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ANNUAL REPORT & FINANCIAL STATEMENTS

RS2 SOFTWARE P.L.C.

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OUR AIM

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.

CHAIRMAN'S STATEMENT

It is my pleasure to confirm that the Group has completed another successful year's business. This bears witness to the management's unrelenting efforts to offer the best possible solutions to our clients by further enhancing an already-proven product, BankWORKS®, and a staff complement that has shown absolute dedication and professionalism in their approach to their work and to the needs of our clients.

During the past year we have witnessed continued support from our shareholders, and we welcome those new shareholders who have shown confidence in our current operations and our future by investing in the Group. I must indeed express my sincere gratitude to our long-standing shareholders for their support and the trust that they have shown us in past years. We will continue to work harder to justify their trust in our management and staff.

THE FINANCIAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 CONFIRMS OUR ABILITY TO GENERATE HEALTHY PROFITS YEAR AFTER YEAR.

As our CEO states, these are very exciting times for the Group. Undoubtedly, his and our management's dynamic and professional approach both to product and client augur well for further expansion and growth. The continued support shown by the Board of Directors has been of utmost importance to the team effort.

Finally, allow me to once again express my appreciation and gratitude to the Board of Directors, to our CEO, to the management and to every member of our hard working staff.

MARIO SCHEMBRI
CHAIRMAN
21 APRIL 2015

CEO’S STATEMENT

“Today, the Company supports over 30 installations, servicing over 600 banks, financial institutions, PSPs and ISOs, in 25 countries around the globe.”

WHO WE ARE:

RS2 has been delivering its software solutions for Acquiring, Issuing, Clearing and Settlement for the last 26 years, from its offices based in Europe, the Middle East, North America and Latin America.

Today, the Group supports over 30 installations, servicing over 600 banks, financial institutions, PSPs and ISOs, in 25 countries around the globe. Our highly-qualified team is composed of more than 14 nationalities, and it delivers an end-to-end, full solution that incorporates: Card Issuance, Merchant Acquiring, Clearing, Settlement, Transaction Switching & Routing, Authorisation, and Call Centre Customer Service. This is achieved across all channels, from mobile and e-commerce through to cardholder-present EMV Chip'n'PINs, ATMs and Merchant Webportals.

OUR VALUES:

We thrive on our ethos of Respect, Integrity and Partnership for our employees, customers and partners.

OUR SOLUTION:

Our BankWORKS® software is a full-feature, end-to-end integrated solution for all payment-processing needs, from device transaction acquisition through to final settlement and ledger integration.

This software is used by banks, processors and payment service providers around the world, whether big or small, simple or very complex.

Many RS2 customers span multiple countries and regions, so our efficient multi-currency, multi-language and cross-border capabilities are fundamental to BankWORKS® capabilities. All Industry certifications and protocols are implemented as standard. RS2 customers are accustomed to no-hassle product compliance and we want to ensure that their expectations are met and exceeded.

Dear Friends,

2014 has been another incredible journey for all of us at RS2. The milestones we've reached, and the new partnerships we've embarked upon, stand testament to the hard work and dedication our board, management and colleagues have continued to show. It also proves that our strategy is successfully steering us in the right direction, and we will continue to implement what we started years ago with regards to the expansion of our product range, our services, and our local presence in various regions.

"Gross profit for the year stands at 45%."

Our strategy will be also focused on the dynamic changes in our industry. As you know, every day brings new innovations and technological announcements, we are always proud to stand right at the heart of that. Our flagship product, BankWORKS®, is very well positioned to handle whatever new products and requirements come to the market. This is due to its extreme flexibility, as well as the state-of-the-art technical and business architecture led by our talented R&D and technical units, along with our business and product management unit.

One of the defining moments of this past year was definitely the signing of the €16.5 million contract that was awarded to us by one of the largest global processing companies in the world. By winning this contract we have highlighted the trust and reputation that RS2 has earned in recent years, as well as the maturity level that our products and services have secured in the market.

It is also worth mentioning that the income we generated from services doubled in 2014, when compared to the previous year. Today RS2 is going beyond offering software solutions. We are consulting our customers and potential clients in the structuring of their businesses, and assisting them in implementing their infrastructure based on our experience with our own managed services infrastructure. This puts us ahead of our competitors by ensuring that we deliver a comprehensive solution and service.

FINANCIAL HIGHLIGHTS

Once again, 2014 sees an increase in revenue when compared to the previous year. Total revenue for the Group amounts to €15.2m, an increase of just under 8% over 2013. Consistent with prior years, this revenue is composed of licence fees for the use of BankWORKS®, maintenance fees, service fees and processing fees.

In comparison with 2013, licence fees have decreased by 46%. This decrease is mainly attributable to the nature of the licence agreements entered into with our clients. During 2014, we managed to secure our largest contract to-date, with a total value of €16.5m, of which licence fees amount to €12m and service fees amount to €4.5m. Due to the nature of this agreement, being a term licence, the Group did not recognise the full licence fee during the year, with the remaining licence fee to be recognised over the coming years.

It is important to highlight that the recognition of licence fees which is dependent on the nature of the agreement, as well as IFRS requirements, may lead to variations in revenue and therefore in profit and profit margins.

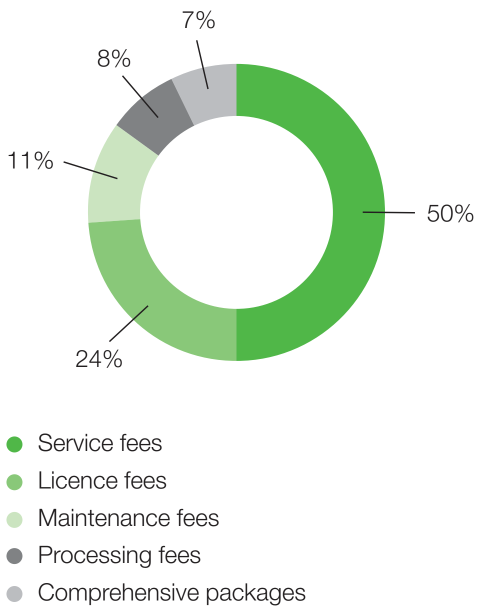
The decrease in licence fees is more than made up for by an increase of 84% in service fees, across the Group. In 2014 we also registered an increase of 26% in processing fees generated by our subsidiary RS2 Smart Processing. During the year, this subsidiary continued to attract new clients and prospects, with two new clients obtained during the year. Revenues from these new clients will start to be earned over 2015. The pipeline is very healthy and we are currently in the process of negotiating further contracts.

Gross profit of the Group for the year stands at 45%, a reduction of 3% when compared to 2013. This is attributable to an increase in cost of sales, which is mostly comprised of increases in salaries as we continue to boost our staff complement to meet the existing and anticipated demand of our clients. The Group's administrative expenses show an overall decrease of 8% when compared to 2013. There have been generic increases in administrative expenses commensurate with the increases in our operations, however these have been offset by a decrease in the notional cost of share options granted to our employees accounted for in 2013 and which was not repeated in 2014.

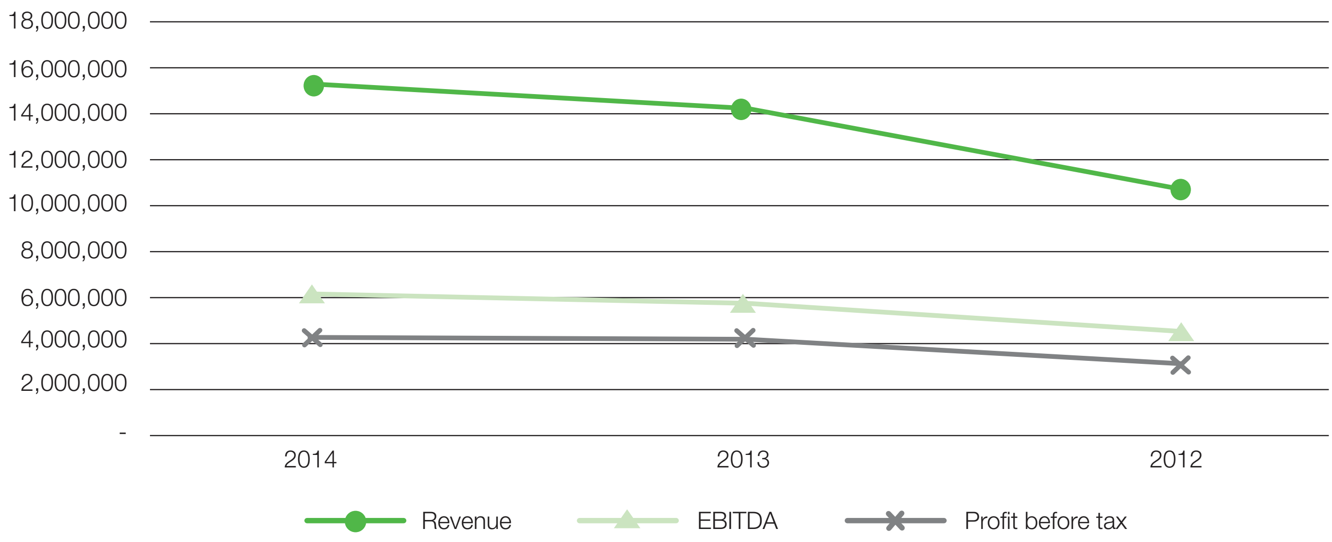
Other income is mainly composed of realised and unrealised exchange gains on balances receivable and payable, while other expenses is mostly composed of provisions for impairment of balances receivable and of obsolete assets.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group for 2014 amounts to €6.1m, which represents an increase of 7% over 2013.

REVENUE MIX



YEAR ON YEAR GROWTH



In 2014, the Group had an income tax expense of €1.4m, which is made up of €1.3m in current tax charge and €0.1m in deferred tax charge, the latter being a non-cash item. 2014 is the first year in which the Group will be paying income tax in cash, since it has made full use of the investment tax credits brought forward from prior years. New investment tax credits on investment carried out during the year was accumulated, however this was also fully used up by the income tax payable, leaving a tax balance of €1.4m payable in cash. The amount of income tax that would have been payable in the absence of such investment tax credits, would have been €1.9m. Nevertheless, I highlight that there is still a significant balance of profits that has been relieved from tax by way of investment tax credits in the past and which remains tax free in the hands of the shareholders when distributed as dividends.

We have continued to strengthen our balance sheet with a total equity attributable to our shareholders of €23m, an increase of €1.4m over 2013. The cash generated from operations remains very strong with a cash balance of €4.5m at the end of the year.

LOOKING FORWARD

Over the past two years we have concentrated heavily on the consolidation of our service offering, including licensing and cloud processing. We have also focused on the expansion of our business by attracting key players as clients and partners, and penetrating dynamic new territories. We continue with our expansion plans, particularly in the United States where we are confident that the functionalities and the flexibilities of BankWORKS® provide a solution that is very much needed in the US market.

Looking forward, the Group is also considering expanding beyond organic growth to win more market share by expanding our presence into other territories. This will take us closer to our customers and show our commitment to their business.

"Expanding beyond organic growth to win more market share by expanding our presence into other territories."

With our present cash position and low gearing ratio, we are now well poised to leverage our liquidity for further growth by investment. In the coming years, we will be on the lookout for potential investments to grow our business, as well as to create more opportunities for our clients. We are confident that, although the market that we operate in may be considered mature, there is still room for expansion.

