017	2016	**2017**	2016
Discount rates	**1.33% - 2.97%**	1.86% - 2.02%	**1.46% - 2.97%**	2.02%
Expected years to termination (weighted average)	**7.49 yrs**	8.64 yrs	**7.2 yrs**	8.3 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 hypothectical 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 €101,562 (increases by €111,085) at Company level and €148,323 (increases by €162,053) 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 €14,564 (decreases by €18,653) at Company level and by €44,045 (decreases by €46,299)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 €106,591 (decreases by €97,673) at Company level and by €163,957 (decreases by €150,464) at Group level.

27 FINANCIAL INSTRUMENTS

27.1 CREDIT RISK

27.1.1 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		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Non-current assets				
Trade and other receivables	**40,018**	-	**-**	-
Amounts receivable from related parties	**-**	-	**20,810**	23,751
Accrued income	**-**	-	**844,369**	1,241,928
	40,018	-	**865,179**	1,265,679
Current assets				
Trade and other receivables	**1,590,593**	1,999,483	**1,433,312**	1,804,112
Loans and receivables from related parties	**2,710,355**	918,566	**2,972,191**	1,554,951
Accrued income	**1,069,624**	6,011,551	**1,645,795**	6,314,841
Cash at bank	**7,780,050**	6,335,626	**7,074,612**	5,526,674
	13,150,622	15,265,226	**13,125,910**	15,200,578

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

	Carrying Amount			
	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Non-current assets				
Europe	**-**	-	**844,369**	1,241,928
South America	**-**	-	**20,810**	23,751
Asia	**40,018**	-	**-**	-
	40,018	-	**865,179**	1,265,679
Current assets				
Europe	**4,161,237**	7,587,590	**4,998,354**	8,451,895
Middle East	**1,121,252**	703,431	**578,969**	723,914
North America	**81,239**	302,279	**162,928**	182,279
Asia	**6,844**	336,300	**311,047**	315,816
	5,370,572	8,929,600	**6,051,298**	9,673,904

27 FINANCIAL INSTRUMENTS (Continued)

27.1 CREDIT RISK (Continued)

27.1.1 EXPOSURE TO CREDIT RISK (Continued)

The amounts due by the Group and Company's significant customers for loans and receivables, including accrued income, are analysed as follows:

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Customers situated in Europe	**2,445,252**	5,314,309	**2,445,252**	5,314,309

27.1.2 IMPAIRMENT LOSSES

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

	THE GROUP			
	Gross 2017 €	**Impairment 2017 €**	Gross 2016 €	Impairment 2016 €
Not past due	**1,226,543**	**-**	522,335	-
31 days to 60 days	**403,110**	**-**	277,853	-
61 days to 90 days	**486,725**	**-**	126,758	-
Over 90 days	**2,229,590**	**5,002**	2,157,095	165,992
	4,345,968	**5,002**	3,084,041	165,992

	THE COMPANY			
	Gross 2017 €	**Impairment 2017 €**	Gross 2016 €	Impairment 2016 €
Not past due	**1,097,976**	**-**	452,673	-
31 days to 60 days	**423,737**	**-**	338,333	-
61 days to 90 days	**534,977**	**-**	250,730	-
Over 90 days	**2,374,625**	**5,002**	2,507,070	165,992
	4,431,315	**5,002**	3,548,806	165,992

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

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Balance at 1 January	**165,992**	183,705	**165,992**	183,705
Impairment loss	**469,702**	165,992	**469,702**	165,992
Amounts written-off	**(630,017)**	(189,735)	**(630,017)**	(189,735)
Effect of exchange rate fluctuations	**(675)**	6,030	**(675)**	6,030
Balance at 31 December	**5,002**	165,992	**5,002**	165,992

27 FINANCIAL INSTRUMENTS (Continued)

27.1 CREDIT RISK (Continued)

27.1.2 IMPAIRMENT LOSSES (Continued)

Loans and receivables are stated net of a specific impairment allowance. Based on historic default rates the Group believes that no further allowance is necessary. Management believes that unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of credit risk. More specifically, balances totalling €128,272 included in the 'over 90 days' category are receivable from two customers that either are seeking further clarifications or requesting a revised schedule of payments. Management believes that these balances are collectible in full when taking into account negotiations to date and its assessment of the client's credit risk.

