Annual Report & Financial Statements

2019

GLOBAL

Europe

North America

Latin America

Middle East & Africa

Asia Pacific

RS2

PRESENCE

We empower our clients and partners with worldwide scalable omnichannel payment solutions combined with best-in-class services. We consolidate their business and optimise their profit by providing them with real-time information and reporting of their business around the globe.

together beyond payments

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RS2

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1
Single platform for all payment methods across the globe

250
Banks & PSPs served

>95%
Customer retention

350 Million
Cards issued

16 Million
Merchants served indirectly

350
Employees

25 Billion
Transactions processed

80 Million
Transactions per hour

WHO WE ARE

RS2 Group is one of the world's leading providers of global omni/multi-channel payment solutions and technologies for issuers and acquirers.

For over 30 years, RS2 Group has been providing acquiring and processing services to a wide range of customers such as banks, large financial institutions, integrated software vendors (ISVs), payment facilitators (PayFacs), independent sales organisations (ISOs), and merchants throughout Europe, North America, Latin America (LATAM), Asia Pacific (APAC) and Middle East. Among these clients are 5 of the top 20 multinational and local acquirers, which provide services for thousands of small and medium-sized entities (SMEs) and large enterprises as well as the largest payment processors, who serve over 37 financial institutions and more than 70 payment service providers (PSPs). RS2 clients utilise the BankWORKS® platform to process their business in more than 35 different countries across 5 continents, processing thousands of transactions per second in more than 170 currencies and settling in more than 80 currencies across omni-channels. Today, RS2 clients provide services to more than 16 million merchants and over 350 million cards around the globe through the various business lines of the Group.

The BankWORKS® platform is built on the latest technology providing an end-to-end payment solution to financial institutions, PSPs, PayFacs, ISVs, retails such as payment gateway, switching of payment transactions originated from POS, ATM, e-Commerce, InAPP, clearing and settlement, chargeback management integrated in the merchant portal, fraud and risk monitoring, reporting and statement, and a sub-GL accounting and automated reconciliation that fully integrates with the client's general ledger.

The uniqueness of the solution, being one single global platform deployed on the cloud, provides the customer through one single API sandbox integration, the ability to transact globally, integrating to local acquirers and issuers to increase their conversion rate, reduce their interchange and other related fees and charges, and provide them with quick access to the market. The Group is well-positioned to service multinational customers and process their international and local payments, providing them with one single view, consolidated reporting and reconciliation of their entire businesses in multi-languages, multi-currencies including crypto, and other digital currencies in multiple time zones.

We, at RS2, aim to shape the future of payments. We aim to exceed our customers' expectations through the provision of worldwide, scalable and agile solutions empowering issuing and acquiring on the same platform, combined with best-in-class digital customer services. 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 provide a pleasant, high-performing and learning environment to unleash their full potential. We aim to carry out our corporate social responsibility to support the community in which we form part.

RS2's values reflect our objectives internally and externally, our priorities and the beliefs by how we conduct ourselves and carry out business activities. They guide all of us in everything we do and in how we engage with each other and our surroundings: We respect, we empower, we learn, we collaborate and we innovate.

CHAIRMAN'S STATEMENT

The past year has been a fruitful year for RS2 Group. The Group has registered a steady performance in terms of revenue, international growth, product development, client portfolio and new businesses in line with its strategy.

Our continued investments to enhance our products and technologies and strengthen our human resources team has allowed us to win new clients, whilst deepening relationships with our existing clients. These clients are now processing more volumes, consolidating their business, and expanding their operations into other regions on the platform. As mentioned in the CEO's statement however, with regards to COVID-19, we expect to experience some level of adverse effect on the Company's 2020 results. We believe that our diversified business profile will mitigate the impact.

The Group has continued to increase the value of its shareholders by preparing the launch of Direct Merchant Acquiring and Issuing services in Europe, North America and LATAM. This third business line enables the Group to broaden its service offerings and to offer merchants a turnkey solution.

We have further strengthened our management capabilities with the appointment of Jens Mahlke as Chief Financial Officer and Chief Operating Officer. Jens is also responsible for building the Direct Acquiring business in Europe. Jens has an outstanding international reputation in the payment industry and I am confident that he will give a significant contribution to our plans for future growth.

To further enable our rapid expansion and growth, we will continue to strengthen our structure at all levels including our Board of Directors, our C-Executives and our highly trained group of multinational developers and analysts.

2019 was a memorable year during which time we executed a number of key strategic initiatives that had been prioritised at the start of the year.

I would like to take this opportunity to thank our Board of Directors for their guidance and support throughout the past year, our CEO who has worked untiringly to ensure that our global strategic objectives are achieved and to our management and staff for their commitment and diligence. We look forward to continuing this journey together – beyond payments.

Mario Schembri
Chairman

27 April 2020

CEO'S STATEMENT

Dear Friends and Colleagues,

2019 has been another incredible journey for the RS2 Group. The Group's strategy came into fruition through the realisation of an increase of customer presence in major markets, where the Group has been focusing on expanding its business into the potential and growth markets in Europe, North America, APAC and LATAM by winning significant and strategic deals in those markets. The new secured deals are the confirmation of the Group's state-of-the-art single and global platform offered to our licenced customers and the continued implementation of the Group's successful strategy focusing on expanding of its Managed Services business and laying down the foundation of its Direct Acquiring and Issuing business. The Group will continue to focus on strengthening and expanding these business lines across the globe and continue to be selective on its licensing sales and related services.

The strategy of the Group has been confirmed by the trend in the industry following the demand of global merchants, ISVs, PayFacs and service providers that are able to consolidate their billing and reporting, streamlining their operation, expanding into new geographies, increasing their approval rate and minimising their expenses.

Through its one single global platform providing seamless integration using fully automated API sandbox, the Group managed to win substantial businesses for its Managed Services operation and Direct Acquiring.

The milestones we've reached, and the new partnerships we've embarked upon in 2019, are the result of the outstanding effort, the hard work and dedication of our colleagues, management and the guidance of our Board. It also proves that our strategy enabled by our best of breed platform and technology, as well as our great team, is successfully steering us in the right direction, and we will continue to implement what we started years ago with regards to the regional expansion of our products, our services, and our local presence around the globe in order to reward our longstanding shareholders and colleagues, who look into RS2 as a long-term investment.

Implementation of the Strategy

In 2019, the Group continued to execute its strategy by expanding its business globally into APAC, LATAM, Europe, the Middle East and Africa (EMEA), and North America and by building its third global business line related to Direct Acquiring and Issuing.

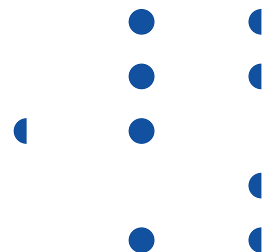
During the second half of the year, the Group has executed strategic milestones to diversify its business in Europe and globally and to increase its customer base.

The Managed Services business has grown its transaction volume by deepening relationships and enabling our current clients to consolidate their business on the platform moving their volumes from RS2's competitors to RS2 Smart Processing Ltd, the Managed Services arm of the Group.

Our Achievements until today

In Europe and LATAM, the Group started the preparation of its Direct Acquiring business and is already engaged with merchants from different industries. In order to accelerate this, the Group is in the process of obtaining its Financial Institution licence by the German authority which is expected to be issued during 2020 (depending on the authority's outcome).

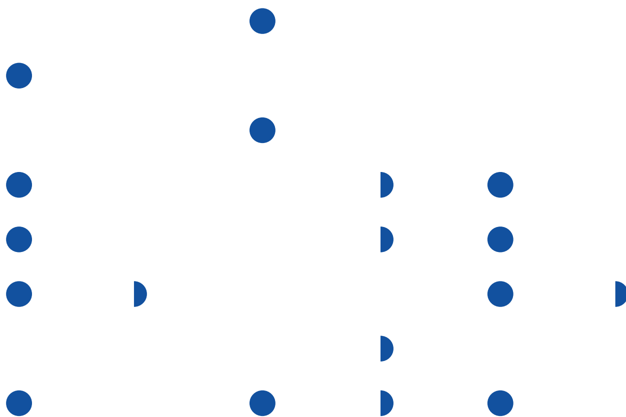
To complement our merchant offering and create further growth, the Group has initiated the acquisition of KALICOM Liebers Zahlungssysteme KG, one of the most successful commercial network operators for electronic, card-based payment systems in Germany, and executed the transaction at the beginning of 2020. This strategic acquisition enables RS2 a quick start into the Direct Acquiring business with immediate capabilities of selling, installing and servicing terminals and processing card transactions in the German market for small and mid-size accounts in order to provide full merchant service offering, and at the same time eliminating any dependencies on third parties providing these services. The Group is further preparing to launch the services with its Alliance partner for the travel industry in quarter two of this year, starting with Europe and following up in LATAM and the rest of the world.



In North America, the Group is well-positioned as a service provider in the US by offering a global, complete and modern cloud-based processing platform for any form of payment, with rich functionality and API enablement. The company is in the final stages of signing several agreements in different industries in the US which will result in a significant increase in processing volumes.

In LATAM, the Group has continued to increase the services to its current customers in Brazil, Argentina and Colombia by supporting their regional expansion. The Group has entered into a partnership agreement with MOViiRED, a leading challenger bank in Colombia, to offer consumers and merchants Direct Acquiring and Issuing services through the Group's single global platform with rich, one-API integration. Colombia is a target market for the Group, in addition to the European and North American markets.

In APAC, the Group has continued to increase the services to its current customers, both for Licenced and Managed Services. The focus has been on delivering payment as a service for issuing and acquiring to financial institutions of any size and offering term licences for issuing and acquiring to large international banks. The Group has also been gearing to onboard into live production one of the largest financial institutions in Australia and New Zealand in the second quarter of 2020.



