



RS2 Software p.l.c.
COMPANY ANNOUNCEMENT

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

Quote

At the meeting held on Wednesday 25 April 2018, the Board of Directors of RS2 Software p.l.c. approved the financial statements for the financial year ended 31 December 2017. The Board resolved that these financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Tuesday 19 June 2018.

Shareholders appearing on the **shareholders'** register as at the close of business on Friday 18 May 2018 will receive notice of the Annual General Meeting, together with the Annual Report and Financial Statements for the financial year ended 31 December 2017. The preliminary statement of results that is attached herewith was extracted from the financial statements that were audited by KPMG.

The Board of Directors resolved to recommend for approval at the Annual General Meeting, the payment of a final dividend of €0.01c46 per share amounting to €2,504,303. This dividend, if approved at the Annual General Meeting, will be paid on Thursday 26 June 2018 to shareholders who appear on the **shareholders'** register as at the close of business on Friday 18 May 2018.

Pursuant to the Malta Stock Exchange Bye-Laws, the **shareholders'** register as at close of business on Friday 18 May 2018 will include trades undertaken up to and including Wednesday 16 May 2018.

Unquote

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

Dr. Ivan Gatt
Company Secretary

25 April 2018

RS2 Software p.l.c.

Statements of Financial Position

As at 31 December 2017

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

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Statements of Financial Position

As at 31 December 2017

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

THE GROUP

Attributable to equity holders of the Company

	Share capital €	Share premium €	Translation reserve €	Other Reserves €	Share option reserve €	Retained earnings €	Total €	Non-controlling interest €	Total equity €
Balance at 1 January 2016	8,999,991	1,292,743	115,523	-	120,996	13,409,110	23,938,363	(8,674)	23,929,689
Comprehensive income for the year (restated)									
Profit for the year	-	-	-	-	-	576,906	576,906	(123,773)	453,133
Other comprehensive income									
Foreign currency translation differences	-	-	(5,752)	-	-	-	(5,752)	(9,740)	(15,492)
Total other comprehensive income for the year	-	-	(5,752)	-	-	-	(5,752)	(9,740)	(15,492)
Total comprehensive income for the year (restated)	-	-	(5,752)	-	-	576,906	571,154	(133,513)	437,641
Transactions with owners of the Company									
Bonus issue	500,000	(500,000)	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(2,501,998)	(2,501,998)	-	(2,501,998)
	500,000	(500,000)	-	-	-	(2,501,998)	(2,501,998)	-	(2,501,998)
Share options exercised	-	-	-	-	(22,600)	22,600	-	-	-
Balance at 31 December 2016	9,499,991	792,743	109,771	-	98,396	11,506,618	22,007,519	(142,187)	21,865,332
Balance at 1 January 2017	9,499,991	792,743	109,771	-	98,396	11,506,618	22,007,519	(142,187)	21,865,332
Comprehensive income for the year									
Profit for the year	-	-	-	-	-	793,033	793,033	(178,237)	614,796
Other comprehensive income									
Foreign currency translation differences	-	-	(204,315)	-	-	-	(204,315)	(37,452)	(241,767)
Total other comprehensive income for the year	-	-	(204,315)	-	-	-	(204,315)	(37,452)	(241,767)
Total comprehensive income for the year	-	-	(204,315)	-	-	793,033	588,718	(215,689)	373,029
Transactions recorded directly in equity									
Employee share benefits	-	-	-	65,385	-	-	65,385	-	65,385
	-	-	-	65,385	-	-	65,385	-	65,385
Transactions with owners of the Company									
Bonus issue	791,666	(791,666)	-	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	-	(1,583,332)	(1,583,332)	-	(1,583,332)
	791,666	(791,666)	-	-	-	(1,583,332)	(1,583,332)	-	(1,583,332)
Share options exercised	-	-	-	-	(2,125)	2,125	-	-	-
Balance at 31 December 2017	10,291,657	1,077	(94,544)	65,385	96,271	10,718,444	21,078,290	(357,876)	20,720,414

THE COMPANY

	Share capital €	Share premium €	Other reserves €	Share option reserve €	Retained earnings €	Total €
Balance at 1 January 2016	8,999,991	1,292,743	-	120,996	18,068,040	28,481,770
Comprehensive income for the year (restated)						
Profit for the year	-	-	-	-	1,232,154	1,232,154
Total comprehensive income for the year (restated)	-	-	-	-	1,232,154	1,232,154
Transactions recorded directly in equity						
Discount unwind	-	-	-	-	(28,953)	(28,953)
	-	-	-	-	(28,953)	(28,953)
Transactions with owners of the Company						
Bonus issue	500,000	(500,000)	-	-	-	-
Dividend to equity holders	-	-	-	-	(2,501,998)	(2,501,998)
Share options exercised	-	-	-	(22,600)	22,600	-
	500,000	(500,000)	-	(22,600)	(2,479,398)	(2,501,998)
Balance at 31 December 2016	9,499,991	792,743	-	98,396	16,791,843	27,182,973
Balance at 1 January 2017	9,499,991	792,743	-	98,396	16,791,843	27,182,973
Comprehensive income for the year						
Profit for the year	-	-	-	-	1,300,814	1,300,814
Total comprehensive income for the year	-	-	-	-	1,300,814	1,300,814
Transactions recorded directly in equity						
Employee share benefits	-	-	65,385	-	-	65,385
Discount unwind	-	-	-	-	(58,006)	(58,006)
	-	-	65,385	-	(58,006)	7,379
Transactions with owners of the Company						
Bonus issue	791,666	(791,666)	-	-	-	-
Dividend to equity holders	-	-	-	-	(1,583,332)	(1,583,332)
Share options exercised	-	-	-	(2,125)	2,125	-
	791,666	(791,666)	-	(2,125)	(1,581,207)	(1,583,332)
Balance at 31 December 2017	10,291,657	1,077	65,385	96,271	16,453,444	26,907,834

RS2 Software p.l.c.

Statements of Comprehensive Income

For the year ended 31 December 2017

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

RS2 Software p.l.c.

Statements of Cash Flows

For the year ended 31 December 2017

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

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Statements of Cash Flows

For the year ended 31 December 2017

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

Basis of Preparation

The consolidated and separate financial statements (the “financial statements”) have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU (“the applicable framework”). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. These financial statements have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta), (the “Act”) and Article 4 of Regulation 1606/2002/EC, which requires the companies having their securities traded on a regulated market of any EU member state to prepare their consolidated financial statements in conformity with IFRS as adopted by the EU. Details of the accounting policies are included in note 3. Legal Notice 19 of 2009 as amended by Legal Notice 233 of 2016, Accountancy Profession (Accounting and Auditing Standards) (Amendments) Regulations, 2016, which defines compliance with generally accepted accounting principles and practice as adherence to International Financial Reporting Standards (IFRS) as adopted by the EU for financial periods starting on or after 1 January 2008 were also adhered to when preparing and presenting these financial statements.

Principal activities

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

Review of Performance

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

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

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

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

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

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

Review of Performance (continued)

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

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

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

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

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

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

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