Our aim is to continue with our growth to achieve our ambitious goals by continued enhancement and the implementation of our strategy. As we grow, we want to be sure that our clients remain at the centremost position in our company. We will continue investing in our BankWORKS® software and technology; it is used by our customers to process the business of more than 8 million merchants, and issued over 350 million cards.

To conclude, I will retain the gist of my statement from last year: we had a great year. We are incredibly grateful for it, and we look forward to working together with all our clients and partners to ensure that the coming years are as prosperous and as beneficial as the ones that have gone by.

I would like to express my sincere gratitude to our shareholders, our board, our management and our colleagues at RS2 for their continued and outstanding support. RS2's board and management will continue to work harder to ensure that our customers are always in the driving seat and ahead of their competitors. Our shareholders are proud to be part of RS2 through the increment of their shareholder value in the company, while our colleagues continue to enjoy an excellent working environment and are proud of the RS2 family.

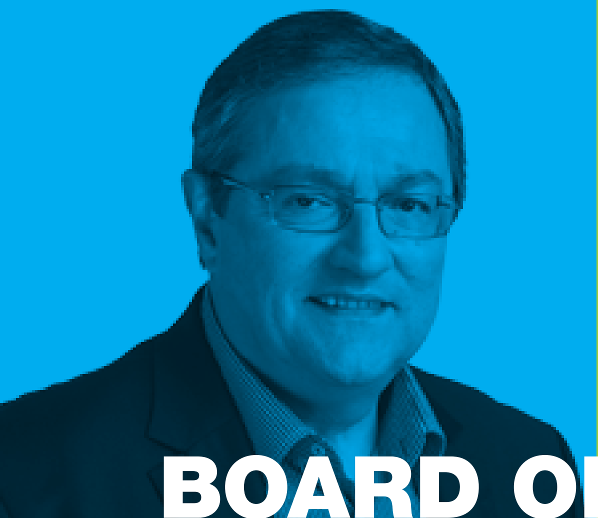
Thank you.

RADI ABD EL HAJ
CHIEF EXECUTIVE OFFICER
21 APRIL 2015

BOARD OF DIRECTORS

MARIO SCHEMBRI
Chairman of the Board

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.

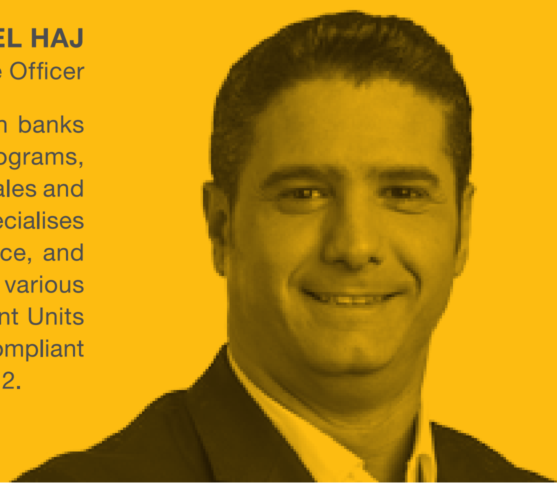


MAURICE XUEREB
Non-Executive Director

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.

RADI ABD EL HAJ
Chief Executive Officer

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 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 at GTG Advocates.

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, sports law, telecommunications 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 at GTG Advocates.

CHRISTOPHER WOOD
Non-Executive Director

Mr. Wood is a member of the Barclaycard Executive committee where he is accountable for the Barclaycard corporate strategy, governance and control environment, payment card scheme management and corporate communications. Mr. Wood is a chartered accountant and holds a BSc (Hons) in Business Administration from Bath University. He spent his early career with Accenture working across Financial Services and Comms & HiTech in Europe, US and Australia. Joined Barclays in 2003. Since then he has held various roles, including Head of Strategic Programmes in the retail and commercial bank; Chief of Staff to Antony Jenkins; Director of Barclaycard International and Managing Director of UK Cards.

FRANCO AZZOPARDI
Non-Executive Director

Mr Azzopardi, a Certified Public Accountant with a post-graduate MSc in Finance, spent twenty seven years working in public practice. In 2007 he decided to exit the firm he co-founded and managed to contribute more in the strategic direction of companies. He specialises in corporate strategy, governance and finance. He is today a professional director and a registered member of the UK Institute of Directors. His portfolio includes directorships on Boards and Audit Committees of various companies, both local and international, in the banking sector, software, private equity, professional services and media, amongst others. As part of his social responsibility he also contributes towards the development of the Malta Institute of Accountants.

CORPOR SOCIAL RESPON

SUSTAINABILITY HAS ALWAYS BEEN, AND WILL ALWAYS BE, A PRIORITY OF THE GROUP.

As the Group strives to enhance shareholder value by delivering strong business performance, it remains committed to going beyond merely achieving profits, to embedding responsible practices throughout its supply chain.

The Group firmly believes that it can achieve a balanced and holistic value for shareholders by nurturing sustainability in its business. By ingraining good Corporate Social Responsibility (CSR) initiatives within its people and in its business dealings, the Group is confident of becoming an exemplary corporate player among responsible IT companies. Beyond that, it continues to roll out its existing CSR initiatives and introduce new ones, while affirming that its efforts will bring about tangible outcomes that will positively impact its environment and relevant stakeholders.

In line with the Group's CSR framework, a portfolio of diverse initiatives are being pursued. These are classified under four (4) intertwined pillars, namely: 'Care for Environment', 'Investing in People', 'Returning to the Community' and 'Productivity and Innovations'. This CSR framework has become a way of life for the Group, and it continues to be immersed in the business model, as well as the daily operations that go into producing payment software services in a responsible and sustainable manner.

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SIBILITY

Employee involvement is a key part of RS2's philosophy. Charitable donations are often made, and they provide one key method for the Company and its employees to give back to the community. Fundraising of this sort brings workers together in support of a common cause, and helps raise the Company's profile. Knowing what motivates the staff and the organisation to make monetary donations helps RS2 to set policies for charitable giving for the year.

In 2014, RS2 extended its hand to two (2) major causes, including Caritas. This was divided between their Service in Community Outreach, Crisis Intervention (Temporary Shelter), Aftercare of Mental Patients, Elderly Support, Children's Support, Counselling, and Information and Referral services. In addition, RS2 employees also raised a generous sum for L-istrina – a charitable institution that helps philanthropic institutions and, more importantly, individuals with different needs.

RS2 also sponsored various events, using banners, t-shirts and other giveaways to promote the Company. This is considered to be a positive effect of being active in community organisations and charitable organisations, and has helped to increase exposure for RS2 in the community.

DIRECTORS' REPORT 2014

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report, together with the financial statements of RS2 Software p.l.c. and its subsidiaries, RS2 Smart Processing Ltd and Transworks LLC (the "Group"), for the year ended 31 December 2014.

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A 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 8 to 13 of this Annual Report.

DIVIDENDS

The directors recommend that at the next annual general meeting, the shareholders approve the declaration of a dividend of €0.04c4 per share amounting to €2,000,000 payable on 15 June 2015.

RESERVES

Retained earnings amounting to €16,287,701 for the Company and €12,357,823 for the Group are being carried forward.

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 11 June 2014, the Company resolved to capitalise a sum not exceeding €500,000 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 2,500,000 Ordinary Shares as bonus shares, the Company's issued share capital is of €8,999,991.20 divided into 44,999,956 Ordinary Shares of €0.20 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;

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014, Information Technology Management Holding Limited ("ITM") and Barclays Bank Plc ("Barclays") hold 22,519,439 and 8,212,500 shares respectively, equivalent to 50.04% and 18.25% of the Company's total issued share capital. In their capacity as ultimate shareholders of ITM, Ulrike Schäffter and Radi Abd El Haj indirectly hold, 25.02% and 25.02% of the issued share capital of the Company respectively. 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 into 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.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 12 June 2012, the Company's authorised share capital was increased to fifty million (50,000,000) ordinary shares of €0.20 each.

By virtue of extraordinary resolution of the shareholders dated 2 May 2008, the Board of Directors is authorised to issue any share capital of the Company which is unissued, which authority is valid for a maximum period of five (5) years, renewable for further periods of five (5) years each. As at 31 December 2014, the Company had five million and forty-four (5,000,044) in unissued share capital.

RULE 5.64.11 – AGREEMENTS WITH EMPLOYEES

The Company has agreements with employees holding senior management positions providing for compensation upon termination based on the then applicable annual salary.

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.

Approved by the Board of Directors on 21 April 2015 and signed on its behalf by:

MARIO SCHEMBRI
CHAIRMAN

RADI ABD EL HAJ
DIRECTOR

21 April 2015

Registered Office

RS2 Buildings
Fort Road
Mosta MST 1859

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014, 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 executive director and five 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 2014, 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 Chairman of the Board.

On the other hand, the Chief Executive Officer takes care of the day to day running of the Company's business. During 2014, 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 seven (7) 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 executive director (Chief Executive Officer) and five (5) independent non-executive directors, of whom one is the Chairman. 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.

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 following Committees:

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, a non-executive director, acts as Chairman, whilst Dr Robert Tufigno and Mr Franco Azzopardi act as members. 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 independent and competent in accounting and auditing.

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: 11 Attended
Mr Maurice Xuereb	11
Dr Robert Tufigno	10
Mr Franco Azzopardi	11

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

PRINCIPLE FIVE: BOARD MEETINGS

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

The Board meetings were attended as follows:

	Meetings held: 6 Attended
Executive Director	
Mr Radi Abd El Haj – Chief Executive Officer	6
Non-executive Directors	
Mr Mario Schembri – Chairman	6
Mr Maurice Xuereb	6
Dr Robert Tufigno	5
Mr Franco Azzopardi	6
Mr. Christopher Wood	3

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

The directors have access to the advice and services of the Company Secretary and supporting legal advice and are entitled, as members of the Board, to take independent professional advice on any matter relating to their duties, at the Company's expense.

The directors are fully aware of their responsibility to act always in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed them to the Board.

PRINCIPLE SEVEN: EVALUATION OF THE BOARD

During the year under review, the Board undertook an evaluation of its own performance. The Board appointed a sub-committee, comprised of Dr Robert Tufigno and Franco Azzopardi to carry out the performance evaluation. 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 Report" which can be found on page 26 to 27. This section also includes a "Remuneration Statement" which deals with the remuneration of directors and senior management.

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

PRINCIPLE NINE AND TEN: RELATIONS WITH SHAREHOLDERS, WITH MARKET AND INSTITUTION 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.

CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 TWO: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision 2.3 states that the Chairman should be independent. Mr Mario Schembri who currently holds the position of Chairman, cannot be deemed independent due to his involvement held in the Company.

PRINCIPLE FOUR: THE RESPONSIBILITIES OF THE BOARD

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

PRINCIPLE EIGHT B: NOMINATION COMMITTEE

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

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

PRINCIPLE NINE (CODE PROVISION 9.3): RELATIONS WITH SHAREHOLDERS AND WITH THE MARKET

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

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

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

MARIO SCHEMBRI
CHAIRMAN
21 April 2015

RADI ABD EL HAJ
DIRECTOR

REMUNERATION COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

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 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.

MEETINGS

The Committee held 3 meetings during the period under review. The Committee determined and/or made recommendations to the Board on the following matters:

Structure of CEO, management and directors' salaries for financial year 2014 and 2015.

	Meetings held: 3 Attended
Dr Robert Tufigno (Chairman)	3
Mr Maurice Xuereb	2
Mr Franco Azzopardi	2
Mr Mario Schembri^	2

^Excused due to the nature of the meeting

REMUNERATION STATEMENT

REMUNERATION POLICY – DIRECTORS

The determination of the remuneration arrangements for Board members is determined by the Committee. The Remuneration Committee is primarily responsible for devising appropriate packages needed to attract, retain and motivate 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.