Our Expectations over the next three years despite the impact of COVID-19

While it is still too early to fully estimate the financial impact of this pandemic, an adverse effect on the Company's 2020 performance is expected. The Company's diversified business profile and the large part of stable and contracted revenues will however mitigate the impact. While the Company is seeing some projects being delayed, clients are holding on to the core initiatives. The Company is still expecting to grow in revenues compared to 2019. The Licensing business is a stable business with a large part of the revenues being contracted. The Processing business will be down compared to previous year as new businesses, even though contracted, not ramping-up as planned due to COVID-19. Existing clients are however performing above previous year and expected to continue doing so, whilst new businesses are being won. The US business is on schedule to go live soon with its second line of business, namely ISOs and PayFacs clients, and expected to significantly contribute to the revenue growth, but also slower than originally planned. The newly acquired merchant business, even though seeing a significant drop in revenues, can compensate this bottom line hit through the applicable governmental measures introduced in Germany. The launch of the Company's own acquiring business will be delayed, however preparations are proceeding.

To mitigate the effects on the revenue side from delayed projects, cost containment measures have been put in place across all companies and non-contracted capital expenditure plans have been postponed. Measures taken include curtailing of personnel costs, deferment of payments, and all other unnecessary costs. The Company is securing additional sources of funds and will have sufficient funds to meet its obligations.

Nonetheless, the Group successfully continues to build on its strategy and will focus to position itself in the market as one of the leaders in the global acquiring business for the next three years and will continue to build and maintain strong and solid relationships with our clients and partners and win new clients worldwide.

In regards to the continuation of the strategy execution, the Group will continue to operate its three business lines, being Licensing, Processing/Outsourcing and Direct Acquiring, across all legal entities but will be selective in its offering based on the regions the Group operates in, with targeted customers such as banks, financial institutions, ISVs, PSPs, PayFacs, ISOs and merchants. Once the Financial Institution licence is issued, the Group will be able to immediately execute acquiring payment services, issuing of payment instruments, payment initiation services and money remittance services. The Group will continue developing and delivering innovative products, especially PSP solutions, alternative payments, terminal and technical network, as well as strategic add-on services related to data analytics and Artificial Intelligence (AI). The Group will continue to strengthen its position in the market through a combination of innovative products, partnering with banks and financial institutions, and selectively pursuing acquisition opportunities.

In Europe, the Group will focus on offering Processing and Direct Acquiring services. The acquisition of KALICOM will enhance the Group's service offerings to the merchants with capabilities of selling, installing, servicing terminals and processing card transactions. Backed by our state-of-the-art BankWORKS®, the Financial Institution licence and the new talent joining the team, the Group expects to expand its global footprint, to grow revenues, and to strengthen its position as one of the global leaders in acquiring and issuing.

In North America, the Group will continue to offer Processing services to banks, financial institutions, PSPs, ISOs, ISVs and PayFacs and Direct Acquiring services to merchants. The Group is expecting a significant increase in processing volumes and revenues. Two clients are expected to go live in the second quarter of 2020 and at least three more clients, of which one is significant, will go live in quarter three of 2020. The Group will be further pursuing various opportunities to develop and grow the business through both organic and inorganic growth, by entering joint ventures, partnerships and direct acquisition.

In LATAM, the Group's strategy for the next three years will be to continue increasing the services to its current customers and enable them to enter new markets in the region, while onboarding new clients on its Managed Services business.

The Group will further offer, together with its partner MOViiRED, consumers and merchants in Colombia, Direct Acquiring and Issuing services where exponential growth is expected; where MOVii has already built up a strong base of 60,000 POS terminals that serve 15 million client transactions per month, including bill payments, transportation tickets, digital streaming and money transfers.

In the APAC region, the Group will mainly focus on Processing services for issuing and acquiring to financial institutions of any size and on offering term licences for issuing and acquiring to large international banks. The Group will also be establishing sponsor relationships with its customers currently in the Philippines, Vietnam, Malaysia, Australia and New Zealand in order to be able to service multinational corporates in the APAC region. The Group's subsidiary in the Philippines will be managing the sales and marketing activities, as well as the first line of support. At the same time, the subsidiary will also be providing cross services to the Group such as call centre activities and chargeback processing.

Looking Forward

Following on the encouraging results in 2019, the Group aims to continue to strengthen our position in the market with strategic partnerships and clients. The Group is implementing its strategy of further international growth with focus on the Managed Services and Direct Acquiring solutions. To further enable our rapid expansion and growth, the Group continues to nurture its hub of internationally renowned C-Level Executives and industry specialists. Our vast network with banks and partners around the globe will aid the implementation of RS2's third business model and will facilitate the roll-out in Europe. The aim is to eventually leverage the Group's network to offer a truly global acquiring offering to our Direct Acquiring clients.

RS2's US subsidiary is currently attracting some of the largest US acquirers to onboard as Managed Services clients. Winning such business will be tantamount to proving our exceptional international reputation, as highlighted in the US market. These opportunities will translate to significant revenue over the coming years.

In the APAC market, the Group is further promoting our services locally with potential clients for both the Licenced and Managed Services in several countries.

Our research and development team are designing a new offering of our solution to position the Group at the forefront of the FinTech sector, ready to embrace the considerable market developments and opportunities as they arise. This includes the use of new technologies that go beyond the blockchain and AI and takes into consideration the legal and regulatory requirements to support these advances.

Financial Highlights

The Group has recognised revenues of €22.1m during 2019, an increase of nearly 14% when compared to an adjusted revenue figure of €19.4m in 2018. Revenues reported in 2018 amounted to €25m which included €5.6m of revenues already accounted for up to 31 December 2017 that were reversed from equity reserves in order to be compliant with the new implementation of IFRS 15. Such reversal was taken to revenue in 2018 as detailed in Notes 8.2 and 22 of these financial statements.

Licence and maintenance fees amounted to 23% of total Group revenues while processing and service fees comprised 77%. Processing revenue increased by 129% in 2019, reflecting additional revenue from new and existing clients in the form of implementation and transaction processing fees. This is in line with RS2's strategic shift from providing perpetual licences of its platform to Managed Services, Merchant Acquiring Services and Issuing Services throughout Europe, Middle East, North America, LATAM and APAC, resulting in international growth and expansion.

The Group continues to enhance its platform by adding new tools that will streamline the operation of the customer and differentiate the Group from competition in order to onboard more businesses from various industries on its platform globally.

The implementation and deployment of significant customers of RS2 Smart Processing Ltd is in the final stages to launch services in early 2020, which will contribute heavily to the financial performance of the Group. Current customers of RS2 Smart Processing Ltd have been ramping up their volumes and consolidating their entire cross-regional business on the platform and expanding their regional presence using RS2 Managed Services business.

The Group continues its expansion in the US by further increasing its staff compliment and building the infrastructure for the North American processing clients. The first US client went live in 2019, two clients are expected to go live in the second quarter of 2020 and at least three more clients, of which one is significant, will go live in quarter three of 2020.

The Group's investment in headcount and infrastructure was intensified during 2019, in order to be able to deliver the current load and to meet the demand in the pipeline, generated throughout the regions where the Group is currently operating, which resulted in an increase of circa 20% from the prior year. The Group's gross profit for the year amounts to €7.0m compared to an adjusted €6.8m (reported as €12.4m in 2018 including the €5.6m effect of implementing IFRS 15 as detailed in Notes 8.2 and 22 of these financial statements).

The Group continued to invest heavily in marketing and sales in order to build and implement its healthy pipeline globally in the various regions, and increasing the Group's probability of securing significant business in the US, APAC and Europe for its Managed Services business.

Administrative expenses increased by 42%, mainly reflecting the strengthening of the administrative functions at Head Office, the United States and Germany in support of the planned international growth. Attracting and engaging high profile professional officers enables the Group to focus on its targets and reach its goals by attracting the right customers and strategic partners.

Group assets increased from €28m to €31.8m (€2.6m of which is as an effect of the adoption of IFRS 16), while equity has decreased from €17.2m to €14.1m, mainly brought about by increased short-term investment in the US.

Payments remain one of the most exciting areas in the financial services industry. The continuous replacement from cash to electronic and digital payment, the rapid growth of contactless, as well as the adaption of seamless and frictionless payment solutions, is expected to generate an additional $1.8 trillion in revenues by 2022.

The trend on the market today and for the years to come, driven in particular by global businesses that require rapid expansion into new markets, consolidation of billing and reporting quick reaction to market changes and unexpected events, the Group's one single platform running on the cloud provides the customer with great tools and flexibility to meet these threats and opportunities.

From the business and growth perspective, the Group will continue to implement its expansion strategy organically by expanding its sales activities into different markets and inorganically by investing into M&A opportunities that contribute to faster market entry and increasing the revenue of the Group.

Closing Remarks

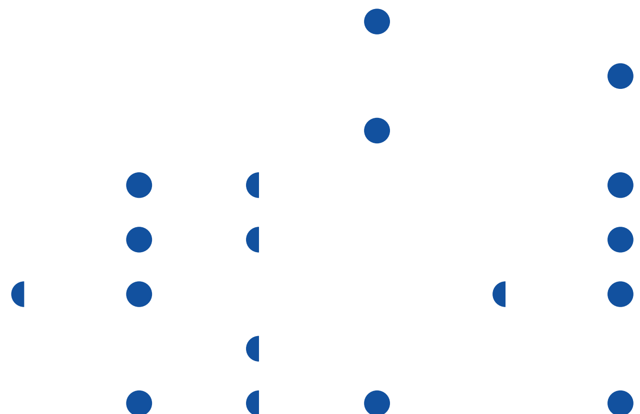
In closing, I would like to take this opportunity to thank our committed members of staff and management, Board of Directors and shareholders across the globe for their continued trust and dedication. I am honoured to be part of this Group and serve as CEO to build RS2 further. I look forward to seeing the Group grow into its potential within the payments industry.