27.2 LIQUIDITY RISK

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

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)

27 FINANCIAL INSTRUMENTS (Continued)

27.2 LIQUIDITY RISK (Continued)

31 December 2016	Carrying amount €	Contractual Cash flows €	12 months or less €	1 - 2 years €	2 - 5 years €	More than 5 years €
The Group						
Secured bank loans	2,853,836	(2,978,055)	(1,060,956)	(1,060,956)	(845,711)	(10,432)
Interest rate swap	84,254	(85,529)	(34,649)	(25,707)	(25,173)	-
Accrued expenses	828,974	(828,974)	(828,974)	-	-	-
Trade and other payables	849,711	(849,711)	(849,711)	-	-	-
Post-employment benefits	2,033,467	(2,351,954)	(111,422)	-	(270,090)	(1,970,442)
	6,650,242	(7,094,223)	(2,885,712)	(1,086,663)	(1,140,974)	(1,980,874)
The Company						
Secured bank loans	2,853,836	(2,978,055)	(1,060,956)	(1,060,956)	(845,711)	(10,432)
Interest rate swap	84,254	(85,529)	(34,649)	(25,707)	(25,173)	-
Accrued expenses	372,183	(372,183)	(372,183)	-	-	-
Trade and other payables	729,543	(729,543)	(729,543)	-	-	-
Post-employment benefits	1,467,492	(1,680,548)	(111,422)	-	(270,090)	(1,299,036)
	5,507,308	(5,845,858)	(2,308,753)	(1,086,663)	(1,140,974)	(1,309,468)

27.3 CURRENCY RISK

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

	2017				
	PHP	USD	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
Deferred Income	-	(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
Deferred Income	-	(165,508)	-	-	(277,400)
Gross statement of financial position exposure	(3,359,806)	1,006,438	(4,340)	83,855	4,081,695

27 FINANCIAL INSTRUMENTS (Continued)

27.3 CURRENCY RISK (Continued)

	2016			
	PHP	USD	BRL	GBP
The Group				
Trade receivables	5,257,899	789,161	1,725	203,806
Accrued Income	-	443,667	-	4,019,910
Cash at bank	5,575,000	178,513	42,132	3,115,940
Trade payables	(5,949,631)	(162,883)	(62,199)	2,855
Gross statement of financial position exposure	4,883,268	1,248,458	(18,342)	7,342,511
The Company				
Trade receivables	-	789,161	82,633	203,806
Accrued Income	-	443,667	-	4,019,910
Cash at bank	-	156,346	-	3,115,940
Trade payables	-	(131,509)	-	2,855
Gross statement of financial position exposure	-	1,257,665	82,633	7,342,511

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2017	2016	**2017**	2016
USD 1	**0.8852**	0.9034	**0.8338**	0.9487
JOD 1	**1.2480**	1.2791	**1.1796**	1.3444
BRL 1	**0.2774**	0.2593	**0.2517**	0.2915
PHP 1	**0.0176**	0.0190	**0.0167**	0.0191
GBP 1	**1.1407**	1.2203	**1.1271**	1.1680

27 FINANCIAL INSTRUMENTS (Continued)

27.3 CURRENCY RISK (Continued)

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 2016.

	THE GROUP		THE COMPANY	
	Equity €	Profit or loss €	Equity €	Profit or loss €
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**
GBP	**(460,049)**	**(460,049)**	**(460,049)**	**(460,049)**
31 December 2016				
USD	(107,671)	(107,671)	(108,465)	(108,465)
BRL	562	562	(2,113)	(2,113)
PHP	(8,493)	(8,493)	-	-
GBP	(779,627)	(779,627)	(779,627)	(779,627)

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.

27.4 INTEREST RATE RISK

27.4.1 PROFILE

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

	THE GROUP		THE COMPANY	
	2017 €	2016 €	**2017 €**	2016 €
Fixed rate instruments				
Financial assets	**765,281**	754,834	**765,281**	754,834
Variable rate instruments				
Financial assets	**7,780,050**	6,335,625	**7,074,612**	5,526,674
Financial liabilities	**(1,905,493)**	(2,938,090)	**(1,905,493)**	(2,938,090)
	5,874,557	3,397,535	**5,169,119**	2,588,584

27 FINANCIAL INSTRUMENTS (Continued)

27.4 INTEREST RATE RISK (Continued)

27.4.2 INTEREST RATE RISK

The Group is exposed to interest rate risk on its borrowings 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.

27.4.3 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 2016.