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 2015.

In addition, the Committee is responsible for authorising all remuneration arrangements involving share options. During the year under review, the Committee allocated share options to senior management personnel, in accordance with the RS2 Employees Share Options Scheme. 38,824 options were granted in full on 11 February 2014 related to 2013 performance. There were 27,892 share options outstanding at 31 December 2014.

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

Non-cash benefits to which the CEO and the 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 on the then applicable annual salary.

REMUNERATION COMMITTEE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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	€ 77,000
Variable Remuneration	€ 185,000
Fixed remuneration as full time employees of the Group	€ 437,854
Others	Nil

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	€ 454,402
Variable Remuneration	€ 65,000
Share Options	Nil
Others	Nil

DR ROBERT TUFIGNO
CHAIRMAN, REMUNERATION COMMITTEE
21 April 2015

STATEMENT OF THE DIRECTORS PURSUANT TO LISTING RULE 5.55.2

FOR THE YEAR ENDED 31 DECEMBER 2014

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 31 to 87 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 that the Directors' Report includes a fair view of the performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 21 April 2015 by:

MARIO SCHEMBRI
CHAIRMAN

RADI ABD EL HAJ
DIRECTOR

COMPANY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2014

DIRECTORS	Mr Mario Schembri (Chairman) Mr Radi Abd El Haj (CEO) Dr Robert Tufigno Mr Maurice Xuereb Mr Franco Azzopardi Mr Christopher Wood
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 2014

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 by:

MARIO SCHEMBRI
CHAIRMAN
21 April 2015

RADI ABD EL HAJ
DIRECTOR

FINAN
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STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		THE GROUP		THE COMPANY	
		2014	2013	2014	2013
	Note	€	€	€	€
Assets					
Property, plant and equipment	13	**8,081,423**	7,735,414	**7,816,089**	7,357,640
Intangible assets	14	**6,961,733**	7,657,368	**5,669,953**	6,301,955
Investments in subsidiaries	16	**-**	-	**1,148,774**	758,942
Other investment	17	**131,785**	218,978	**131,785**	218,978
Loans and receivables from related parties	18	**32,087**	422,129	**3,204,963**	1,565,268
Accrued income	19	**1,440,750**	2,968,688	**3,527,483**	5,168,688
Trade and other receivables	18	**764,731**	647,220	**764,731**	647,220
Total non-current assets		**17,412,509**	19,649,797	**22,263,778**	22,018,691
Trade and other receivables	18	**4,167,186**	2,806,491	**4,100,640**	2,617,669
Loans and receivables from related parties	18	**868,045**	941,701	**868,045**	2,458,276
Prepayments		**347,782**	283,533	**297,453**	238,576
Accrued income	19	**4,844,414**	2,985,070	**5,193,985**	2,944,097
Cash at bank and in hand	20	**4,520,446**	3,643,250	**3,731,903**	3,264,175
Total current assets		**14,747,873**	10,660,045	**14,192,026**	11,522,793
Total assets		**32,160,382**	30,309,842	**36,455,804**	33,541,484

The Notes on pages 39 to 87 are an integral part of these financial statements.

MARIO SCHEMBRI
CHAIRMAN

RADI ABD EL HAJ
DIRECTOR

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2014

	Note	THE GROUP 2014 €	THE GROUP 2013 €	THE COMPANY 2014 €	THE COMPANY 2013 €
Equity					
Share capital	21	**8,999,991**	8,499,991	**8,999,991**	8,499,991
Reserves	21	**1,572,030**	2,227,075	**1,512,786**	2,227,438
Retained earnings	21	**12,357,823**	10,757,376	**16,287,701**	13,743,043
Total equity attributable to equity holders of the Company		**22,929,844**	21,484,442	**26,800,478**	24,470,472
Non-controlling interest		**10,940**	(112,281)	**-**	-
Total equity		**22,940,784**	21,372,161	**26,800,478**	24,470,472
Liabilities					
Bank borrowings	23	**2,710,067**	3,154,238	**2,710,067**	3,154,238
Deferred tax liability	15	**1,134,666**	1,089,455	**1,694,234**	1,358,499
Derivatives	23	**159,749**	149,263	**159,749**	149,263
Total non-current liabilities		**4,004,482**	4,392,956	**4,564,050**	4,662,000
Bank borrowings	23	**725,846**	1,022,180	**725,846**	1,022,180
Trade and other payables	24	**1,160,738**	945,664	**1,073,272**	821,180
Current tax payable		**1,355,350**	-	**1,355,350**	-
Accruals	25	**547,332**	762,572	**536,010**	757,239
Deferred income	25	**1,425,850**	1,814,309	**1,400,798**	1,808,413
Total current liabilities		**5,215,116**	4,544,725	**5,091,276**	4,409,012
Total liabilities		**9,219,598**	8,937,681	**9,655,326**	9,071,012
Total equity and liabilities		**32,160,382**	30,309,842	**36,455,804**	33,541,484

The Notes on pages 39 to 87 are an integral part of these financial statements.

MARIO SCHEMBRI
CHAIRMAN

RADI ABD EL HAJ
DIRECTOR

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

THE GROUP

Attributable to equity holders of the Company

	Share capital	Share premium	Translation reserve	Fair value reserve	Statutory reserve	Share option reserve	Retained earnings	Total	Non-controlling interest	Total equity
	€	€	€	€	€	€	€	€	€	€
Balance at 1 January 2013	7,999,991	2,292,743	25,464	21,187	8,424	60,586	8,787,043	19,195,438	(43,250)	19,152,188
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	2,928,593	2,928,593	(73,701)	2,854,892
Other comprehensive income										
Foreign currency translation differences	-	-	(25,827)	-	-	-	-	(25,827)	4,670	(21,157)
Net change in fair value of available-for-sale financial assets	-	-	-	(21,187)	-	-	-	(21,187)	-	(21,187)
Total other comprehensive income for the year	-	-	(25,827)	(21,187)	-	-	-	(47,014)	4,670	(42,344)
Total comprehensive income for the year	-	-	(25,827)	(21,187)	-	-	2,928,593	2,881,579	(69,031)	2,812,548
Transactions with owners of the Company										
Bonus issue	500,000	(500,000)	-	-	-	-	-	-	-	-
Dividend to equity holders										
Transfer to retained earnings:	-	-	-	-	-	-	(1,000,000)	(1,000,000)	-	(1,000,000)
Unrealised gains	-	-	-	-	(8,424)	-	8,424	-	-	-
Share options exercised	-	-	-	-	-	(33,316)	33,316	-	-	-
Equity settled share-based payments	-	-	-	-	-	407,425	-	407,425	-	407,425
Balance at 31 December 2013	8,499,991	1,792,743	(363)	-	-	434,695	10,757,376	21,484,442	(112,281)	21,372,161
Balance at 1 January 2014	**8,499,991**	**1,792,743**	**(363)**	**-**	**-**	**434,695**	**10,757,376**	**21,484,442**	**(112,281)**	**21,372,161**
Comprehensive income for the year										
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**2,875,403**	**2,875,403**	**(98,163)**	**2,777,240**
Other comprehensive income										
Foreign currency translation differences	**-**	**-**	**59,607**	**-**	**-**	**-**	**-**	**59,607**	**(15,757)**	**43,850**
Total other comprehensive income for the year	**-**	**-**	**59,607**	**-**	**-**	**-**	**-**	**59,607**	**(15,757)**	**43,850**
Total comprehensive income for the year	**-**	**-**	**59,607**	**-**	**-**	**-**	**2,875,403**	**2,935,010**	**(113,920)**	**2,821,090**
Transfer of non-controlling interest at date of investment in subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(490,009)**	**(490,009)**	**237,141**	**(252,868)**
Transactions with owners of the Company										
Bonus issue	**500,000**	**(500,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend to equity holders	**-**	**-**	**-**	**-**	**-**	**-**	**(999,599)**	**(999,599)**	**-**	**(999,599)**
Share options exercised	**-**	**-**	**-**	**-**	**-**	**(214,652)**	**214,652**	**-**	**-**	**-**
Balance at 31 December 2014	**8,999,991**	**1,292,743**	**59,244**	**-**	**-**	**220,043**	**12,357,823**	**22,929,844**	**10,940**	**22,940,784**

The Notes on pages 39 to 87 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

THE COMPANY

	Share capital	Share premium	Fair value reserve	Statutory reserve	Share option reserve	Retained earnings	Total
	€	€	€	€	€	€	€
Balance at 1 January 2013	7,999,991	2,292,743	21,187	8,424	60,586	11,303,693	21,686,624
Comprehensive income for the year							
Profit for the year	-	-	-	-	-	3,397,610	3,397,610
Other comprehensive income							
Net changes in fair value of available-for-sale financial assets	-	-	(21,187)	-	-	-	(21,187)
Total other comprehensive income for the year	-	-	(21,187)	-	-	-	(21,187)
Total comprehensive income for the year	-	-	(21,187)	-	-	3,397,610	3,376,423
Transactions with owners of the Company							
Bonus issue	500,000	(500,000)	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(1,000,000)	(1,000,000)
Transfer to retained earnings:							
Unrealised gains	-	-	-	(8,424)	-	8,424	-
Share options exercised	-	-	-	-	(33,316)	33,316	-
Equity settled share-based payments	-	-	-	-	407,425	-	407,425
Balance at 31 December 2013	8,499,991	1,792,743	-	-	434,695	13,743,043	24,470,472
Balance at 1 January 2014	**8,499,991**	**1,792,743**	**-**	**-**	**434,695**	**13,743,043**	**24,470,472**
Comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,329,605**	**3,329,605**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**3,329,605**	**3,329,605**
Transactions with owners of the Company							
Bonus issue	**500,000**	**(500,000)**	**-**	**-**	**-**	**-**	**-**
Dividend to equity holders	**-**	**-**	**-**	**-**	**-**	**(999,599)**	**(999,599)**
Share options exercised	**-**	**-**	**-**	**-**	**(214,652)**	**214,652**	**-**
Balance at 31 December 2014	**8,999,991**	**1,292,743**	**-**	**-**	**220,043**	**16,287,701**	**26,800,478**

The Notes on pages 39 to 87 are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		THE GROUP		THE COMPANY	
		2014	2013	2014	2013
	Note	€	€	€	€
Continuing Operations					
Revenue	8	**15,240,925**	14,130,264	**14,461,120**	13,484,895
Cost of sales		**(8,394,080)**	(7,384,566)	**(7,326,744)**	(6,424,021)
Gross profit		**6,846,845**	6,745,698	**7,134,376**	7,060,874
Other income	9	**730,093**	14,341	**730,093**	14,341
Marketing and promotional expenses		**(328,617)**	(488,636)	**(285,294)**	(331,261)
Administrative expenses		**(2,038,147)**	(2,214,698)	**(1,723,476)**	(1,909,285)
Capitalised development costs	14	**388,829**	377,807	**388,829**	377,807
Other expenses	9	**(986,388)**	(102,298)	**(731,546)**	(109,539)
Results from operating activities		**4,612,615**	4,332,214	**5,512,982**	5,102,937
Finance income	11	**90,569**	156,582	**146,210**	195,233
Finance costs	11	**(512,747)**	(233,173)	**(626,012)**	(230,828)
Net finance costs		**(422,178)**	(76,591)	**(479,802)**	(35,595)
Profit before income tax	9	**4,190,437**	4,255,623	**5,033,180**	5,067,342
Income tax expense	12	**(1,413,197)**	(1,400,731)	**(1,703,575)**	(1,669,732)
Profit for the year	9	**2,777,240**	2,854,892	**3,329,605**	3,397,610
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences on foreign operations		**43,850**	(21,157)	**-**	-
Net changes in fair value of available-for-sale financial assets		**-**	(21,187)	**-**	(21,187)
Total comprehensive income		**2,821,090**	2,812,548	**3,329,605**	3,376,423
Profit attributable to:					
Owners of the Company		**2,875,403**	2,928,593	**3,329,605**	3,397,610
Non-controlling interest		**(98,163)**	(73,701)	**-**	-
Profit for the year		**2,777,240**	2,854,892	**3,329,605**	3,397,610
Total comprehensive income attributable to:					
Owners of the Company		**2,935,010**	2,881,579	**3,329,605**	3,376,423
Non-controlling interest		**(113,920)**	(69,031)	**-**	-
Total comprehensive income for the year		**2,821,090**	2,812,548	**3,329,605**	3,376,423
Earnings per share	22	**€ 0.064**	€ 0.065	**€ 0.074**	€ 0.076