Let's be together - beyond payments.

Thank you for your continued support and dedication.

Radi Abd El Haj
Chief Executive Officer

27 April 2020



SHAPING
THE FUTURE
OF PAYMENTS

BOARD OF

Mario Schembri

Chairman & Non-Executive Director

Mr Schembri has extensive knowledge related to card management systems, with diverse exposure to the international card organisations including VISA International, MasterCard and DINERS Club International.

Mr Schembri has extensive knowledge relating to retail banking operations, product management and co-ordination. Up to the time of joining the Company, Mr Schembri had been in the banking industry for 26 years. He also served as a lecturer and examiner for the IFS for a period of 12 years. He joined RS2 in 1999 as Regional Manager, Mediterranean Region and took on the role of Deputy Chief Executive Officer in 2006. Mr Schembri was appointed Chief Executive Officer in January 2008 and Chairman in January 2012.

Radi Abd El Haj

CEO & Executive Director

Mr El Haj joined RS2 in 1997 as a Project Manager for Tier 1 European banks where he was responsible for the implementation of corporate card programs, later promoted to Customer Relationship Manager in 2002 and Head of Sales and Implementation in 2004.

In the cards and payments industry, Mr El Haj specialises in the areas of Issuing, Acquiring, Clearing and Settlement, e-Commerce and Accounting. His international experience, professional contacts in various regions and working closely with the Technical and Product Development Units within the Group, has contributed in providing RS2's clients with a global compliant platform. Mr El Haj was appointed Chief Executive Officer in January 2012.

Dr Robert Tufigno LL.D.

Non-Executive Director

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

John Elkins

Non-Executive Director

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

DIRECTORS

Franco Azzopardi

Non-Executive Director

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

Prof. Dr. Raša Karapandža

Non-Executive Director

Raša Karapandža is a Professor of Finance and Vice Dean Education at ebs.edu. He also serves as an academic director of Master in Finance programme and head of chair of finance. He received a PhD degree in economics and finance from Barcelona Graduate School of Economics, University Pompeu Fabra, Barcelona. He has been a visiting research scholar at NYU and at UC Berkeley. He currently serves as a Visiting professor at nyuad.nyu.edu. Karapandža's work has been featured in top media outlets like The Wall Street Journal, The New York Times, and Der Spiegel. He advised members of the US congress on the topics of regulating cryptocurrencies and other blockchain related technologies. He was elected favorite professor by the EBS business school's student body for his teaching nine years in a row – in 2009 through 2019. At EBS Karapandža is teaching Investments, Finance, Corporate Finance, Asset Pricing and Fintech class. At NYU AD Raša is teaching a Fintech course as well as NYU Stern course on Foundation of Financial Markets.

David Price

Non-Executive Director

David Price, MD of Client Coverage in Barclaycard Commercial Payments, is a proven leader within the payments industry, with 15 years experience of working within the Barclays Group. David is currently responsible for the Corporate Business within Commercial Payments as well as building propositions across the whole Barclays Corporate network. Prior to working in Commercial payments, David spent 12 years in Payment Acceptance at Barclaycard, where he developed specialisms across new product deployment, multinational client acquisition and relationship management. His extensive payments experience and dedicated client focus gives David an extremely interesting perspective on payment trends, regulation and most importantly what this means to Barclaycard's customers and clients.

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 a Partner at GTG Advocates.

CORPORATE SOCIAL RESPONSIBILITY

RS2 considers Corporate Social Responsibility (CSR) to be an integral part of our entrepreneurial approach and aims to be an active and positive contributor to the communities within which we are based and to the stakeholders. RS2's values and fundamentals guide all of us in everything we do and how we engage with each other and our surroundings: We respect, we empower, we learn, we collaborate and we innovate.

The RS2's social responsibility activities are primarily focused on strengthening global communities, supporting education, philanthropic organisations, sport clubs, and improving the environment. RS2 believes that education is the fundamental key to shaping a better future in terms of better lives of individuals, greater equality within the society and a more sustainable environment. RS2 promotes various initiatives to give numerous young people the relevant exposure and the right training required to become future contributors to the Fintech industry.

In 2019, RS2 has continued working with MITA on the Student Placement Programme to give students the opportunity to gain hands-on work experience within diverse departments at RS2 to unlock their potential with the continuous mentoring of the RS2 senior executives. RS2 provides students the possibility to work with RS2 during the summer holidays, whilst also offerring full-time employment upon completion of their studies. RS2 also collaborated with MCAST to provide their students with experience in a technology company. RS2 firmly believes that this programme provides value to the local community while creating a gateway to RS2 to gain prospective new employees with new talents.

RS2 supports various philanthropic organisations as well as numerous sports and art programmes. Some of these organisations have continued to receive our ongoing support for a number of years and have grown to consider RS2 as a loyal partner and contributor. Furthermore, RS2 works with organisations involved in alleviating local social issues, using a fund with volunteer donations from employees to donate to charitable institutions.

All of RS2's CSR activities were organised by the RS2 Events Committee which comprises of employees from different departments who volunteer their personal time in the effort to create a variety of activities including fundraising as well as teambuilding and employee events. These events help to promote a strong and healthy team relationship, which proves to be highly beneficial given the extensive growth the Company has experienced in the past couple of years. This year, awareness talks were also introduced on various topics promoting physical and mental wellbeing.

RS2 is confident that it will continue to achieve a balanced and holistic value for its shareholders and will strive continuously to promote sound CSR initiatives. At the same time, RS2 will continue to positively affirm its efforts to become a sustainable Company and a market leader within the Fintech industry.

In the reporting year, RS2 has supported various organisations in Malta and Gozo:

- **MCAST**
- **Kavallieri Handball Club**
- **Naxxar Victorians**
- **World Down Syndrome Day**
- **Dar tal-Providenza**
- **Puttinu Cares**
- **Noah's Ark**
- **L-Istrina**
- **Sisters in Fgura**
- **Dar Bjorn ALS**
- **Dar Merħba Bik**
- **Marigold - Swimming Challenge**

Directors' Report

For the year ended 31 December 2019

The Directors present their report, together with the financial statements of RS2 Software p.l.c. ("the Company") and its subsidiaries, RS2 Smart Processing Ltd, RS2 Software INC., RS2 Software LAC LTDA, RS2 Software APAC Inc., RS2 Germany GmbH and RS2 Holding GmbH (collectively referred to as "the Group"), for the year ended 31 December 2019.

Board of Directors

Mr Mario Schembri (Chairman)
Mr Radi Abd El Haj (CEO)
Dr Robert Tufigno
Mr Franco Azzopardi
Mr Christopher Wood (resigned 9 January 2019)
Mr John Elkins
Prof. Raša Karapandža
Mr David Price (appointed 9 January 2019)

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

Business review and future developments

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

During the year under review, the Company registered revenues from its principal activities of €18.7m (2018: €21.8m) and a profit before tax of €2.5m (2018: €8.9m). The Managed Services arm of the Group, RS2 Smart Processing Ltd which is principally engaged in the processing of payment transactions with the use of BankWORKS® recorded revenues of €4.9m (2018: €3.8m) and a profit before tax of €0.3m (2018: €0.6m). RS2 Software APAC Inc. is currently supporting the Company in product development and its expansion in the APAC region. RS2 Software INC. serves as the US arm of the Group with specific focus on the provision of Managed Services in North America.

During the year under review, on consolidating all of its activities, the Group generated revenues of €22.1m (2018: €25m) and registered a loss before tax of €2.1m (2018: profit before tax of €6.6m). At 31 December 2019, the Group's total assets amounted to €31.8m (2018: €28.0m).

A comprehensive review of the business and performance of the Group during the year under review, and an indication of future developments are given in the Chief Executive Officer's Statement set out on pages 10 to 18 of this Annual Report.

Principal risks and uncertainties

In its operations, the Group has exposure to credit risk, liquidity risk and market risk. The Group's objectives, policies and processes target to mitigate the effect of such risk by constantly measuring and managing such risk, whilst proactively managing its capital. A more comprehensive outlook of such risk exposure and the Group's response can be viewed in Notes 7 and 29 to these financial statements.

Dividends

No dividends are being recommended for the year ending 31 December 2019.

Reserves

Retained earnings amounting to €15,536,017 (2018: €15,166,809) for the Company and €5,617,485 (2018: €8,529,949) for the Group are being carried forward.

Important events since end of the accounting period

In 2020, RS2 Software p.l.c. acquired KALICOM Liebers Zahlungssysteme KG, one of the most successful commercial network operators for electronic, card-based payment systems in Germany. The transaction is classified as a Class 1 transaction. The acquisition enables RS2 Software p.l.c. a quick start into the direct acquiring business with immediate capabilities of selling, installing and servicing terminals and processing card transactions in the German market for small and mid-size accounts.

The Group continues to increase the value of its shareholders by implementing its acquiring business. The Group is already engaged with merchants from different industries to start Direct Acquiring in Europe and LATAM. In order to accelerate the process, the Group is in the process of obtaining its Financial Institution licence by the German authority which is expected to be issued during mid-2020 (depending on the authority's outcome).

Furthermore, the Group is preparing to launch the services with its Alliance partner for the travel industry in quarter two of this year, starting with Europe and following up in LATAM.

The Group has also entered into a partnership agreement with MoviiRed in Colombia to offer consumers and merchants direct issuing and acquiring services. Colombia is considered a target market for the Group in addition to the European and North American markets.

RS2 Software INC. is in the final stages of signing several agreements in different industries in the US. Four clients are expected to go live in the second quarter of 2020 and another two significant clients are expected to go live in quarter three 2020.

The Group is also gearing to onboard into live production one of the largest financial institutions in New Zealand in the second quarter of 2020.