THE GROUP

	Profit or loss		Equity	
	100 bp increase €	100 bp decrease €	100 bp increase €	100 bp decrease €
31 December 2017				
Variable rate instruments	**75,259**	**(66,845)**	**75,259**	**(66,845)**
31 December 2016				
Variable rate instruments	56,269	(46,785)	56,269	(46,785)

THE COMPANY

	Profit or loss		Equity	
	100 bp increase €	100 bp decrease €	100 bp increase €	100 bp decrease €
31 December 2017				
Variable rate instruments	**68,205**	**(59,791)**	**68,205**	**(59,791)**
31 December 2016				
Variable rate instruments	48,180	(38,696)	48,180	(38,696)

27 FINANCIAL INSTRUMENTS (Continued)

27.5 FAIR VALUES

27.5.1 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 and in the case of the derivative, this was measured at fair value.

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

The basis for determining fair value is disclosed in note 5.

28 SHARE-BASED PAYMENT ARRANGEMENTS

28.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS

At 31 December 2017, 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 a full provision for this amount by the end of the three-year period.

28 SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

28.2 OUTSTANDING SHARE OPTIONS

There were 167,000 (2016: 168,865) share options outstanding at 31 December 2017.

29 OPERATING LEASES

29.1 During 2017, 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 transfer the Emphyteutical site with prior written consent of the Commissioner of Land.

	THE GROUP		THE COMPANY	
	2017	2016	**2017**	2016
	€	€	**€**	€
Less than one year	**25,826**	25,826	**25,826**	25,826
Between one and five years	**113,634**	111,052	**113,634**	111,052
More than five years	**559,452**	587,860	**559,452**	587,860
	698,912	724,738	**698,912**	724,738

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

	THE GROUP		THE COMPANY	
	2017	2016	**2017**	2016
	€	€	**€**	€
Operating lease expense	**25,826**	25,826	**25,826**	25,826

29 OPERATING LEASES (Continued)

29.2 During 2017, 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 will expire in September 2018. The Group had the following non-cancellable payments which include both lease and non-lease elements.

	THE GROUP	
	2017 €	2016 €
Less than one year	**378,495**	504,660
Between one and five years	**-**	378,495
	378,495	883,155

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

	THE GROUP	
	2017 €	2016 €
Operating lease expense	**549,554**	508,090

29.3 During 2017, 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. The Group had the following non-cancellable payments:

	THE GROUP	
	2017 €	2016 €
Less than one year	**91,994**	102,914
Between one and five years	**212,471**	346,405
	304,465	449,319

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

	THE GROUP	
	2017 €	2016 €
Operating leases	**94,377**	96,754

29 OPERATING LEASES (Continued)

29.4 During 2017, the Group was a party to an agreement for leased offices in Manila, Philippines. The lease is for a three-year term, lasting until end of June 2019. The Group had the following non-cancellable payments:

	THE GROUP	
	2017 **€**	2016 €
Less than one year	**81,916**	89,250
Between one and five years	**41,957**	141,711
	123,873	230,961

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

	THE GROUP	
	2017 **€**	2016 €
Operating lease expense	**77,485**	62,999

30 CAPITAL COMMITMENTS

The Group is committed to incur capital commitments in 2018 amounting to €13,025 related to the renovation of the leased offices in Manila, Philippines.

31 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 likeliness of any future warranty claims is deemed to be remote and thus not required to be disclosed.

32 RELATED PARTIES

32.1 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.

32.2 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").

32 RELATED PARTIES (Continued)

32.2 IDENTITY OF RELATED PARTIES (Continued)

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.

Directors of the Company control directly and indirectly 51.7% (2016: 51.98%) of the voting shares of the Company.

32.3 RELATED PARTY TRANSACTIONS

	THE GROUP		THE COMPANY	
	2017 **€**	2016 €	**2017** **€**	2016 €
Key management personnel				
Dividend paid to	**26,331**	55,141	**26,331**	55,141
Parent company				
Interest charged to	**10,447**	10,453	**10,447**	10,453
Dividend paid to	**792,350**	1,252,081	**792,350**	1,252,081
Subsidiaries				
Repayment of advances to			**-**	28,458
Services provided to			**360,267**	1,151,191
Services provided by			**238,677**	115,141
Services not yet invoiced provided to			**-**	39,709
Interest charged to			**-**	34,854
Recharge of salaries to			**484,869**	269,784
Recharge of overheads to			**203,378**	198,022
Recharge of salaries by			**112,500**	86,354
Other related parties				
Services provided by	**1,609,990**	1,457,278	**1,550,066**	1,393,900
Services provided to	**12,243,520**	5,074,875	**12,243,520**	5,074,875
Services not yet invoiced provided to	**-**	1,441	**-**	1,441
Services not yet invoiced provided by	**110,000**	220,000	**110,000**	220,000

32.4 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 25 to these financial statements. Additional information on amounts due to/by related parties is set out in notes 12, 13 and 18 to these financial statements.