The Notes on pages 39 to 87 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

		THE GROUP		THE COMPANY	
		2014	2013	2014	2013
	Note	€	€	€	€
Cash flows from operating activities					
Profit for the year		**2,777,240**	2,854,892	**3,329,605**	3,397,610
Adjustments for:					
Depreciation	13	**496,055**	425,279	**362,817**	295,459
Amortisation of intangible assets	14	**1,020,831**	995,967	**1,020,831**	995,966
Capitalised development costs	14	**(388,829)**	(377,807)	**(388,829)**	(377,807)
Provision for impairment loss on receivables		**643,102**	(11,819)	**643,102**	(11,819)
Impairment of obsolete assets		**226,495**	-	**-**	-
Interest payable		**169,932**	232,958	**169,306**	230,615
Interest receivable		**(14,878)**	(34,377)	**(71,490)**	(73,317)
Discounting on trade receivables and accrued income	11	**331,941**	-	**445,208**	-
Gain on disposal of financial asset		**-**	(39,968)	**-**	(39,968)
Impairment loss on other investment	9	**87,193**	-	**87,193**	-
Income tax	12	**1,413,197**	1,400,731	**1,703,575**	1,669,732
Provision for exchange fluctuations		**(698,405)**	74,170	**(698,405)**	74,171
Fair value of share option		**-**	407,425	**-**	407,425
Change in fair value of cash flow hedge		**10,486**	(73,973)	**10,486**	(73,973)
		6,074,360	5,853,478	**6,613,399**	6,494,094
Changes in trade and other receivables		**(2,417,051)**	(1,576,074)	**(2,590,504)**	(1,582,317)
Changes in trade and other payables		**(281,378)**	150,073	**(590,647)**	158,519
Changes in parent company's balance		**95,679**	(11,145)	**95,679**	(11,145)
Cash generated from operating activities		**3,471,610**	4,416,332	**3,527,927**	5,059,151
Interest paid		**(171,832)**	(212,401)	**(171,832)**	(212,401)
Interest received		**16,544**	70,775	**26,500**	93,728
Income taxes paid		**(12,481)**	(15,934)	**(12,481)**	(15,934)
Net cash from operating activities		**3,303,841**	4,258,772	**3,370,114**	4,924,544
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(620,660)**	(812,250)	**(599,898)**	(327,463)
Investment in subsidiary		**(389,832)**	-	**(389,832)**	-
Disposal of available-for-sale financial assets		**-**	573,953	**-**	573,953
Advances to subsidiaries		**-**	-	**(631,046)**	(1,498,172)
Repayment of advances to subsidiaries		**-**	-	**140,190**	18,236
Repayment of advances to other related parties		**262,357**	65,935	**262,357**	65,935
Net cash used in investing activities		**(748,135)**	(172,362)	**(1,218,229)**	(1,167,511)

The Notes on pages 39 to 87 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	THE GROUP 2014 €	THE GROUP 2013 €	THE COMPANY 2014 €	THE COMPANY 2013 €
Cash flows from financing activities					
Dividends paid		**(997,510)**	(408,479)	**(997,510)**	(408,479)
Proceeds from bank borrowings		**35,505**	-	**35,505**	-
Repayments of bank borrowings		**(776,010)**	(984,576)	**(776,010)**	(984,576)
Advances by non-controlling interest		**6,317**	25,839	**-**	-
Net cash used in financing activities		**(1,731,698)**	(1,367,216)	**(1,738,015)**	(1,393,055)
Net increase in cash and cash equivalents		**824,008**	2,719,194	**413,870**	2,363,978
Cash and cash equivalents at 1 January		**3,634,966**	908,041	**3,255,891**	884,058
Effect of fair value movements		**(670)**	-	**-**	-
Effect of exchange rate fluctuations on cash held		**53,857**	7,852	**53,857**	7,976
Movement in cash pledged as guarantee		**(124)**	(121)	**(124)**	(121)
Cash and cash equivalents at 31 December	20	**4,512,037**	3,634,966	**3,723,494**	3,255,891

The Notes on pages 39 to 87 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 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") to the extent that such provisions do not conflict with the applicable framework.

2.2 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position;

- available-for-sale financial asset
- derivative financial instruments
- share-based payment transactions

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

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of 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 significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 2.4.1 - impairment reviews
Note 14.4 - impairment testing for cash-generating unit containing goodwill
Note 26.1.2 - impairment losses

2 BASIS OF PREPARATION (CONTINUED)

2.4 USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

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 below.

With respect to goodwill, IFRS require 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.

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 interest 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 the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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 and receivables, available-for-sale financial assets and cash and cash equivalents.

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

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

Loans and receivables comprise 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 and certain debt 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 and 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.

3.3.3 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 ongoing 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 on the following page:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3.3 DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING (CONTINUED)

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 (see note 21.2).

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. When items of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

3.4.3 DEPRECIATION (CONTINUED)

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

• buildings	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. Items of property and equipment are depreciated from the date they are available for use.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 INTANGIBLE ASSETS (CONTINUED)

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.

3.5.5 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 SUBSIDIARIES

The carrying amounts of the Company's investments in subsidiaries are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

3.8.2 NON-DERIVATIVE FINANCIAL ASSETS

A financial asset not classified as 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 and 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 occuring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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 in 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 IMPAIRMENT (CONTINUED)

3.8.2 NON-DERIVATIVE FINANCIAL ASSETS (CONTINUED)

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 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 (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 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.

3.12 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.

3.13 REVENUE

3.13.1 LICENCES

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

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

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

For subscription license arrangements, also referred to as 'Comprehensive Packages', where the Company sells to customers the rights to BankWORKS® modules including also unspecified products as well as unspecified upgrades and enhancements during a specified term, the licence revenue is recognised rateably over the term of the arrangement. The persuasive evidence of these arrangements is in the form of written agreements (see also accounting policy 3.13.4).

3.13.2 MAINTENANCE

Maintenance consists of upgrades, enhancements, corrections and ongoing 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.

3.13.3 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 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.

3.13.4 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 REVENUE (CONTINUED)

3.13.4 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 3.13.1 to 3.13.3.

3.14 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.

3.15 FINANCE INCOME AND COSTS

Finance income comprises interest income on bank balances, loans and receivables and available-for-sale investments, movements in provisions for non-operating exchange gain, gains arising on disposal of avaliable-for-sale financial assets and finance income arising on measuring payables at amortised cost using the effective interest rate method. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, 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 using the effective interest rate method.

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

3.16 INCOME TAX

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 INCOME TAX (CONTINUED)

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.

3.17 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.

3.18 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, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

4.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. According to the new standard, 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. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized when, or as, the customer obtains control of the goods or services. 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.

In addition, the new standard requires a set of quantitative and qualitative disclosures to enable users of the Company's Consolidated Financial Statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

This standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

4.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

The Group is currently assessing the impact of adopting IFRS 15 on the Consolidated Financial Statements and will determine the adoption date as well as the transition method. A high level assessment of the standard and the different categories of revenue generated by Group shows that any effect on the financial statements of Group, will be limited to the recognition of revenue from licencing arrangements. No significant impact is expected with respect to recognition of revenue arising from service fees, maintenance fees and processing fees.

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, which is determined for disclosure purposes, 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 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 counterparty 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.

6.3.1 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.

64% of the Group's revenue is attributable to sales transactions with two major customers (2013: 62% attributable to two major customers) as per note 7.4. The Group's revenue is mainly generated through sales transactions concluded with customers situated in Europe (2013: 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

6 FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 CREDIT RISK (CONTINUED)

6.3.1 TRADE AND OTHER RECEIVABLES (CONTINUED)

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 quality 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.

6.5 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 investor, creditor 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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.

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	
	2014	2013	2014	2013	2014	2013
	€	€	€	€	€	€
External revenues	**13,985,895**	13,131,917	**1,255,030**	998,770	**15,240,925**	14,130,687
Inter-segment revenues	**475,225**	352,978	**-**	-	**475,225**	352,978
Segment revenues	**14,461,120**	13,484,895	**1,255,030**	998,770	**15,716,150**	14,483,665
Finance income	**146,210**	195,233	**114,240**	289	**260,450**	195,522
Finance expense	**(626,012)**	(230,828)	**(57,252)**	(41,286)	**(683,264)**	(272,114)
Depreciation and amortisation	**(1,383,648)**	(1,291,424)	**(279,905)**	(239,820)	**(1,663,553)**	(1,531,244)
Movement in provision for impairment loss on receivables	**(643,102)**	11,819	**-**	-	**(643,102)**	11,819
Reportable segment profit/(loss) before income tax	**5,033,180**	5,067,342	**(990,033)**	(781,719)	**4,043,147**	4,285,623
Income tax (expense)/credit	**(1,703,575)**	(1,669,732)	**290,378**	269,001	**(1,413,197)**	(1,400,731)
Reportable segment assets	**36,455,804**	33,541,484	**4,965,522**	4,761,859	**41,421,326**	38,303,343
Capital expenditure	**821,266**	370,743	**20,765**	484,789	**842,031**	855,532
Reportable segment liabilities	**9,655,326**	9,071,012	**5,892,141**	5,025,452	**15,547,467**	14,096,464

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

7 OPERATING SEGMENTS (CONTINUED)

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

	2014	2013
	€	€
External Revenues		
Total revenue for reportable segments	**15,716,150**	14,483,665
Elimination of intersegment transactions	**(475,225)**	(353,401)
Consolidated revenue	**15,240,925**	14,130,264
Finance income		
Total finance income for reportable segments	**260,450**	195,522
Elimination of intersegment transactions	**(169,881)**	(38,940)
Consolidated finance income	**90,569**	156,582
Finance expense		
Total finance expense for reportable segments	**683,264**	272,114
Elimination of intersegment transactions	**(170,517)**	(38,941)
Consolidated finance expense	**512,747**	233,173
Reportable segment profit before income tax		
Total reportable segment profit for reportable segments	**4,043,147**	4,285,623
Elimination of intersegment transactions	**147,290**	(30,000)
Consolidated reportable segment profit	**4,190,437**	4,255,623
Assets		
Total assets for reportable segments	**41,421,326**	38,303,343
Elimination of intersegment balances	**(9,260,944)**	(7,993,501)
Consolidated total assets	**32,160,382**	30,309,842
Liabilities		
Total liabilities for reportable segments	**15,547,467**	14,096,464
Elimination of intersegment balances	**(6,327,869)**	(5,158,783)
Consolidated total liabilities	**9,219,598**	8,937,681