In addition, following the COVID-19 global crises, the Group informed its clients and esteemed shareholders that RS2, as a service provider, triggered its business continuity plan to continue providing its services with no impact or interruption to their business. The Group tested its plan involving all the offices around the globe to execute all processes remotely from the operation perspective as well as from the technology and infrastructure, and after successful testing, the plan was executed in order to adhere to the various governmental requirements in the various regions, but more importantly to secure the health and safety of colleagues and partners. The Group confirmed that the plan was fully functional. All Group business lines, licensing, processing and merchant services around the globe are operating at normal services level. It is too early to forecast the impact of the pandemic on the financial and operational performance of the Group, especially since developments continue to unfold on a daily basis, but the Group is confident that with the healthy pipeline, leading technology and a competent team, the Group will be able to meet the challenges that the pandemic may present.

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

The Company's issued share capital is of €11,578,114.14 divided into 192,968,569 ordinary shares of €0.06 each, each ordinary share being fully paid up. All of the issued shares of the Company form part of one class of Ordinary Shares in the Company, which shares are listed on the Malta Stock Exchange. All of the shares have the same rights and entitlement and rank *pari passu* between themselves. The following are highlights attaching to the Ordinary Shares:

Dividends:
The shares carry equal right to participate in any distribution of dividends declared by the Company;

Voting rights:
Each share shall be entitled to one vote at the meetings of the shareholders;

Pre-emption rights:
Subject to the limitations contained in the Memorandum and Articles of Association, shareholders are entitled to be offered any new shares to be issued by the Company, in proportion to their current shareholding, before such shares are offered to the public or to any person not being a shareholder;

Capital distributions:
The shares carry the right for the holders thereof to participate in any distribution of capital made whether on a winding up or otherwise;

Transferability:
The shares are freely transferable in accordance with the rules and regulations of the Malta Stock Exchange applicable from time to time; and

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 2019, Information Technology Management Holding Limited ("ITM") and Barclays Bank Plc ("Barclays") hold 96,567,522 and 35,216,796 shares respectively, equivalent to 50.04% and 18.25% of the Company's total issued share capital. In his capacity as ultimate shareholder of ITM, Radi Abd El Haj indirectly holds 50.04% of the issued share capital of the Company. As far as the Company is aware, no other person holds an indirect shareholding in excess of 5% of its total issued share capital.

Rule 5.64.5 - Employee share option scheme

The Company's share option scheme is administered by the Board of Directors. The decision of the Board on all disputes concerning share options is final.

Rule 5.64.7 - Restrictions on transfer of securities

By virtue of an agreement entered between ITM and Barclays, ITM undertook that, for so long as it holds more than 10% of the issued share capital of the Company, upon receiving any offer from third parties to acquire securities it holds in the Company, it is required to offer any such shares that it is desirous to transfer to Barclays.

Rule 5.64.8 - Appointment and replacement of directors

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

Furthermore, in accordance with the provisions of Article 55.1(d) of the Articles of Association, the Board of Directors, may, at any time, appoint a director if it believes that the appointment would be beneficial to the Company due to the skill, expertise and knowledge of such person.

Article 55.3 of the Articles of Association of the Company also provides that in the event that the Board is of the opinion that none of the directors appointed or elected in accordance with the provisions of these Articles is a non-executive independent director competent in accounting and/or auditing as required by the Listing Rules relating to the composition of the Audit Committee, the Board shall, during the first board meeting after the annual general meeting appoint a person, who is independent and competent in accounting and/or auditing as a non-executive director and shall appoint such person to the Audit Committee.

Unless they resign or are removed, directors shall hold office for a period of one year. Directors whose term of office expires or who resign or are removed are eligible for re-appointment.

Any director may be removed at any time by the Company in a General Meeting, provided that the director who is to be removed shall be given the opportunity of making representations. A resolution for the appointment and/or removal of a director shall be considered to be adopted if it received the assent of more than fifty percent of the members present and voting at the general meeting.

Rule 5.64.8 - Amendments to the Memorandum and Articles of Association

Amendments to the Memorandum and Articles of Association of the Company are regulated by the Companies Act, 1995 (Chapter 386, Laws of Malta), ("the Act"). 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 meetings.

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 2019, the Company had seven million thirty one thousand four hundred thirty one (7,031,431) Ordinary Shares in unissued share capital.

Rule 5.64.11 – Agreements with employees

The Company and one of its subsidiaries, have agreements with employees holding senior management positions and directors providing for compensation upon termination based on either an agreed fixed amount or the then applicable annual salary. Such agreements include a non-competition clause, precluding such employees from competing with the Company and one of its subsidiaries, in the event that their employment is terminated. In order for these non-competition clauses to be enforceable, the Company and one of its subsidiaries, are bound to grant these individuals a sum based on an agreed fixed amount or the then applicable annual salary.

In 2017, the Company has entered into an agreement with a newly recruited employee holding a senior management position whereby should the employee achieve a pre-set percentage over the agreed performance target linked to net profit over three consecutive calendar years commencing from date of employment, the Company, may at its absolute discretion, grant to the particular employee a one-time assignment of shares to the equivalence of a pre-agreed Euro amount.

In 2018, one of the newly formed Company's subsidiaries entered into an agreement with a new senior member of the management team, to the effect of allocating 10% of the subsidiary's authorised share capital, with vesting taking place over 36 months during which the employee must be in office. Should this newly formed subsidiary's operations and assets be either merged into another surviving entity or disposed of or dissolved, all unvested Award Shares will automatically accelerate and become fully vested. Otherwise, on termination of employment, any award shares that have not vested shall automatically be forfeited.

During 2019, one of Company's subsidiaries entered into a number of agreements with four employees, to the effect of allocating 4% of the subsidiary's authorised share capital, with 75% vesting taking place over 36 months during which the employee must be in office and the remaining 25% vesting taking place over the next 12 months which the employee must be in office. On the tenth anniversary of the grant date or on the termination of employment, any award shares that have not vested shall automatically be forfeited.

Other disclosures pursuant to Rule 5.64

No disclosures are being made pursuant to Rules 5.64.2, 5.64.4, 5.64.6, and 5.64.10 as these are not applicable to the Company.

Approved by the Board of Directors on 27 April 2020 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

Corporate Governance Statement of Compliance

For the year ended 31 December 2019

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 2019, which details the extent to which the Principles have been adopted, as well as the effective measures taken by the Company to ensure compliance with these Principles.

Good corporate governance is the responsibility of the Board of Directors ("the Board"), which therefore adopts the Principles and endorses them accordingly. The Board believes that adoption of the Principles is evidence of the Company's commitment to a more transparent governance structure in the best interest of its shareholders and the market as a whole.

As demonstrated by the information set out on this statement, together with the information contained in the Remuneration Report, the Company believes that it has, save as indicated in the section entitled "Non-Compliance with the Code", throughout the accounting period under review, applied the Principles and complied with the provision of the Code. In the Non-Compliance Section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code, as allowed by the Code.

Part 1: Compliance with the Code

Principle One: The Board

The Board is composed of one (1) executive director and six (6) non-executive directors.

All the Directors, individually and collectively, are of the appropriate calibre with the necessary skills, diversity of knowledge and experience to assist them in providing leadership, integrity and judgement in directing the Company.

The Board is entrusted with establishing the long-term strategy, objectives and policies of the Company and ensuring that these are pursued within the parameters of the relevant laws and regulations and best business practices.

Further detail in relation to the Committees and the responsibilities of the Board may be found in Principle four of this statement.

Principle Two: Chairman and Chief Executive

In line with the Principles, the roles of the Chairman and the Chief Executive Officer are kept separate. The Company adopts a structure of clear division of responsibilities between the running of the Board and the management of the Company's business.

The Chairman is responsible to lead and set the agenda of the Board. The Chairman ensures that the Board's members are all actively engaged in discussions and receive precise, timely and objective information so that the Directors can take judicious and rigorous decisions to be able to effectively monitor the performance of the Company. The Chairman is also responsible for communicating with shareholders. During 2019, the position of Chairman was occupied by Mr Mario Schembri.

The delegation of specific responsibilities to appropriate Committees, namely the Audit Committee and the Remuneration Committee is taken care of by the Board. On the other hand, the Chief Executive Officer takes care of the day-to-day running of the Company's business. During 2019, the position was occupied by Mr Radi Abd El Haj.

Principle Three: Composition of the Board

The number of directors shall be not less than three (3) and not more than eight (8) individuals. This range provides diversity of thought and experience without hindering effective discussion or diminishing individual accountability. Members of the senior management also attend meetings, albeit without a vote, at the request of the Board, as and when necessary.

The Board is currently composed of one (1) executive director (Chief Executive Officer) and six (6) non-executive independent directors. In determining the independence or otherwise of its Directors, the Board has considered, amongst others, the Principles relating to independence contained in the Code, the Company's own practice as well as general good practice.

In accordance with Code Provision 3.2 of the Code, the Board has taken the view that the business relationship existing between the Company and one of its directors, Dr Robert Tufigno, is not significant and thus does not undermine the said Director's ability to consider appropriately the issues which are brought before the Board. Apart from possessing valuable experience, the Board feels that the Director in question is able to exercise independent judgement and is free from any relationship which can hinder his objectivity.

The appointment of directors to the Board is reserved exclusively to the Company's shareholders, except in so far as an appointment may be made to fill a casual vacancy on the Board or to comply with the provision of the Listing Rules, relating to the members of the Audit Committee. Prior to being appointed as directors, nominees undergo a due diligence process by the Company, to establish that they are fit and proper persons.

Principle Four: The Responsibilities of the Board

The Board has the first level responsibility of executing the four basic roles of corporate governance namely accountability, monitoring, strategy formulation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and the performance of the Company. The Board has a formal schedule of matters reserved for it to discuss and includes a review of the management's implementation of corporate strategy and corporate objectives, assessment of the Company's present and future operations, opportunities, risks and threats emanating from the external environment as well as current and future strengths and weaknesses.