33 SUBSEQUENT EVENTS

33.1 On 2 February 2018, the Company formed a new subsidiary, RS2 Germany GmbH, in which it holds 100% shareholding.

33.2 On 16 February 2018, the Company incorporated a newly formed subsidiary, RS2 Software Inc., a Delaware corporation, in which it holds 64.2% shareholding. The newly formed corporation was subsequently merged with RS2 Software LLC on 28 March 2018.

33.3 In February 2018 the Group has, in line with its strategy, recruited Daniela Mielke, a veteran in the Payments and Fintech industry in the US, as CEO for its North American business. She will be spearheading sales and market entry strategy as well as project delivery in the region, together with customer relationship management and product development for the US market. On a global level, she will also be working with corporate management in the Group's overall strategy. Over a period of 3 years, Ms Meilke will be allocated an amount of restricted stock in RS2 Software Inc., to the effect that the Company's effective holding therein would be reduced from 64.2% to 57.07%.

33.4 The Group successfully formed a strategic joint venture with one of the largest players in the travel and tourism industry in order to deliver Global Acquiring Services to international airlines, travel agents, hotels and car rental around the globe offering efficient and streamlined operation and consolidating payments and reporting to these businesses covering all payment Omni-channels.

It also commenced its second implementation in Latin America of its managed services solution to a major European player in the payment and technology services. The Group managed to close a contract with a European partner in offering the latter's clients non-EU processing and Global Acquiring services for both card present and card non-present payment transaction. Furthermore, the Group is in different stages of negotiations with two other potential managed services clients – one being a leading payment service provider and one of the top merchant acquirers in the ASEAN region and the other being a registered online leader in online payment processing operating in the US.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of RS2 Software p.l.c.

1 REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of RS2 Software p.l.c. (the "Company"), and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Assessment of potential impairment of the Cash Generating Unit ("CGU") containing goodwill and investment in RS2 Software LLC

Accounting policy note 3.8 to the financial statements and notes 2.4, 9.4 and 10 for further disclosures

Carrying amounts of RS2 Software LLC (Group: €1.3 million (note 9.4), of which goodwill amounts to €0.6 million); Investment in RS2 Software LLC (Company: €3.1 million) included in 'Investments in subsidiaries'

The Group recognised goodwill on acquisition of control in RS2 Software LLC. That subsidiary is identified by the Group as a CGU, as it is capable of generating cash inflows that are largely independent of cash inflows generated by other assets or groups thereof.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Key audit matters *(continued)*

Assessment of potential impairment of the Cash Generating Unit ("CGU") containing goodwill and investment in RS2 Software LLC (continued)

The assessment of that CGU is required annually by the relevant financial reporting framework, to establish whether the recoverable amount is at least equal to the carrying amount, and if not, whether impairment should be recorded. Significant judgement is involved in determining the carrying amount of that CGU due to the assumptions applied in the preparation of discounted cash flow forecasts, to arrive at the CGU's value-in-use (being the basis on which the carrying amount is determined). More specifically, the key assumptions underlying the calculation of the recoverable amount of the CGU are:

- the forecasted cash flows, which are impacted by the ability of that CGU to secure major client contracts and competitive market conditions; and
- the discount rate applied.

Significant variations in those assumptions could result in the determination of a recoverable amount which is materially different from that obtained using the variables selected by the Group (as reflected in those assumptions), and may, therefore, lead to an impairment loss being recognised in subsequent financial reporting periods. Specifically in relation to forecasted cash flows, the Group noted, in note 9.4, that it is in an advanced stage of negotiations with a sponsor bank for the provision of managed services to potential customers.

The investment in RS2 Software LLC is carried in the Company's statement of financial position, at cost less any impairment losses. A heightened risk of impairment exists at Company level, in view of the higher carrying amount of the Company's investment in RS2 Software LLC compared to the carrying amount of the related CGU (at Group level). The same key assumptions, as those underlying the calculation of the recoverable amount of the CGU, apply to the investment in RS2 Software LLC.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Key audit matters *(continued)*

Assessment of potential impairment of the Cash Generating Unit ("CGU") containing goodwill and investment in RS2 Software LLC (continued)

Our response

We involved our valuation specialist to assist in evaluating the key assumptions underlying the value-in-use calculations. In particular we have evaluated:

- the appropriateness of assumptions applied by the Company to the key inputs of the net cash flow projections, such as sales volumes, prices and operating costs. More specifically, we evaluated the Company's assessment of those inputs, as applicable, against (i) relevant market data, (ii) pertinent documentation with respect to the negotiations with RS2 Software LLC's potential customers, and (iii) the Company's revised operational strategy and the underlying implementation plan;

- the appropriateness of the discount rate applied in the model in light of the underlying risks specific to RS2 Software LLC; and

- the impact on the recoverable amounts of the CGU and of the investment in RS2 Software LLC of reasonably-possible reductions in forecasted net cash flows, in order to gauge the sensitivity of the recoverable amount to changes in the key assumptions.