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014		
Malta	**163,093**	**13,751,092**
UK and Ireland	**9,939,878**	**-**
Other countries	**5,137,954**	**1,292,064**
	15,240,925	**15,043,156**
31 December 2013		
Malta	320,864	14,037,064
UK and Ireland	8,768,921	-
Other countries	5,040,479	1,355,718
	14,130,264	15,392,782

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 2014, revenues from two (2013: two) major customers of the licensing segment amounted to €9,716,822 (2013: €8,768,921) of the Group's total revenues.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

8 REVENUE

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

8.1

Category of activity	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Licence fees	**3,606,871**	6,632,973	**3,606,871**	6,632,973
Service fees	**8,442,426**	4,581,400	**7,366,384**	3,937,468
Maintenance fees	**1,730,538**	1,483,431	**2,028,190**	1,480,981
Comprehensive packages	**1,033,992**	1,033,992	**1,033,992**	1,033,992
Re-imbursement of expenses	**427,098**	398,468	**425,683**	399,481
	15,240,925	14,130,264	**14,461,120**	13,484,895

8.2

Geographical markets	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Europe	**14,588,939**	13,665,127	**13,809,134**	13,019,758
Middle East	**636,986**	462,541	**636,986**	462,541
United States of America	**-**	2,596	**-**	2,596
Asia	**15,000**	-	**15,000**	-
	15,240,925	14,130,264	**14,461,120**	13,484,895

9 PROFIT BEFORE INCOME TAX

9.1

The Group's profit before income tax includes total fees charged by the auditors of the Company during 2014 for:

	€
Auditors' remuneration	**39,100**
Tax advisory services	**900**
Other non-audit services	**5,390**

The fee payable to the auditor of a subsidiary in relation to audit services for 2014 amounts to €4,400.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

9 PROFIT BEFORE INCOME TAX (CONTINUED)

9.2

Other income	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Realised operating exchange gains	**81,970**	-	**81,970**	-
Unrealised operating exchange gains	**644,548**	-	**644,548**	-
Decrease in provision for impairment loss on trade receivables	**-**	11,819	**-**	11,819
Other income	**3,575**	2,522	**3,575**	2,522
	730,093	14,341	**730,093**	14,341

9.3

Other expenses		THE GROUP		THE COMPANY	
		2014	2013	2014	2013
	Note	€	€	€	€
Realised operating exchange losses		**-**	27,290	**-**	27,393
Unrealised operating exchange losses		**-**	75,008	**-**	82,146
Increase in provision for impairment loss on trade receivables		**643,102**	-	**643,102**	-
Impairment of obsolete assets	14.1	**226,495**	-	**-**	-
Impairment loss on other investment	17.2	**87,193**	-	**87,193**	-
Other expenses		**29,598**	-	**1,251**	-
		986,388	102,298	**731,546**	109,539

10 PERSONNEL EXPENSES

10.1

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Directors' emoluments:				
Fees	**77,000**	77,000	**77,000**	77,000
Remuneration	**580,736**	650,309	**550,736**	650,309
Indemnity insurance	**12,238**	11,203	**12,238**	11,203
Fringe benefits	**42,118**	23,016	**42,118**	23,016
	712,092	761,528	**682,092**	761,528
Wages and salaries	**4,073,973**	3,155,431	**3,729,090**	2,868,389
Social security contributions	**271,214**	211,552	**259,697**	202,353
	5,057,279	4,128,511	**4,670,879**	3,832,270

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

10 PERSONNEL EXPENSES (CONTINUED)

10.2

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	No.	No.	No.	No.
Operating	**120**	92	**114**	89
Management and administration	**24**	19	**21**	17
	144	111	**135**	106

11 FINANCE INCOME AND COSTS

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Bank interest income	**5,717**	3,304	**4,742**	3,015
Interest income on available-for-sale financial assets	**-**	6,028	**-**	6,028
Interest on loans and receivables	**10,132**	25,334	**66,748**	64,274
Non-operating unrealised exchange gain	**74,720**	7,976	**74,720**	7,976
Net gain on disposal of available-for-sale financial asset	**-**	39,967	**-**	39,967
Change in fair value of interest rate swap	**-**	73,973	**-**	73,973
Finance income	**90,569**	156,582	**146,210**	195,233
Interest expense	**(169,305)**	(232,961)	**(169,307)**	(230,615)
Interest on late payment	**(1,015)**	(212)	**(1,011)**	(213)
Change in fair value of interest rate swap	**(10,486)**	-	**(10,486)**	-
Discounting on trade receivables and accrued income	**(331,941)**	-	**(445,208)**	-
Finance cost	**(512,747)**	(233,173)	**(626,012)**	(230,828)
Net finance cost	**(422,178)**	(76,591)	**(479,802)**	(35,595)

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

12 INCOME TAX EXPENSE

12.1 RECOGNISED IN PROFIT OR LOSS

		THE GROUP		THE COMPANY	
		2014	2013	2014	2013
	Note	€	€	€	€
Current tax expense					
Current tax charge for the year		**(1,347,729)**	-	**(1,347,729)**	-
Tax withheld in foreign jurisdictions		**(11,779)**	(2,040)	**(11,779)**	(2,040)
Tax paid on interest received from related parties		**(7,621)**	(34,093)	**(7,621)**	(34,093)
Tax paid on disposal of subsidiary		**-**	(13,444)	**-**	(13,444)
Withholding tax on interest received		**(857)**	197	**(711)**	240
		(1,367,986)	(49,380)	**(1,367,840)**	(49,337)
Deferred tax expense					
Origination and reversal of temporary differences	15.3	**(45,211)**	(1,351,351)	**(335,735)**	(1,620,395)
Income tax expense		**(1,413,197)**	(1,400,731)	**(1,703,575)**	(1,669,732)

12.2 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	
	2014	2013	2014	2013
	€	€	€	€
Profit before tax	**4,190,437**	4,255,623	**5,033,180**	5,067,342
Income tax using the domestic income tax rate of 35%				
Tax effect of:	**(1,466,653)**	(1,489,468)	**(1,761,613)**	(1,773,570)
Non-taxable income	**55,385**	53,853	**15,742**	53,853
Non-deductible expenses	**(297,136)**	(174,980)	**(201,164)**	(142,673)
Different tax rates on bank interest income	**1,142**	478	**947**	594
Depreciation charges not deductible by way of capital allowances	**(54,765)**	(49,759)	**(54,765)**	(49,759)
Previously unrecognised tax losses	**-**	25,441	**-**	-
Investment tax credit given by Business Promotion Act incentives enacted in Malta	**297,278**	300,697	**297,278**	300,697
Previously unrecognised capital allowances	**-**	2,412	**-**	-
Elimination of inter-company transaction	**51,552**	(10,500)	**-**	-
Adjustment to prior year deferred tax	**-**	(58,905)	**-**	(58,874)
Income tax expense	**(1,413,197)**	(1,400,731)	**(1,703,575)**	(1,669,732)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

13 PROPERTY, PLANT AND EQUIPMENT

13.1 THE GROUP

	Land and buildings	Equipment, furniture and fittings	Motor vehicles	Total
	€	€	€	€
Cost				
Balance at 1 January 2013	6,104,205	2,260,580	73,881	8,438,666
Additions	258,755	596,777	-	855,532
Effects of movement in exchange rates	-	(4,094)	-	(4,094)
Balance at 31 December 2013	6,362,960	2,853,263	73,881	9,290,104
Balance at 1 January 2014	6,362,960	2,853,263	73,881	9,290,104
Additions	238,474	496,688	106,869	842,031
Effects of movement in exchange rates	-	12,296	-	12,296
Balance at 31 December 2014	6,601,434	3,362,247	180,750	10,144,431
Depreciation				
Balance at 1 January 2013	42,491	1,065,018	25,969	1,133,478
Depreciation for the year	47,688	362,815	14,776	425,279
Effects of movement in exchange rates	-	(4,067)	-	(4,067)
Balance at 31 December 2013	90,179	1,423,766	40,745	1,554,690
Balance at 1 January 2014	90,179	1,423,766	40,745	1,554,690
Depreciation for the year	50,072	416,721	29,262	496,055
Effects of movement in exchange rates	-	12,263	-	12,263
Balance at 31 December 2014	140,251	1,852,750	70,007	2,063,008
Carrying amounts				
At 1 January 2013	6,061,714	1,195,562	47,912	7,305,188
At 31 December 2013	6,272,781	1,429,497	33,136	7,735,414
At 31 December 2014	**6,461,183**	**1,509,497**	**110,743**	**8,081,423**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

13 PROPERTY, PLANT AND EQUIPMENT(CONTINUED)

13.2 THE COMPANY

	Land and buildings	Equipment, furniture and fittings	Motor vehicles	Total
	€	€	€	€
Cost				
Balance at 1 January 2013	6,104,209	2,138,452	73,881	8,316,542
Additions	258,753	111,990	-	370,743
Balance at 31 December 2013	6,362,962	2,250,442	73,881	8,687,285
Balance at 1 January 2014	6,362,962	2,250,442	73,881	8,687,285
Additions	238,473	475,924	106,869	821,266
Balance at 31 December 2014	6,601,435	2,726,366	180,750	9,508,551
Depreciation				
Balance at 1 January 2013	42,493	972,614	19,079	1,034,186
Depreciation for the year	47,688	232,995	14,776	295,459
Balance at 31 December 2013	90,181	1,205,609	33,855	1,329,645
Balance at 1 January 2014	90,181	1,205,609	33,855	1,329,645
Depreciation for the year	50,071	276,593	36,153	362,817
Balance at 31 December 2014	140,252	1,482,202	70,008	1,692,462
Carrying amounts				
At 1 January 2013	6,061,716	1,165,838	54,802	7,282,356
At 31 December 2013	6,272,781	1,044,833	40,026	7,357,640
At 31 December 2014	**6,461,183**	**1,244,164**	**110,742**	**7,816,089**

13.3

No borrowing costs were capitalised for the Group and Company during the year ended 31 December 2014 and 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

14 INTANGIBLE ASSETS

14.1 THE GROUP

	Goodwill	Internally generated computer software	Software rights	Other computer software	Total
	€	€	€	€	€
Cost					
Balance at 1 January 2013	564,540	11,707,353	3,000,000	852,202	16,124,095
Additions	-	377,807	-	-	377,807
Effects of movement in exchange rates	(24,436)	-	-	(36,892)	(61,328)
Balance at 31 December 2013	540,104	12,085,160	3,000,000	815,310	16,440,574
Balance at 1 January 2014	540,104	12,085,160	3,000,000	815,310	16,440,574
Additions	-	388,829	-	-	388,829
Impairment	-	-	-	(226,495)	(226,495)
Effects of movement in exchange rates	73,401	-	-	89,461	162,862
Balance at 31 December 2014	613,505	12,473,989	3,000,000	678,276	16,765,770
Amortisation					
Balance at 1 January 2013	-	7,562,239	225,000	-	7,787,239
Charge for the year	-	795,967	200,000	-	995,967
Balance at 31 December 2013	-	8,358,206	425,000	-	8,783,206
Balance at 1 January 2014	-	8,358,206	425,000	-	8,783,206
Charge for the year	-	820,831	200,000	-	1,020,831
Balance at 31 December 2014	-	9,179,037	625,000	-	9,804,037
Carrying amounts					
At 1 January 2013	564,540	4,145,114	2,775,000	852,202	8,336,856
At 31 December 2013	540,104	3,726,954	2,575,000	815,310	7,657,368
At 31 December 2014	**613,505**	**3,294,952**	**2,375,000**	**678,276**	**6,961,733**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