Board Committees

The Board has established the Audit Committee and the Remuneration Committee.

Audit Committee

The Audit Committee's terms of reference, which have been approved by the Listing Authority, are modelled on the provisions of the Listing Rules, primarily to monitor the financial reporting process and the effectiveness of the Company's internal control procedures. Whilst the Committee vets and approves related party transactions, it also considers the materiality and the nature of related party transactions to ensure that the arm's length principle is adhered to.

The Audit Committee is responsible for managing the Board's relationship with the external auditors, 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 Franco Azzopardi, an independent non-executive director appointed by the Board, acts and serves as Chairman, whilst Dr Robert Tufigno and Prof. Raša Karapandža, both independent non-executive directors act as members. No changes in the composition of the committee took place during the year ended 31 December 2019. The Company Secretary, Dr Ivan Gatt, acts as secretary to the Committee.

Mr Franco Azzopardi is a qualified accountant and auditor who the Board considers as the person competent in accounting and auditing. Prof. Raša Karapandža is a professor of finance and serves as an academic director of Master in Finance programme and is deemed to be a competent member of the Audit Committee. Dr Robert Tufigno has practised in the fields of general commercial law, property law and litigation and due to his legal expertise, Dr Robert Tufigno is deemed a competent member of the Audit Committee by the Board. The Board of Directors of the Company considers that the Audit Committee as a whole has the required competence relevant to the payment software industry. In fact, each member has an individual skill set which complements the skills required in this industry.

The members of the Audit Committee are free from any business, family or other relationship with the Company, its controlling shareholder and the management of either. Dr Robert Tufigno is a partner in GTG Advocates (legal advisors to the Company), however such relationship is not considered to be significant and does not create a conflict of interest such as to jeopardise exercise of his free judgement.

The executive directors, members of senior management and the external auditors are invited to attend meetings at the request of the Committee, as and when required.

	Meetings held: 5 **Attended**
Mr Franco Azzopardi	5
Dr Robert Tufigno	3
Prof. Raša Karapandža	5

Principle Five: Board Meetings

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

The Board meetings were attended as follows:

	Meetings held: 7 Attended
Executive Directors	
Mr Radi Abd El Haj (Chief Executive Officer)	7
Non-executive Directors	
Mr Mario Schembri (Chairman)	7
Dr Robert Tufigno	6
Mr Franco Azzopardi	7
Mr John Elkins	7
Prof. Raša Karapandža	7
Mr David Price	4

Dr Ivan Gatt occupies the position of Company Secretary.

Principle Six: Information and professional development

The Chief Executive Officer is appointed by the Board and enjoys the full confidence of the Board. The Chief Executive Officer, although responsible for the recruitment and selection of senior management, consults with the Remuneration Committee and the Board on the appointment of, and on a succession plan for senior management.

As part of the Company's succession planning, the Board implements appropriate schemes to recruit, motivate and retain highly qualified individuals by creating the right environment and opportunities to move forward within the organisation.

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

The Directors have access to the advice and services of the Company Secretary and supporting legal advice and are entitled, as members of the Board, to take independent professional advice on any matter relating to their duties, at the Company's expense. The Directors are fully aware of their responsibility to act always in the best 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 Mr Franco Azzopardi to carry out the performance evaluation of the Board and its Committees. The evaluation exercise was conducted through a Board effectiveness questionnaire. The results were communicated to the Chairman and then discussed at Board level and there were no material changes in the Company's governance structures and organisation to report.

Principle Eight: Committees

The Remuneration Committee is dealt with under a separate section in the Annual Report entitled "Remuneration Committee Report" which can be found on pages 42 to 44. This section also includes a "Remuneration Statement" which deals with the remuneration of Directors and senior management.

Principles Nine and Ten: Relations with Shareholders, Market, and Institutional Shareholders

The Company is highly committed to having an open and communicative relationship with its shareholders and investors. At the Company's Annual General Meeting (AGM), the Board ensures that information is communicated to the shareholders in a transparent and accountable manner. The ordinary business at the AGM is to consider the financial statements of the Company, the directors' and auditors' report for the period, to approve any dividend recommendation by the directors, to elect the directors and to appoint the auditors. The Chairman ensures that all Directors of the Board who include the Chairmen of the Audit and Remuneration Committees are available at the AGM in order to answer questions.

The Board also considers the Annual Report to be an effective document which, in addition to statutory disclosures, contains detailed information about the Company and its performance. At the time of the AGM or whenever there are any significant events affecting the Company, meetings are held with institutional investors, financial intermediaries and stockbrokers.

The Board recognises the importance of providing the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed decisions. Periodic Company announcements are issued in accordance with the Listing Rules to maintain a fair and informed market in the Company's equity securities. The Board discharges its obligations under the Memorandum and Articles of Association, legislation, rules and regulations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in this regard. These procedures are incorporated in an Internal Code of Dealing which is drawn up in accordance with the requirements of the Listing Rules and which applies to all directors and key employees of the Company.

The Board believes that shareholders should have an opportunity to send communications to the Board. Any communication from a shareholder to the Board generally or to 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 CSR. It is therefore committed to embark on initiatives which support the community, the environment, as well as sports and arts.

The Company recognises the importance of good CSR principles in its dealings with its employees. In this regard, it actively encourages open communication, teamwork, training and personal development, whilst creating opportunities based on performance, creativity and initiative. The Company is committed towards social investment and the quality of life of its work force and their families, and of the local community in which it operates.

Part 2: Non Compliance with the Code

Principle Four: The Responsibilities of the Board

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

Principle Eight B: Nomination Committee

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

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 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 AGM and to table draft resolutions and the right to ask questions, provide the necessary safeguards for the protection of the shareholders' interests. To this regard, the Company does not believe that the current corporate structure requires it to introduce (a) procedures to resolve conflicts between minority shareholders and controlling shareholders; and/or (b) the possibility for minority shareholders to formally present an issue to the Board.

Pursuant to Listing Rule 5.97

Rule 5.97.4 - Internal Control and Risk Management Systems in relation to the Financial Reporting Process

The Board is ultimately responsible for the Group's system of internal control and for reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, as opposed to absolute, assurance against material misstatement or loss.

The management is responsible for the identification and evaluation of key risks applicable to the different areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed.

Financial reporting standards are applicable to all entities of the Group. Systems and procedures are in place to identify, control and to report on the major risks. The Board and the Audit Committee receive monthly management information giving an analysis of financial and business performance and position including variances against budgets.

On a quarterly basis, a discussion is held with the Audit Committee on the processes in place to generate this financial information. A discussion on the results is also held on a quarterly basis with the Board of Directors.

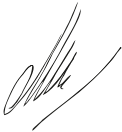
Rule 5.97.6 - General Meetings

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Listing Rules, the Annual Report and financial statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set their remuneration, and other special business, are proposed and approved at the Company's AGM. The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders. The AGM is conducted in accordance with Articles of the Company and has the powers therein defined. The shareholders' rights can be exercised in accordance with the Articles of the Company.

The Memorandum and Articles of the Company may be amended by means of an extraordinary resolution (as defined in the Articles) of the Company during general meetings.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Company and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least twenty one (21) days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Company. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the directors or such persons as the directors may delegate for that purpose.



Mario Schembri
Chairman

Radi Abd El Haj
Director

27 April 2020

Remuneration Committee Report

For the year ended 31 December 2019

Remuneration Report

Terms of Reference and Membership

The remit of the Remuneration Committee ("the Committee") is set out in the Terms of Reference adopted by the Board of Directors. The Committee is composed of three (3) non-executive directors, Dr Robert Tufigno (Chairman), Mr Franco Azzopardi and Mr Mario Schembri. The Chief Executive Officer is invited to attend meetings of the Committee where appropriate. The Chairman of the Committee, Dr Robert Tufigno is independent in accordance with Code Provision 8.A.1.

Meetings

The Committee held no meetings during the period under review.

Remuneration Statement

Remuneration Policy - Directors

The determination of the remuneration arrangements for Board members is determined by the Committee. The Committee is primarily responsible for devising appropriate packages needed to attract, retain and motivate executive and non-executive directors with the right qualities and skills for the proper management of the Company and for ensuring compliance with the relevant provisions and regulations of good corporate governance on remuneration and related matters.

The Company has agreements with directors providing for compensation upon termination based on either an agreed fixed amount or the then applicable annual salary.

These agreements include a non-competition clause, precluding such employees from competing with the Company in the event that their employment is terminated. Upon termination of employment of the said directors, the Company is bound to grant these individuals a sum based on either an agreed fixed amount or on their annual salary as compensation.

During the year, there were no director contracts which were terminated.

Remuneration Statement - Senior Management

The Committee also makes recommendations on the remuneration of senior management. In making such recommendations, it considers that members of the senior management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

There have been no significant changes in the Company's remuneration policy during the financial year under review and no significant changes are intended to be effected during 2020.

In addition, the Committee is responsible for authorising all remuneration arrangements involving share options. During the year under review, no share options were allocated. There were 1,460 share options outstanding as at 31 December 2019.

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

Non-cash benefits to which the CEO and Chief Officers are entitled are the use of a company car and health insurance. Other benefits include rental of residential property. The death-in-service benefit also forms part of the contract of employment of senior management personnel on the same terms applicable to all other Company employees.

The Company has agreements with employees holding senior management positions providing for compensation upon termination based either on an agreed fixed amount or on the then applicable annual salary.

These agreements include a non-competition clause, precluding such employees from competing with the Company in the event that their employment is terminated. Upon termination of employment of senior management, the Company is bound to grant these individuals a sum based on their annual salary as compensation. The Company has opted not to disclose further information regarding the remuneration to be paid to its senior executives pursuant to its non-competition clause on the basis that it is commercially sensitive.