We have no key observations to report, specific to this matter.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Key audit matters *(continued)*

Recoverability of receivables and accrued income

Accounting policy note 3.8 to the financial statements and notes 2.4, 12 and 13 for further disclosures

Accrued income owed by third parties (Company: €0.4 million) included in 'Accrued income' ("accrued income"); Trade and other receivables owed by third parties (Company: €1.4 million) included in 'Trade and other receivables' ("receivables")

Receivables may be impaired and impairment losses may be incurred by the Company on the occurrence of a loss event (such as the counterparty's failure to meet their obligations) that impacts the estimated future cash flows of that receivable. Similarly, amounts classified as accrued income in relation to licence fees (which are recognised upfront) may be uncollectible or recoverability may cease to be probable as a result of a loss event.

The Company's process of determining whether a loss event has occurred, and the impact of that loss event on the recoverable amount, involves significant judgement as such instances tend to relate to customer specific conditions (which operate in different industries and geographical markets, and may be linked to internal operational matters).

Our response

- specifically in relation to material receivables as at the reporting date, on a sample basis, we traced post financial year-end receipts to bank statements;
- specifically in relation to receivables, we assessed the ageing of overdue balances; and
- we evaluated the finance function's assessment on the recoverability of material receivables and accrued income exposures for consistency with our evaluation of the counterparties' financial condition (through the observation of historical payment patterns) and the specific circumstances of the underlying projects to which such exposures relate (through inspection of correspondence with counterparties' knowledgeable authorised officials).

We have no key observations to report, specific to this matter.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Other information

The directors are responsible for the other information which comprises:

- the Mission Statement & Business Philosophy;
- the Chairman's Statement;
- the CEO's Statement;
- the statement of Corporate Social Responsibility;
- the Directors' Report;
- the Corporate Governance Statement of Compliance;
- the Remuneration Committee Report;
- the Statement of the Directors pursuant to Listing Rule 5.68;
- informational matters relating to the Board of Directors and Company Secretary, Registered Office and Professional Services; and
- the statement of Directors' Responsibility for the Financial Statements,

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act, and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Auditors' responsibilities for the audit of the financial statements (Continued)

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Auditors' responsibilities for the audit of the financial statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

2 OPINION ON THE DIRECTORS' REPORT

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

3 REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 4 April 2001, and subsequently reappointed at the Company's general meetings for each financial year thereafter. Following the listing of the Company's shares on the Malta Stock Exchange, and excluding the initial period during which those shares were listed (that is, financial year ending 31 December 2008), the period of total uninterrupted engagement is nine years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Matters on which we are required to report by exception by the Act

Pursuant to articles 179(10) and 179(11) of the Act, we have nothing to report to you with respect to the following matters:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations which, to the best of our knowledge and belief, we require for the purpose of our audit.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Kevin Mifsud.

KPMG
Registered Auditors

25 April 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of RS2 Software p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of RS2 Software p.l.c (the "Company") on specific disclosures in the Annual Report which relate to the directors' corporate governance statement (the "Disclosures") for the year ended 31 December 2017.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

(a) we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and

(b) the other disclosures required by Listing Rule 5.97 have been provided.

Responsibilities of the Directors

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the Disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

Auditors' Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.*

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Auditors' Responsibilities (Continued)

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Company's corporate governance procedures or its risks and control procedures, nor on the ability of the Company to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Company and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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INDEPENDENT AUDITORS' REPORT (Continued)

To the Shareholders of RS2 Software p.l.c.

Conclusion *(Continued)*

In our opinion:

(a) in light of the knowledge and understanding of the Company and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:

   (i) the information referred to in Listing Rule 5.97.4, included in the directors' Statement of Compliance with the Code of Principles of Good Corporate Governance, as this relates to the Company's internal control and risk management systems in relation to the financial reporting process; and

   (ii) the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Company;

(b) the other disclosures required by Listing Rule 5.97 have been included in the directors' Statement of Compliance on Corporate Governance, as these apply to the Company.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Kevin Mifsud.

KPMG
Registered Auditors

25 April 2018

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