14 INTANGIBLE ASSETS (CONTINUED)

14.2 THE COMPANY

	Internally generated computer software	Software rights	Total
	€	€	€
Cost			
Balance at 1 January 2013	11,707,353	3,000,000	14,707,353
Additions	377,807	-	377,807
Balance at 31 December 2013	12,085,160	3,000,000	15,085,160
Balance at 1 January 2014	12,085,160	3,000,000	15,085,160
Additions	388,829	-	388,829
Balance at 31 December 2014	12,473,989	3,000,000	15,473,989
Amortisation			
Balance at 1 January 2013	7,562,239	225,000	7,787,239
Amortisation for the year	795,966	200,000	995,966
Balance at 31 December 2013	8,358,205	425,000	8,783,205
Balance at 1 January 2014	8,358,205	425,000	8,783,205
Amortisation for the year	820,831	200,000	1,020,831
Balance at 31 December 2014	9,179,036	625,000	9,804,036
Carrying amounts			
At 1 January 2013	4,145,114	2,775,000	6,920,114
At 31 December 2013	3,726,955	2,575,000	6,301,955
At 31 December 2014	**3,294,953**	**2,375,000**	**5,669,953**

14.3

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

14 INTANGIBLE ASSETS (CONTINUED)

14.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL

Goodwill arises from the acquisition of 26% of the issued share capital of Transworks LLC in 2009. During 2014, the Company acquired a further 32% shareholding in Transworks LLC for $500,000. For the purpose of impairment testing of goodwill arising on the acquisition of Transworks LLC, the recoverable amount of Transworks LLC was based on its value in use and was determined by discounting the projected future cash flows to be generated from the continuing use of the asset. For this purpose, management prepared projections for an explicit five year period 2015 – 2019 (2013: four year period 2014 – 2017) and applied growth rates for subsequent years.

The key assumptions used in the calculation of the value in use of Transworks LLC are the projected level of operations, EBITDA margins and the discount rate used.

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.

Cash flows beyond 2019 have been extrapolated using a terminal growth rate of 1.5% (2013: 1.5%).The terminal growth rate was determined based on management's estimate of the long term compound annual EBITDA growth rate, consistent with the assumption that a market participant would make. The post-tax discount rate applied to the projected cash flows is of 25.0% (2013: 15.0%). Pre-tax discount rate is of 33.8%. This 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.

Budgeted EBITDA was based on expectations of future outcomes taking into account current negotiations the Group has with prospective clients. Revenue growth was projected taking into account the estimated sales volumes for the next four years.

The recoverable amount of the CGU was determined to be higher than its carrying amount. The selection of assumptions and estimates by management involves significant judgment 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 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.

The estimated recoverable amount of Transworks LLC exceeds its carrying amount by approximately €1.3m. Transworks LLC is in its initial stages of penetrating the US market by providing licensing and processing services through the use of BankWORKS®. The Company has the intention to engage market research and business development advisors in the US to assist it in developing its plans. Management's projections and the estimate of the recoverable amount of Transworks LLC may be impacted by the result of these market studies. A reasonably possible change in management's assumptions could cause the carrying amount of the Company's investment in the subsidiary 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 Group not manage to achieve the projected level of operations at the estimated cost levels such that the growth in the net cash inflows is lower by more than 95% of that projected for each year from 2015 to 2019, then the carrying amount would exceed the recoverable amount.

14 INTANGIBLE ASSETS (CONTINUED)

14.5

The Group's software rights comprise the ownership title and unrestricted right to explore and use in Scandinavia the BankWORKS® software system, source code, documentation and updates/upgrades thereof. Prior to the acquisition, the rights belonged to a related party.

14.6

The Group's internally generated computer software comprises the continuous development and innovation of client/server Card Management Systems under the trade name of BankWORKS® by the Company's highly qualified experienced team of software developers. Expenditure on the development of computer software is capitalised including the cost of direct labour and an appropriate proportion of overheads. Capitalised expenditure on computer software is stated at cost less accumulated amortisation and any impairment losses.

15 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group	ASSETS		LIABILITIES		BALANCE	
	2014	2013	2014	2013	2014	2013
	€	€	€	€	€	€
Plant and equipment	-	-	(164,304)	(123,983)	(164,304)	(123,983)
Intangible assets	-	-	(2,073,969)	(1,887,991)	(2,073,969)	(1,887,991)
Impairment loss on receivables	479,071	248,459	-	-	479,071	248,459
Provision for exchange fluctuations	-	21,579	(230,165)	-	(230,165)	21,579
Business Protection Act investment tax credit	-	229,452	-	-	-	229,452
Unabsorbed losses	375,915	183,339	-	-	375,915	183,339
Unabsorbed capital allowances	478,786	239,690	-	-	478,786	239,690
Tax assets/(liabilities)	1,333,772	922,519	(2,468,438)	(2,011,974)	(1,134,666)	(1,089,455)
Set off of tax	(1,333,772)	(922,519)	1,333,772	922,519	-	-
Net tax liabilities	-	-	(1,134,666)	(1,089,455)	(1,134,666)	(1,089,455)

The Company	ASSETS		LIABILITIES		BALANCE	
	2014	2013	2014	2013	2014	2013
	€	€	€	€	€	€
Plant and equipment	-	-	(164,339)	(123,997)	(164,339)	(123,997)
Intangible assets	-	-	(1,778,801)	(1,733,992)	(1,778,801)	(1,733,992)
Impairment loss on receivables	479,071	248,459	-	-	479,071	248,459
Provision for exchange fluctuations	-	21,579	(230,165)	-	(230,165)	21,579
Business Protection Act investment tax credit	-	229,452	-	-	-	229,452
Tax assets/(liabilities)	479,071	499,490	(2,173,305)	(1,857,989)	(1,694,234)	(1,358,499)
Set off of tax	(479,071)	(499,490)	479,071	499,490	-	-
Net tax liabilities	-	-	(1,694,234)	(1,358,499)	(1,694,234)	(1,358,499)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

15 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

15.2

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

15.3 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

The Group	Balance 1 Jan 2013	Recognised in profit or loss	Balance 1 Jan 2014	Recognised in profit or loss	Balance 31 Dec 2014
	€	€	€	€	€
Plant and equipment	(5,294)	(118,689)	**(123,983)**	**(40,321)**	**(164,304)**
Intangible assets	(1,688,441)	(199,550)	**(1,887,991)**	**(185,978)**	**(2,073,969)**
Impairment loss on receivables	258,121	(9,662)	**248,459**	**230,612**	**479,071**
Provision for exchange fluctuations	4,536	17,043	**21,579**	**(251,744)**	**(230,165)**
Business Protection Act investment tax credit	1,692,974	(1,463,522)	**229,452**	**(229,452)**	**-**
Unabsorbed losses	-	183,339	**183,339**	**192,576**	**375,915**
Unabsorbed capital allowances	-	239,690	**239,690**	**239,096**	**478,786**
	261,896	(1,351,351)	**(1,089,455)**	**(45,211)**	**(1,134,666)**

The Company	Balance 1 Jan 2013	Recognised in profit or loss	Balance 1 Jan 2014	Recognised in profit or loss	Balance 31 Dec 2014
	€	€	€	€	€
Plant and equipment	(5,294)	(118,703)	**(123,997)**	**(40,342)**	**(164,339)**
Intangible assets	(1,688,441)	(45,551)	**(1,733,992)**	**(44,809)**	**(1,778,801)**
Impairment loss on receivables	258,121	(9,662)	**248,459**	**230,612**	**479,071**
Provision for exchange fluctuations	4,536	17,043	**21,579**	**(251,744)**	**(230,165)**
Business Protection Act investment tax credit	1,692,974	(1,463,522)	**229,452**	**(229,452)**	**-**
	261,896	(1,620,395)	**(1,358,499)**	**(335,735)**	**(1,694,234)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

16 INVESTMENTS IN SUBSIDIARIES

16.1

	THE COMPANY 2014	THE COMPANY 2013
	€	€
Balance at 1 January	**758,942**	758,942
Acquisitions	**389,832**	-
Balance at 31 December	**1,148,774**	758,942

16.2

	Registered office	Ownership interest fully paid-up 2014 %	Ownership interest fully paid-up 2013 %	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®
Transworks LLC	1129, Northern Blvd, Manhasset New York NY 11030 USA	**64.20**	26.00	Transaction processing services with the use of BankWORKS®

On 12 June 2009, the Company acquired control of Transworks LLC (“Transworks”), 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 Transworks. Up to 31 December 2013, notwithstanding that the Company owned 26% shareholding, it owned the majority of class C shares in Transworks which entitled the Company to appoint three out of five directors, thereby having control (see note 14.4).

16.3

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.

16.4

The Company has provided a guarantee to a client of one of its subsidiaries in respect of liabilities, undisputed or established as final by court, that may become due by the subsidiary to its client in relation to the services provided by the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

17 OTHER INVESTMENT

17.1

	GROUP AND COMPANY	
	2014	2013
	€	€
Non-current		
Available-for-sale financial asset	**131,785**	218,978

17.2

During 2014, the Company recognised an impairment loss in the investment in iPOS amounting to €87,193.

17.3

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.

18 TRADE AND OTHER RECEIVABLES

18.1

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Non-current				
Trade receivables	**764,731**	647,220	**764,731**	647,220
Amounts owed by parent company	**-**	126,731	**-**	126,731
Loans and receivables from subsidiaries	**-**	-	**3,172,876**	1,143,139
Loans receivables from other related parties	**32,087**	295,398	**32,087**	295,398
	796,818	1,069,349	**3,969,694**	2,212,488
Current				
Trade receivables	**1,545,739**	2,745,614	**1,510,790**	2,604,375
Trade receivables by other related parties	**2,462,473**	-	**2,462,473**	-
Other receivables	**158,974**	60,877	**127,377**	13,294
	4,167,186	2,806,491	**4,100,640**	2,617,669

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

18.2

Non-current amounts due by parent company are unsecured, repayable within four years from 2010 and do not bear interest. Non-current amounts due by subsidiary are unsecured, and bear interest at 2%. During 2015, the Company intends to capitalise a substantial part of the long term amount owed by subsidiary as investment in subsidiary.

Non-current loans receivable from other related parties includes loan receivable from RS2 Employee Trust amounting to €32,087 (2013: €295,398), which is repayable within ten years from 2010 and bears interest at normal commercial banking rates.

18.3

Trade receivables for the Group and Company are shown net of impairment losses amounting to €1,352,985 (2013: €709,880).

18.4

Current amounts due by other related parties are unsecured, repayable on demand and do not bear interest.

18.5

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Current				
Loans and receivables from related parties				
Loans and receivables from subsidiaries	**-**	-	**-**	1,516,575
Amounts owed by parent company	**737,087**	356,914	**737,087**	356,914
Amounts owed by key management personnel	**-**	350,000	**-**	350,000
Amounts owed by other related parties	**130,958**	234,787	**130,958**	234,787
	868,045	941,701	**868,045**	2,458,276

18.6

Current amounts due by subsidiaries, parent company, key management personnel and other related parties are unsecured and repayable on demand. Amounts due by the parent company and the subsidiaries bear interest at the rate of 2% per annum. All other amounts due are interest free.