Code Provision 8.A.5

Directors

For the financial period under review, the aggregate remuneration of the Directors of the Group and the Company was as follows:

Fixed Remuneration	€ 160,905
Variable Remuneration	Nil
Fixed Remuneration as full time employees of the Group	€ 700,167
Others	€ 49,046

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	€ 1,256,690
Variable Remuneration	€ 435,563
Share-based Payments	€ 272,377
Share Options	Nil
Others	Nil

Dr Robert Tufigno
Chairman, Remuneration Committee

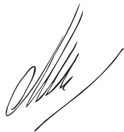
27 April 2020

Statement of the Directors pursuant to Listing Rule 5.68

For the year ended 31 December 2019

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 50 to 163 are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group and that the Directors' Report includes a fair view of the performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 27 April 2020 by:



Mario Schembri
Chairman

Radi Abd El Haj
Director

Company Information

For the year ended 31 December 2019

Directors	Mr Mario Schembri (Chairman) Mr Radi Abd El Haj (CEO) Dr Robert Tufigno Mr Franco Azzopardi Mr Christopher Wood (resigned 9 January 2019) Mr John Elkins Prof. Raša Karapandža Mr David Price (appointed 9 January 2019)
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	Deloitte Audit Limited Deloitte Place Triq L-Intornjatur Central Business District CBD 3050 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 2019

The Companies Act, 1995 (Chapter 386, Laws of Malta) requires the Directors of 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 the Company 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.

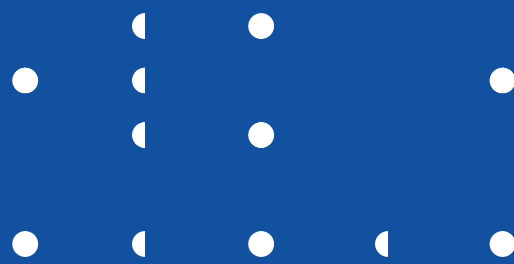
The Directors, through oversight of management, are responsible to ensure that the Group establishes and maintains internal control to provide reasonable assurance with regards to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and 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, Directors consider the risks that the financial statements may be materially misstated as a result of fraud.

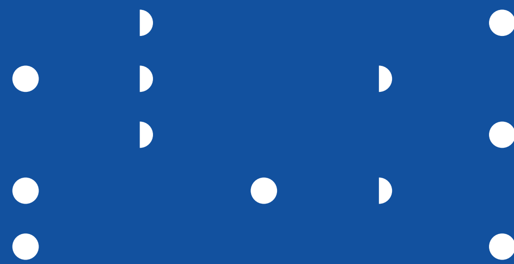
Signed on behalf of the Board of Directors on 27 April 2020 by:

Mario Schembri
Chairman

Radi Abd El Haj
Director



FINANCIAL



STATEMENTS

Statements of Financial Position

As at 31 December 2019

		THE GROUP		THE COMPANY	
		2019	2018	**2019**	2018
Assets	**Note**	**€**	€	**€**	€
Property, plant and equipment	9	**9,212,926**	9,357,510	**8,145,237**	8,369,225
Right-of-use assets	10	**2,560,771**	-	**497,120**	-
Intangible assets and goodwill	11	**8,961,429**	7,503,459	**6,479,242**	6,133,721
Investments in subsidiaries	12	**-**	-	**14,475,363**	9,836,399
Other investment	13	**217,105**	217,105	**217,105**	217,105
Loans receivable	14	**786,170**	775,722	**844,189**	810,592
Total non-current assets		**21,738,401**	17,853,796	**30,658,256**	25,367,042
Trade and other receivables	14	**4,189,260**	1,555,170	**2,948,605**	1,140,058
Loans receivable	14	**137,938**	7,438	**6,444**	7,438
Prepayments		**710,745**	497,194	**581,505**	364,075
Accrued income and contract costs	15	**2,613,500**	4,653,542	**5,058,359**	4,689,437
Cash at bank and in hand	16	**2,422,211**	3,402,972	**1,141,695**	2,798,944
Total current assets		**10,073,654**	10,116,316	**9,736,608**	8,999,952
Total assets		**31,812,055**	27,970,112	**40,394,864**	34,366,994

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

Approved and authorised for issue by the Board of Directors on 27 April 2020 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

		THE GROUP		THE COMPANY	
		2019	2018	**2019**	2018
Equity	**Note**	**€**	€	**€**	€
Share capital	17	**11,578,114**	10,291,657	**11,578,114**	10,291,657
Reserves	17	**(182,759)**	(253,291)	**(160,316)**	(135,723)
Retained earnings	17	**5,617,485**	8,529,949	**15,536,017**	15,166,809
Total equity attributable to equity holders of the Company		**17,012,840**	18,568,315	**26,953,815**	25,322,743
Non-controlling interest		**(2,927,662)**	(1,336,130)	**-**	-
Total equity		**14,085,178**	17,232,185	**26,953,815**	25,322,743
Liabilities					
Bank borrowings	18	**66,805**	199,820	**66,805**	199,820
Lease liabilities	10	**2,198,329**	-	**466,233**	-
Employee benefits	28, 30	**2,964,959**	3,000,464	**2,252,049**	1,812,485
Deferred tax liability	19	**1,434,154**	1,004,937	**1,445,108**	1,136,156
Derivatives	18	**9,497**	27,677	**9,497**	27,677
Total non-current liabilities		**6,673,744**	4,232,898	**4,239,692**	3,176,138
Bank borrowings	18	**3,912,653**	634,197	**3,912,653**	634,197
Trade and other payables	20	**1,704,397**	1,452,006	**1,462,789**	1,451,888
Lease liabilities	10	**363,773**	-	**26,922**	-
Current tax payable		**647,466**	1,049,342	**647,466**	1,049,342
Accruals	21	**1,813,532**	1,208,419	**1,087,429**	569,698
Employee benefits	28, 30	**774,800**	111,422	**111,422**	111,422
Deferred income	21	**1,836,512**	2,049,643	**1,952,676**	2,051,566
Total current liabilities		**11,053,133**	6,505,029	**9,201,357**	5,868,113
Total liabilities		**17,726,877**	10,737,927	**13,441,049**	9,044,251
Total equity and liabilities		**31,812,055**	27,970,112	**40,394,864**	34,366,994

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

Approved and authorised for issue by the Board of Directors on 27 April 2020 and signed on its behalf by:

Mario Schembri
Chairman

Radi Abd El Haj
Director

Statements of Changes in Equity

For the year ended 31 December 2019

THE GROUP

	Note	Attributable to equity holders of the Company		
		Share capital €	**Share premium €**	**Translation reserve €**
Balance at 1 January 2018		10,291,657	1,077	(94,544)
Comprehensive income for the year				
Profit for the year		-	-	-
Other comprehensive income				
Foreign currency translation differences		-	-	(22,499)
Remeasurement in net defined benefit liability	28	-	-	-
Net change in fair value of investment in equity instruments		-	-	-
Total other comprehensive income for the year		-	-	(22,499)
Total comprehensive income for the year		-	-	(22,499)
Transactions recorded directly in equity				
Employee share benefits		-	-	-
		-	-	-
Transactions with owners of the Company				
Dividend to equity holders	17.5	-	-	-
		-	-	-
Share options exercised		-	-	-
Balance at 31 December 2018		10,291,657	1,077	(117,043)
Balance at 1 January 2019		**10,291,657**	**1,077**	**(117,043)**
Comprehensive income for the year				
Loss for the year		-	-	-
Other comprehensive income				
Foreign currency translation differences		-	-	71,173
Remeasurement in net defined benefit liability	28	-	-	-
Total other comprehensive income for the year		-	-	71,173
Total comprehensive income/(loss) for the year		-	-	71,173
Transactions recorded directly in equity				
Employee share benefits		-	-	-
		-	-	-
Transactions with owners of the Company				
Bonus Issue	17.4	1,286,457	-	-
		1,286,457	-	-
Share options exercised		-	-	-
Balance at 31 December 2019		**11,578,114**	**1,077**	**(45,870)**

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

Attributable to equity holders of the Company							
Fair value reserve €	**Employee benefits reserve €**	**Other reserves €**	**Share option reserve €**	**Retained earnings €**	**Total €**	**Non-controlling interest €**	**Total equity €**
(87,193)	–	65,385	96,271	6,775,850	17,048,503	(357,594)	16,690,909
–	–	–	–	4,247,289	4,247,289	(1,005,989)	3,241,300
–	–	–	–	–	(22,499)	27,453	4,954
–	(385,995)	–	–	–	(385,995)	–	(385,995)
85,320	–	–	–	–	85,320	–	85,320
85,320	(385,995)	–	–	–	(323,174)	27,453	(295,721)
85,320	(385,995)	–	–	4,247,289	3,924,115	(978,536)	2,945,579
–	–	100,000	–	–	100,000	–	100,000
–	–	100,000	–	–	100,000	–	100,000
–	–	–	–	(2,504,303)	(2,504,303)	–	(2,504,303)
–	–	–	–	(2,504,303)	(2,504,303)	–	(2,504,303)
–	–	–	(11,113)	11,113	–	–	–
(1,873)	(385,995)	165,385	85,158	8,529,949	18,568,315	(1,336,130)	17,232,185
(1,873)	**(385,995)**	**165,385**	**85,158**	**8,529,949**	**18,568,315**	**(1,336,130)**	**17,232,185**
-	**-**	**-**	**-**	**(1,633,902)**	**(1,633,902)**	**(1,570,178)**	**(3,204,080)**
-	**-**	**-**	**-**	**-**	**71,173**	**(21,354)**	**49,819**
-	**(92,746)**	**-**	**-**	**-**	**(92,746)**	**-**	**(92,746)**
-	**(92,746)**	**-**	**-**	**-**	**(21,573)**	**(21,354)**	**(42,927)**
-	**(92,746)**	**-**	**-**	**(1,633,902)**	**(1,655,475)**	**(1,591,532)**	**(3,247,007)**
-	**-**	**100,000**	**-**	**-**	**100,000**	**-**	**100,000**
-	**-**	**100,000**	**-**	**-**	**100,000**	**-**	**100,000**
-	**-**	**-**	**-**	**(1,286,457)**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(1,286,457)**	**-**	**-**	**-**
-	**-**	**-**	**(7,895)**	**7,895**	**-**	**-**	**-**
(1,873)	**(478,741)**	**265,385**	**77,263**	**5,617,485**	**17,012,840**	**(2,927,662)**	**14,085,178**