18.7

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

18.8

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

19 ACCRUED INCOME

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Non - current				
Accrued income owed by third parties	**451,187**	2,968,688	**451,187**	2,968,688
Accrued income owed by subsidiary	**-**	-	**2,086,733**	2,200,000
Accrued income owed by related parties	**989,563**	-	**989,563**	-
	1,440,750	2,968,688	**3,527,483**	5,168,688
Current				
Accrued income owed by third parties	**2,188,205**	2,865,070	**2,188,205**	2,808,269
Accrued income owed by parent company	**120,000**	120,000	**120,000**	120,000
Accrued income owed by subsidiary	**-**	-	**349,571**	15,828
Accrued income owed by related parties	**2,536,209**	-	**2,536,209**	-
	4,844,414	2,985,070	**5,193,985**	2,944,097

20 CASH AND CASH EQUIVALENTS

20.1

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Cash at bank	**4,515,392**	3,638,738	**3,727,188**	3,259,663
Cash in hand	**5,054**	4,512	**4,715**	4,512
Cash pledged as guarantee	**(8,409)**	(8,284)	**(8,409)**	(8,284)
	4,512,037	3,634,966	**3,723,494**	3,255,891

20.2

The amount of €8,409 (2013: €8,284) represents cash pledged as guarantee in favour of MEPA relating to the full development permit granted to the Company for the development of its new premises in Mosta.

21 CAPITAL AND RESERVES

21.1 SHARE CAPITAL

	GROUP AND COMPANY	
	2014	2013
	No.	No.
Ordinary Shares		
On issue at 1 January - fully paid-up	**42,499,956**	39,999,956
Bonus issue	**2,500,000**	2,500,000
On issue at 31 December - fully paid-up	**44,999,956**	42,499,956

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

21 CAPITAL AND RESERVES (CONTINUED)

21.1 SHARE CAPITAL (CONTINUED)

At 31 December 2014, the authorised share capital comprised 50,000,000 (2013: 50,000,000) ordinary shares at a nominal value of €0.20 each.

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.

21.2 SHARE PREMIUM

Share premium amounting to €1,292,743 (2013: €1,792,743) represents 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 2014, the Company allotted 2,500,000 bonus shares (1 for every 17 held) approved by the Annual General Meeting held on 11 June 2014 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.

21.3 RESERVES

21.3.1 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.

21.3.2 FAIR VALUE RESERVE

The fair value reserve of the Group and the Company comprises the cumulative net change in fair value of available-for-sale financial assets until the investment is derecognised or impaired. This reserve is non-distributable.

21.3.3 STATUTORY RESERVE

Part II of the Third Schedule to the Act requires that only profits realised at reporting date may be included as part of retained earnings available for distribution. Any unrealised profits at this date, recognised in profit or loss, are transferred to a non-distributable reserve.

21.3.4 SHARE OPTION RESERVE

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

21.4 DIVIDENDS

The following dividends were declared and paid by the Company:

	GROUP AND COMPANY	
For the year ended 31 December	2014	2013
	€	€
Dividend, net of income tax	**1,000,000**	1,000,000
Dividend per ordinary share	**0.0235**	0.025

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

21 CAPITAL AND RESERVES (CONTINUED)

21.4 DIVIDENDS (CONTINUED)

After 31 December 2014, the following dividend was proposed by the directors for 2014. This dividend has not been provided for and there are no income tax consequences.

	2014
	€
€0.04c4 per ordinary share	**2,000,000**

21.5 AVAILABILITY OF RESERVES FOR DISTRIBUTION

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Distributable	**12,357,823**	10,757,376	**16,287,701**	13,743,043
Non-distributable	**1,572,030**	2,227,075	**1,512,786**	2,227,438
	13,929,853	12,984,451	**17,800,487**	15,970,481

22 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.

Earnings per share of the Group and Company for the year ended 31 December 2014 amounted to €0.064 and €0.074 respectively (2013: €0.065 and €0.076).

The earnings per share was derived by dividing the profit attributable to ordinary shareholders by 44,999,956 (2013: 42,499,956), being the equivalent number of ordinary shares in issue and ranking for dividend during the year.

During the year, there was an increase in the number of ordinary shares issued through bonus issue (see note 21.2). 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.

23 BANK BORROWINGS

23.1

	GROUP AND COMPANY	
	2014	**2013**
	€	**€**
Non-current liabilities		
Non-current portion of secured bank loan:		
Repayable between one and five years	**2,710,067**	2,856,018
Repayable after five years	**-**	298,220
At end of year	**2,710,067**	3,154,238
Current liabilities		
Current portion of secured bank loans	**725,846**	1,022,180

23.2

Bank borrowings represent the balances on two banking facilities. The first facility is repayable over a period of ten years from the first drawdown, 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, repayable in full by 18 March 2019, and is subject to interest at the rate of 3.3% over the 3-month euribor rate.

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

23.3

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.

23.4

The Group's exposure to interest rate risk for financial assets and liabilities are disclosed in note 26.

23.5

The Group's exposure to liquidity risk is disclosed in note 26.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

24 TRADE AND OTHER PAYABLES

24.1

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Trade payables	**592,539**	474,736	**505,073**	458,893
Other payables	**155,933**	-	**155,933**	-
Dividends payable	**8,933**	6,843	**8,933**	6,843
Other taxes and social securities	**391,846**	343,957	**391,846**	343,957
Amounts due to other related parties	**11,487**	120,128	**11,487**	11,487
	1,160,738	945,664	**1,073,272**	821,180

24.2

An amount of €120,128 in 2013 due by the Group to other related parties is unsecured, bears interest at 2% and is repayable on demand. This amount was assigned to the Company as part of the acquisition of a further 38.2% in Transworks LLC see note 16.2.

24.3

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

24.4

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

25 ACCRUALS AND DEFERRED INCOME

25.1 ACCRUALS

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Current				
Accrued expenses owed to key management personnel	**-**	245,000	**-**	245,000
Accrued expenses owed to third parties	**547,332**	517,572	**536,010**	512,239
	547,332	762,572	**536,010**	757,239

25.2

Deferred income classified as current liabilities for the Group €1,425,850 (2013: €1,814,309) and Company amounting to €1,400,798 (2013: €1,808,413) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS

26.1 CREDIT RISK

26.1.1 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	
	2014	2013	2014	2013
	€	€	€	€
Non-current assets				
Trade and other receivables	**764,731**	647,220	**764,731**	647,220
Amounts receivable from related parties	**32,087**	422,129	**3,204,963**	1,565,268
Accrued income	**1,440,750**	2,968,688	**3,527,483**	5,168,688
	2,237,568	4,038,037	**7,497,177**	7,381,176
Current assets				
Trade and other receivables	**4,167,186**	2,806,491	**4,100,640**	2,617,669
Loans and receivables from related parties	**868,045**	941,701	**868,045**	2,458,276
Accrued income	**4,844,414**	2,985,070	**5,193,985**	2,944,097
Cash at bank	**4,515,392**	3,638,738	**3,727,188**	3,259,663
	14,395,037	10,372,000	**13,889,858**	11,279,705

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	
	2014	2013	2014	2013
	€	€	€	€
Non-current assets				
Europe	**1,021,651**	3,390,817	**6,281,260**	6,733,956
Middle East	**402,960**	647,220	**402,960**	647,220
United States of America	**812,957**	-	**812,957**	-
	2,237,568	4,038,037	**7,497,177**	7,381,176
Current assets				
Europe	**8,646,772**	4,430,488	**8,188,411**	4,932,808
Middle East	**602,420**	395,169	**539,422**	395,169
United States of America	**203,928**	1,617,561	**1,095,375**	2,402,021
Asia	**426,525**	290,044	**339,462**	290,044
	9,879,645	6,733,262	**10,162,670**	8,020,042

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.1 CREDIT RISK (CONTINUED)

26.1.1 EXPOSURE TO CREDIT RISK (CONTINUED)

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Customers situated in Europe	**7,133,145**	4,684,192	**7,154,561**	4,684,192

26.1.2 IMPAIRMENT LOSSES

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

	THE GROUP			
	Gross	Impairment	Gross	Impairment
	2014	2014	2013	2013
	€	€	€	€
Not past due	**3,681,698**	-	1,491,995	-
31 days to 60 days	**624,967**	-	228,936	-
61 days to 90 days	**133,700**	-	73,922	-
Over 90 days	**2,744,669**	**1,352,985**	3,732,568	709,880
	7,185,034	**1,352,985**	5,527,421	709,880

	THE COMPANY			
	Gross	Impairment	Gross	Impairment
	2014	2014	2013	2013
	€	€	€	€
Not past due	**3,588,356**	-	1,577,676	-
31 days to 60 days	**643,666**	-	556,862	-
61 days to 90 days	**138,149**	-	77,694	-
Over 90 days	**5,921,193**	**1,352,985**	5,786,081	709,880
	10,291,364	**1,352,985**	7,998,313	709,880

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.1 CREDIT RISK (CONTINUED)

26.1.2 IMPAIRMENT LOSSES (CONTINUED)

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Balance at 1 January	**709,880**	730,135	**709,880**	718,542
Impairment loss recognised	**628,960**	(10,776)	**628,960**	-
Effect of exchange rate fluctuations	**14,145**	(9,479)	**14,145**	(8,662)
Balance at 31 December	**1,352,985**	709,880	**1,352,985**	709,880

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. The 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 to €1,084,729 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.

26.2 LIQUIDITY RISK

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

	Carrying amount	Contractual Cash flows	12 months or less	1 - 2 years	2 - 5 years	More than 5 years
	€	€	€	€	€	€
31 December 2014						
The Group						
Secured bank loans	**3,435,913**	**(3,659,412)**	**(812,196)**	**(812,196)**	**(2,035,020)**	**-**
Interest rate swap	**159,749**	**(176,770)**	**(51,087)**	**(42,510)**	**(74,995)**	**(8,178)**
Accrued expenses	**547,332**	**(547,332)**	**(547,332)**	**-**	**-**	**-**
Trade and other payables	**1,160,738**	**(1,160,738)**	**(1,160,738)**	**-**	**-**	**-**
	5,303,732	**(5,544,252)**	**(2,571,353)**	**(854,706)**	**(2,110,015)**	**(8,178)**
The Company						
Secured bank loans	**3,435,913**	**(3,659,412)**	**(812,196)**	**(812,196)**	**(2,035,020)**	**-**
Interest rate swap	**159,749**	**(176,770)**	**(51,087)**	**(42,510)**	**(74,995)**	**(8,178)**
Accrued expenses	**536,010**	**(536,010)**	**(536,010)**	**-**	**-**	**-**
Trade and other payables	**1,073,272**	**(1,073,272)**	**(1,073,272)**	**-**	**-**	**-**
	5,204,944	**(5,445,464)**	**(2,472,565)**	**(854,706)**	**(2,110,015)**	**(8,178)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.2 LIQUIDITY RISK (CONTINUED)

	Carrying amount	Contractual Cash flows	12 months or less	1 - 2 years	2 - 5 years	More than 5 years
	€	€	€	€	€	€
31 December 2013						
The Group						
Secured bank loans	4,176,418	(4,463,765)	(1,136,752)	(1,136,752)	(1,888,941)	(301,320)
Interest rate swap	149,263	(224,722)	(56,793)	(48,532)	(96,141)	(23,256)
Accrued expenses	762,572	(762,572)	(762,572)	-	-	-
Trade and other payables	945,664	(945,664)	(945,664)	-	-	-
	6,033,917	(6,396,723)	(2,901,781)	(1,185,284)	(1,985,082)	(324,576)
The Company						
Secured bank loans	4,176,418	(4,463,765)	(1,136,752)	(1,136,752)	(1,888,941)	(301,320)
Interest rate swap	149,263	(224,722)	(56,793)	(48,532)	(96,141)	(23,256)
Accrued expenses	757,239	(757,239)	(757,239)	-	-	-
Trade and other payables	821,180	(821,180)	(821,180)	-	-	-
	5,904,100	(6,266,906)	(2,771,964)	(1,185,284)	(1,985,082)	(324,576)