Statements of Changes in Equity
(Continued)

For the year ended 31 December 2019

THE COMPANY	Note	Share capital €	Share premium €	Fair value reserve €	Other reserves €	Share option reserve €	Employee benefits reserve €	Retained earnings €	Total €
Balance at 1 January 2018		10,291,657	1,077	(87,193)	65,385	96,271	-	11,886,706	22,253,903
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	5,815,734	5,815,734
Other comprehensive income									
Remeasurement in net defined benefit liability	28	-	-	-	-	-	(385,470)	-	(385,470)
Net change in fair value of investment in equity instruments		-	-	85,320	-	-	-	-	85,320
Total other comprehensive income/(loss) for the year		-	-	85,320	-	-	(385,470)	-	(300,150)
Total comprehensive income for the year		-	-	85,320	-	-	(385,470)	5,815,734	5,515,584
Transactions recorded directly in equity									
Employee share benefits		-	-	-	100,000	-	-	-	100,000
Discount unwind		-	-	-	-	-	-	(42,441)	(42,441)
		-	-	-	100,000	-	-	(42,441)	57,559
Transactions with owners of the Company									
Dividend to equity holders	17.5	-	-	-	-	-	-	(2,504,303)	(2,504,303)
		-	-	-	-	-	-	(2,504,303)	(2,504,303)
Share options exercised		-	-	-	-	(11,113)	-	11,113	-
Balance at 31 December 2018		10,291,657	1,077	(1,873)	165,385	85,158	(385,470)	15,166,809	25,322,743
Balance at 1 January 2019		**10,291,657**	**1,077**	**(1,873)**	**165,385**	**85,158**	**(385,470)**	**15,166,809**	**25,322,743**
Comprehensive income for the year									
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,486,852**	**1,486,852**
Other comprehensive income									
Remeasurement in net defined benefit liability	28	**-**	**-**	**-**	**-**	**-**	**(116,698)**	**-**	**(116,698)**
Total other comprehensive loss for the year		**-**	**-**	**-**	**-**	**-**	**(116,698)**	**-**	**(116,698)**
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**-**	**-**	**(116,698)**	**1,486,852**	**1,370,154**
Transactions recorded directly in equity									
Employee share benefits		**-**	**-**	**-**	**100,000**	**-**	**-**	**-**	**100,000**
Discount unwind		**-**	**-**	**-**	**-**	**-**	**-**	**160,918**	**160,918**
		-	**-**	**-**	**100,000**	**-**	**-**	**160,918**	**260,918**
Transactions with owners of the Company									
Bonus Issue	17.4	**1,286,457**	**-**	**-**	**-**	**-**	**-**	**(1,286,457)**	**-**
		1,286,457	**-**	**-**	**-**	**-**	**-**	**(1,286,457)**	**-**
Share options exercised		**-**	**-**	**-**	**-**	**(7,895)**	**-**	**7,895**	**-**
Balance at 31 December 2019		**11,578,114**	**1,077**	**(1,873)**	**265,385**	**77,263**	**(502,168)**	**15,536,017**	**26,953,815**

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

Statements of Comprehensive Income

For the year ended 31 December 2019

		THE GROUP		THE COMPANY	
		2019	2018	**2019**	2018
Continuing Operations	**Note**	**€**	€	**€**	€
Revenue	22	**22,099,721**	25,008,395	**18,719,997**	21,753,198
Cost of sales		**(15,096,946)**	(12,611,558)	**(11,856,662)**	(9,187,886)
Gross profit		**7,002,775**	12,396,837	**6,863,335**	12,565,312
Other income	23	**64,421**	67,091	**69,739**	90,012
Marketing and promotional expenses		**(1,851,523)**	(1,013,245)	**(484,830)**	(639,151)
Administrative expenses		**(7,026,087)**	(4,955,543)	**(3,952,938)**	(3,256,374)
Other expenses	23	**(111,290)**	(12,949)	**(47,364)**	(10)
Impairment loss on trade receivables and contract assets	23	**(73,031)**	123,393	**41,360**	151,084
Results from operating activities		**(1,994,735)**	6,605,584	**2,489,302**	8,910,873
Finance income	24	**31,124**	31,529	**57,038**	73,944
Finance costs	24	**(151,645)**	(72,147)	**(93,642)**	(72,486)
Net finance (costs)/income		**(120,521)**	(40,618)	**(36,604)**	1,458
(Loss)/Profit before income tax	23	**(2,115,256)**	6,564,966	**2,452,698**	8,912,331
Income tax expense	25	**(1,088,824)**	(3,323,666)	**(965,846)**	(3,096,597)
(Loss)/Profit for the year		**(3,204,080)**	3,241,300	**1,486,852**	5,815,734
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences on foreign operations		**49,819**	4,954	**-**	-
Items that will not be reclassified to profit or loss					
Net change in fair value of investment in equity instruments designated at FVTOCI upon initial recognition		**-**	85,320	**-**	85,320
Remeasurement in net defined benefit liability		**(92,746)**	(385,995)	**(116,698)**	(385,470)
		(42,927)	(295,721)	**(116,698)**	(300,150)
Total comprehensive (loss)/income		**(3,247,007)**	2,945,579	**1,370,154**	5,515,584
(Loss)/Profit for the year attributable to:					
Owners of the Company		**(1,633,902)**	4,247,289	**1,486,852**	5,815,734
Non-controlling interest		**(1,570,178)**	(1,005,989)	**-**	-
(Loss)/Profit for the year		**(3,204,080)**	3,241,300	**1,486,852**	5,815,734
Total comprehensive (loss)/income attributable to:					
Owners of the Company		**(1,655,474)**	3,924,115	**1,370,154**	5,515,584
Non-controlling interest		**(1,591,533)**	(978,536)	**-**	-
Total comprehensive (loss)/income for the year		**(3,247,007)**	2,945,579	**1,370,154**	5,515,584
(Loss)/Earnings per share	26	**-€ 0.008**	€ 0.022	**€ 0.008**	€ 0.030

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

Statements of Cash Flows

For the year ended 31 December 2019

		THE GROUP		THE COMPANY	
		2019	2018	**2019**	2018
Cash flows from operating activities	**Note**	**€**	€	**€**	€
(Loss)/Profit for the year		**(3,204,080)**	3,241,300	**1,486,852**	5,815,734
Adjustments for:					
Depreciation	9, 10	**1,004,082**	525,379	**411,313**	411,566
Amortisation of intangible assets	11	**791,983**	719,777	**791,983**	719,777
Provision for expected credit losses	23	**(42,000)**	(24,000)	**(42,000)**	(24,000)
Provision for impairment loss on receivables	23	**81,514**	60,907	**(32,877)**	33,216
Bad debts written off/(recovered)	23	**33,517**	(160,300)	**33,517**	(160,300)
Interest payable	24	**119,808**	64,825	**67,029**	64,805
Interest receivable	24	**(11,072)**	(11,098)	**(10,743)**	(11,071)
Unwinding of discount on post-employment benefits	28	**323,849**	38,338	**322,866**	29,797
Unwinding of discount on contract assets	24	**-**	-	**(26,243)**	(42,441)
Unwinding of discount on deposit		**1,149**	(652)	**-**	-
Employee share benefits	30	**311,278**	681,970	**100,000**	100,000
Gain on sale of property, plant and equipment		**313**	-	**-**	-
Income tax	25	**1,088,824**	3,323,666	**965,846**	3,096,597
Provision for exchange fluctuations	23	**(2,014)**	(13,308)	**(15,288)**	(24,246)
Change in fair value of derivative	24	**(18,180)**	(20,431)	**(18,180)**	(20,431)
		478,971	8,426,373	**4,034,075**	9,989,003
Changes in trade and other receivables		**(2,785,459)**	(2,246,681)	**24,360**	(1,164,236)
Changes in trade and other payables		**2,390,589**	(4,357,507)	**490,547**	(4,801,201)
Change in other related parties' balances		**-**	-	**(2,094,358)**	(47,184)
Cash (used in)/generated from operating activities		**84,101**	1,822,185	**2,454,624**	3,976,382
Interest paid		**(92,321)**	(66,183)	**(67,670)**	(66,183)
Interest received		**330**	665	**295**	639
Income taxes paid		**(1,100,201)**	(459,841)	**(1,052,058)**	(459,837)
Net cash (used in)/generated from operating activities		**(1,108,091)**	1,296,826	**1,335,191**	3,451,001
Cash flows from investing activities					
Acquisition of property, plant and equipment		**(441,868)**	(877,204)	**(134,607)**	(73,305)
Capitalised development costs	11	**(2,223,615)**	(1,268,232)	**(1,137,504)**	(1,268,234)
Investment in subsidiary	12	**-**	-	**(175,000)**	(25,000)
Advances to subsidiaries		**-**	-	**(5,041,813)**	(2,920,232)
Repayment of advances from subsidiaries		**-**	-	**379,407**	60,475
Additional security deposit		**(7,988)**	-	**-**	-
Additional advance rent		**(5,977)**	-	**-**	-
Net cash used in investing activities		**(2,679,448)**	(2,145,436)	**(6,109,517)**	(4,226,296)

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

		THE GROUP		THE COMPANY	
		2019	2018	**2019**	2018
	Note	**€**	€	**€**	€
Cash flows from financing activities					
Dividends paid		**(83)**	(2,501,206)	**(83)**	(2,501,206)
Proceeds from borrowings under the credit facility		**3,779,498**	-	**3,779,498**	-
Repayments of bank borrowings		**(634,057)**	(1,023,369)	**(634,057)**	(1,023,368)
Repayment of lease liabilities		**(347,318)**	-	**(25,999)**	-
Net cash generated from/(used in) financing activities		**2,798,040**	(3,524,575)	**3,119,359**	(3,524,574)
Net decrease in cash and cash equivalents		**(989,499)**	(4,373,185)	**(1,654,967)**	(4,299,869)
Cash and cash equivalents at 1 January		**3,402,972**	7,789,159	**2,798,944**	7,083,067
Effect of exchange rate fluctuations on cash held		**8,738**	(13,002)	**(2,282)**	15,746
Cash and cash equivalents at 31 December	16	**2,422,211**	3,402,972	**1,141,695**	2,798,944

The accompanying Notes on pages 58 to 163 are an integral part of these financial statements.