26.3 CURRENCY RISK

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

	2014		
	USD	JOD	GBP
The Group			
Trade receivables	**1,456,255**	**-**	**1,934,701**
Cash at bank	**593,641**	**-**	**677,266**
Trade payables	**(112,711)**	**(34,753)**	**(2,465)**
Gross statement of financial position exposure	**1,937,185**	**(34,753)**	**2,609,502**
The Company			
Trade receivables	**1,456,255**	**-**	**1,934,701**
Cash at bank	**593,641**	**-**	**677,266**
Trade payables	**(93,654)**	**(34,753)**	**(2,465)**
Gross statement of financial position exposure	**1,956,242**	**(34,753)**	**2,609,502**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.3 CURRENCY RISK (CONTINUED)

	2013		
	USD	JOD	GBP
The Group			
Trade receivables	1,238,881	-	130,659
Cash at bank	402,648	-	1,109,370
Trade payables	(41,204)	(32,816)	(2,400)
Gross statement of financial position exposure	1,600,325	(32,816)	1,237,629
The Company			
Trade receivables	1,238,881	-	130,659
Receivables from related parties	7,500	-	-
Cash at bank	402,648	-	1,109,370
Trade payables	(22,147)	(32,816)	(2,400)
Gross statement of financial position exposure	1,626,882	(32,816)	1,237,629

The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2014	2013	2014	2013
USD 1	**0.7527**	0.7529	**0.8237**	0.7251
JOD 1	**1.0662**	1.0413	**1.1654**	1.0298
PHP 1	**0.0170**	0.0177	**0.0184**	0.0180
GBP 1	**1.2405**	1.1775	**1.2839**	1.1995

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 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.3 CURRENCY RISK (CONTINUED)

SENSITIVITY ANALYSIS (CONTINUED)

	THE GROUP		THE COMPANY	
	Equity	Profit or loss	Equity	Profit or loss
	€	€	€	€
31 December 2014				
USD	**(145,052)**	**(145,052)**	**(146,479)**	**(146,479)**
JOD	**3,682**	**3,682**	**3,682**	**3,682**
GBP	**(304,567)**	**(304,567)**	**(304,567)**	**(304,567)**
31 December 2013				
USD	(105,986)	(105,986)	(105,986)	(105,986)
JOD	3,072	3,072	3,072	3,072
GBP	(134,955)	(134,955)	(134,955)	(134,955)

A 10 percent weakening of the Euro against the above currencies 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.

26.4 INTEREST RATE RISK

26.4.1 PROFILE

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Fixed rate instruments				
Financial assets	**787,078**	-	**3,909,962**	2,546,193
Variable rate instruments				
Financial assets	**4,547,479**	4,417,780	**3,759,276**	4,038,705
Financial liabilities	**(3,595,662)**	(4,325,682)	**(3,595,662)**	(4,325,682)
	951,817	92,098	**163,614**	(286,977)

26.4.2 INTEREST RATE RISK

The Group is exposed to interest rate risk on its borrowings arising from movements in the Bank's Lending Base Rate. Part of this interest rate risk exposure is hedged through the use of interest rate swaps.

26 FINANCIAL INSTRUMENTS (CONTINUED)

26.4 INTEREST RATE RISK (CONTINUED)

26.4.3 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 2013.

	GROUP			
	Profit or loss		Equity	
	100 bp increase €	100 bp decrease €	100 bp increase €	100 bp decrease €
31 December 2014				
Variable rate instruments	**(58,327)**	**58,327**	**(58,327)**	**58,327**
31 December 2013				
Variable rate instruments	(38,718)	38,718	(38,718)	38,718

	COMPANY			
	Profit or loss		Equity	
	100 bp increase €	100 bp decrease €	100 bp increase €	100 bp decrease €
31 December 2014				
Variable rate instruments	**(50,445)**	**50,445**	**(50,445)**	**50,445**
31 December 2013				
Variable rate instruments	(34,927)	34,927	(34,927)	34,927

26.5 FAIR VALUES

26.5.1 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

27 ACQUISITION OF NON-CONTROLLING INTEREST

On 24 September 2014, the Company acquired a further 38.2% shareholding in Transworks LLC for $500,000 in cash payable in five instalments, increasing its ownership from 26% to 64.2%. The Group recognised:

- a decrease in NCI of €237,141;
- a decrease in retained earnings of €490,009;
- a decrease on amounts payable by subsidiary to parent company of €136,966.

The carrying amount of Transworks' net liabilities in the Group's financial statements on the date of acquisition was of €302,258.

The following summarises the changes in the Company's ownership interest in Transworks LLC.

	€
Company's ownership interest at 1 January 2014	**757,741**
Effect of increase in the Company's ownership interest	**389,832**
Company's ownership interest at 31 December 2014	**1,147,573**

28 SHARE-BASED PAYMENT ARRANGEMENTS

28.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS

At 31 December 2014, 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 may be 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 the year, with 2011 being the first year of performance. During 2013, the Company allocated an amount of 357,524 share options to eligible employees to be granted upon satisfaction of the performance criteria set for the employees, at an exercise price of €0.66. In accordance with the scheme rules, the exercise price was determined by reference to the trade weighted average market price per share, on the MSE for the last forty (40) dealing days of the year immediately preceding the relevant one-year performance period. No such allotment was given during the year under review.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

28 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

28.2 MEASUREMENT OF FAIR VALUES

The inputs used in the measurement of the fair value at grant date of the equity-settled share-based payments were as follows:

	2014	2013
Fair value of options at grant date	-	€1.630
Share price at grant date	-	€2.30
Exercise price of share options	-	€0.66
Expected volatility	-	3.70%
Option life	-	8 years
Expected dividends	-	2.5%
Risk-free interest rate (based on AAA-rated euro area central government bonds with 8 years maturity)	-	1.86%

28.3 EMPLOYEE EXPENSES

An amount of €407,425 was recognised as employee expenses in 2013 in relation to the share options granted in 2014 in respect of vested options based on 2013 performance. No such costs were recognised during the year under review.

28.4 OUTSTANDING SHARE OPTIONS

There were 284,024 (2013: 236,340) share options outstanding at 31 December 2014.

29 OPERATING LEASES

29.1

During 2014, the Company 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	
	2014	2013	2014	2013
	€	€	€	€
Less than one year	**22,837**	-	**22,837**	-
Between one and five years	**105,887**	-	**105,887**	-
More than five years	**644,677**	-	**644,677**	-
	773,401	-	**773,401**	-

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

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Operating lease	**11,240**	-	**11,240**	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

29 OPERATING LEASES (CONTINUED)

29.2

During 2014, 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 is for a three year period commencing in September 2012 and expiring in September 2015. The Group had the following non-cancellable payments which include both lease and non-lease elements.

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Less than one year	**425,315**	495,060	**-**	-
Between one and five years	**-**	425,315	**-**	-
More than five years	**-**	-	**-**	-
	425,315	920,375	**-**	-

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Operating leases	**495,060**	590,312	**-**	-

30 CAPITAL COMMITMENTS

During 2015, the Company will also be investing in the reconstruction and finishing of the leased premises in Gozo. Restructuring and finishing costs of both projects are estimated to total €1,054,000, out of which €780,000 were contracted after year end.

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.

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 their capacity as ultimate shareholders of ITM (Information Technology Management) Holding Limited, Ulrike Schäffter and Radi Abd El Haj indirectly hold 25.02% and 25.02% of the issued share capital of the Company respectively.

32.2 IDENTITY OF RELATED PARTIES

The Company has a related party relationship with its parent company, other subsidiaries of the parent company ("sister companies"), 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 ("other related parties").

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.

Directors of the Company control directly and indirectly 28.03% (2013: 28.1%) of the voting shares of the Company. During the current and comparative year, the Company was owed an amount of €350,000 from one of its directors which amount was repayable on demand, unsecured and interest free. During the year, the director entered into a novation agreement with the parent company for the assumption of the debt due to the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2014

32 RELATED PARTIES (CONTINUED)

32.3 RELATED PARTY TRANSACTIONS

	THE GROUP		THE COMPANY	
	2014	2013	2014	2013
	€	€	€	€
Key management personnel				
Remuneration for services provided by	**1,125,088**	1,078,068	**939,102**	1,078,068
Novation of receivables to parent company by	**350,000**	-	**350,000**	-
Directors' fees paid	**77,000**	77,000	**77,000**	77,000
Dividend paid to	**32,320**	61,130	**32,320**	61,130
Parent company				
Advances to	**-**	11,144	**-**	11,144
Repayments of advances to	**100,000**	589,000	**100,000**	589,000
Novation of receivables from key management personnel to	**350,000**	-	**350,000**	-
Interest charged to	**3,443**	6,104	**3,443**	6,104
Dividend paid to	**500,231**	-	**500,231**	-
Subsidiaries				
Advances to			**-**	29,878
Repayment of advances to			**140,190**	18,236
Payments for services provided to			**349,177**	103,024
Services provided to			**712,121**	825,451
Services not yet invoiced provided to			**349,573**	155,828
Interest charged to			**56,698**	38,940
Repayment of interest charged to			**9,810**	22,953
Payments on behalf of			**135,985**	877,980
Waiver of accrued commissions			**123,806**	-
Other related parties				
Services provided by	**1,121,038**	1,218,708	**1,121,038**	1,218,708
Services provided to	**3,654,061**	-	**3,654,061**	-
Services not yet invoiced provided to	**295,020**	-	**295,020**	-
Payments for services provided by	**1,107,209**	1,176,742	**1,107,209**	1,176,742
Payments for services provided to	**1,347,792**	-	**1,347,912**	-
Loan repayments by	**262,357**	65,935	**262,357**	65,935
Interest charged to	**6,689**	19,230	**6,689**	19,230
Interest repayments	**7,644**	57,065	**7,644**	57,065

The Company is party to an agreement for subcontracted services with RS Consult GmbH, which is owned up to 24% by a Director of the Company. Services provided by RS Consult GmbH to the Group during 2014 amounted to €994,778 (2013: €1,111,641).

32.4 RELATED PARTY BALANCES

Information on amounts due to/by related parties is set out in notes 18, 19, 24 and 25 to these financial statements.

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF RS2 SOFTWARE P.L.C.

REPORT ON THE FINANCIAL STATEMENTS

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, as set out on pages 31 to 87, which comprise the statements of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. They are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 179 of the Act and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2014 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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TO THE MEMBERS OF RS2 SOFTWARE P.L.C.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements:

- give a true and fair view of the Group's and the Company's financial position as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION BY THE COMPANIES ACT, 1995 (CHAPTER 386, LAWS OF MALTA) (THE "ACT")

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- proper accounting records have not been kept by the Company; or
- the Company's 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; or
- certain disclosures of directors' remuneration specified by the Act are not made.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF RS2 SOFTWARE P.L.C.

TO THE MEMBERS OF RS2 SOFTWARE P.L.C.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Company endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Company, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 21 to 25.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's 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 Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 21 to 25 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Kevin Mifsud
(Director) for and on behalf of

KPMG
REGISTERED AUDITORS

21 April 2015

NOTES

ANNUAL REPORT & FINANCIAL STATEMENTS

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