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Notes to the Financial Statements

Year ended 31 December 2019

1 REPORTING ENTITY

RS2 Software p.l.c. ("the Company") is a public limited liability company domiciled and incorporated in Malta with registration number C25829. The registered address of the Company is RS2 Buildings, Fort Road, Mosta, MST 1859, Malta. The consolidated financial statements of the Company as at and for the year ended 31 December 2019 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 ("IFRS" or "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), 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 4. 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 IFRS as adopted by the EU were also adhered to when preparing and presenting these financial statements.

2.2 BASIS OF ACCOUNTING

Details of the Group's accounting policies are included in Note 4.

This is the first set of the Group's and the Company's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

2 BASIS OF PREPARATION (Continued)

2.3 BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and equity investments designated at fair value through other comprehensive income (FVTOCI) upon initial recognition which are measured at fair value.

The methods used to measure fair values are discussed further in Note 6.

2.4 FUNCTIONAL AND PRESENTATION CURRENCY

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

2.5 USE OF ESTIMATES AND JUDGEMENTS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2019 is included in the following notes:

Note 2.5.1	impairment reviews
Note 4.6.6	useful life of internally generated computer software and software rights
Note 4.14	IFRS 15 revenue judgements and estimates
Note 6.1 and Note 29.6.1	fair value of other investment
Note 6.5 and Note 30.1	cash-settled share-based payments

2 BASIS OF PREPARATION (Continued)

2.5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

Note 11.5	impairment test for cash-generating unit (CGU) containing goodwill: key assumptions underlying recoverability
Note 11.5.4 and Note 12	recoverability of investment in subsidiaries
Note 28	measurement of defined benefit obligations: key actuarial assumptions
Note 29.1.2	recoverability assessment on trade and other receivables

In accordance with the requirements of IAS 1 *Presentation of Financial Statements*, assumptions and other sources of estimation uncertainty that require management's most difficult, subjective or complex judgements include impairment reviews, the estimation of the fair value of the liability for the cash-settled share-based payment arrangement, and the determination of whether the fee for the implementation activity (without the sale of a licence) relates to a distinct performance obligation and whether that activity results in the transfer of a promised good or service to the customer. In relation to 2018, such estimates also included the implementation of IFRS 15 in relation to the sale of the term licence with an option to perpetuity.

2.5.1 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 and intangible assets not yet put in use, IFRS requires management to undertake a test for impairment at least annually and at each reporting period if there is an indication that the asset may be impaired. The Group currently undertakes an annual impairment test covering goodwill and also reviews other certain financial and non-financial assets at least annually to consider whether a full impairment review is required.

There are a number of assumptions and estimates involved in calculating the present value of future cash flows from the Group's businesses, including management's expectations of:

- growth in earnings before interest, tax, depreciation and amortisation (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.

2 BASIS OF PREPARATION (Continued)

2.5 USE OF ESTIMATES AND JUDGEMENTS (Continued)

2.5.2 TERM-BASED LICENCE AND OPTION TO PERPETUITY

This is in relation to the sale in 2014 of a five-year term licence in exchange for 5 equal annual payments of €2.2m each with an option to the customer to convert such a licence to perpetuity after the 5 annual payments in exchange for an additional payment of €1m. In terms of IAS 18, the Company and the Group had previously recognised the annual consideration received in advance at the point in time of receipt, corresponding with the start of the annual licence period as the option was not considered to be another element of the arrangement. In terms of IFRS 15, the Group and the Company consider the customer's option to convert the licence into a perpetual licence as a material right which gives rise to a performance obligation that is recognised when those future goods or services are transferred or when the option expires. The amount allocated to that right at 1 January 2018 amounted to €5.6m (gross of tax). Using criteria in IFRS 15, the Group and the Company allocated the standalone selling price of a similar perpetual licence to a term licence over an expected period of use by the customer in order to determine the fair value that was allocated to the option to perpetuity. Accordingly, under IFRS 15, the Group and the Company recognised the fair value attributable to the term licence on an annual basis, immediately upon renewal of the licence agreement to the next year, and deferred the difference between the agreed annual licence fee and the fair value attributable to that annual licence.

The deferral of revenue of €3.64m (net of tax) and thus its reversal out of retained earnings as of 1 January 2018 emanates from the transitional provisions of IFRS 15. Assumptions and estimates made by management when determining the fair value of the performance obligation allocated to the customer's material right to convert the term licence to perpetuity involve significant judgement and small revisions to such assumptions could result in a material impact to that adjustment. This is particularly so in respect to the standalone selling price of an annual licence and the expected term of a similar perpetual licence. In accordance with IFRS 15, the cumulative differences attributable to the option, together with the additional one-time payment that fell due upon exercise of the option to convert the licence to perpetuity, were recognised as revenue in 2018 upon the notification from the customer of the exercise of the option to convert to perpetuity. Thus, the adjustment at 1 January 2018 was released to the income statement in 2018, resulting in an increase in revenue for 2018 of €5.6m and a corresponding reversal of the deferred tax asset in 2018 amounting to €1.96m together with the remaining revenues under the contract of €3.2m, inclusive of the final deferred payment on the exercise of the option. Accordingly, the deferral of revenues from this contract have no impact at 31 December 2018 since all revenues in relation to this contract were recognised in full by then. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018, in terms of IAS 18 is recognised as revenue again in 2018 as a result of the adoption of IFRS 15.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially applied IFRS 16 (Note 3.1) from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's and the Company's financial statements.

Due to the transition method chosen by the Group and the Company in applying the new accounting standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

The effect of initially applying these standards disclosed in the remaining note.

3.1 IFRS 16 LEASES

In the current year, the Group and the Company have applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. On the other hand, lessor accounting remains substantially unchanged to the current standard – i.e. lessors continue to classify leases as finance or operating leases with additional disclosures being required.

IFRS 16 supercedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 has been applied to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

a) The right to obtain substantially all of the economic benefits from the use of an identified asset; and

b) The right to direct the use of that asset.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 LEASES (Continued)

The Group applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 has not changed significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on leases in which the Group or the Company are a lessee

Operating leases

IFRS 16 changed how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. The Group recognised new assets and liabilities for its operating leases of office premises. The nature of expenses related to those leases changed during 2019, as the Group started to recognise depreciation charge on the ROU assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

On initial application of IFRS 16, for all leases (except as noted below, where the recognition exemption is applied), the Group:

a) Recognised ROU assets and lease liabilities in the consolidated and the Company's statement of financial position, initially measured at the present value of the future lease payments;

b) Recognised depreciation of ROU assets and interest on lease liabilities in the consolidated and the Company's statement of profit or loss;

c) Split the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated and the Company's cash flow statement. Payments for short-term leases, low-value assets and variable amounts not included in the measurement of the lease liability continue to be classified within operating activities.

Under IFRS 16, ROU assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts. Based on this review, no impairment losses were recognised at 1 January 2019 and at 31 December 2019.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 LEASES (Continued)

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16 and no ROU asset is recognised for these. The practical expedient for short-term leases was applied for the agreement which the Group is party with a computer hardware company to lease a server in relation to a combination of managed hosting services and a private cloud.

Measurement and recognition of leases as a lessee

For leases, the Group recognises a ROU asset and a lease liability in line with IFRS 16 at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in the future lease payments arising from a change in an index rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Finance leases

The Group and the Company did not have any finance leases as at 31 December 2018.

Transition

The Group and the Company has applied IFRS 16 on 1 January 2019, using the modified retrospective approach. Under this approach, the cumulative effect, if any, of adopting IFRS 16 is recognised as an adjustment to the opening retained earnings at 1 January 2019, with no restatement of comparative information. The lease liability at 1 January 2019 was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group measured the ROU asset as being equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments required in the statement of financial position before the date of initial application, and therefore has no impact on its retained earnings on 1 January 2019 as a result of transitioning to IFRS 16.

Details on how the incremental borrowing rate is determined by the Group are outlined in the significant accounting policies (refer to Note 4.5).

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 LEASES (Continued)

Impacts on Transition

On adoption of IFRS 16, the Group recognised additional ROU assets and additional lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019. The weighted average rate applied to the lease liabilities on 1 January 2019 for the Group and the Company, excluding the German lease which was entered into on 1 January 2019, was 2.93% and 2.87%, respectively. The Group applied the practical expedient in IFRS 16 *Leases*, paragraph C10d, to exclude initial direct costs from the measurement of the ROU assets at the date of initial application. The impact on transition is summarised below.

	1 January 2019	
	THE GROUP	THE COMPANY
	€	€
Right-of-use assets - land and buildings	761,057	504,357
Lease liabilities	731,505	495,748
Prepayments	29,552	8,609

	1 January 2019	
	THE GROUP	THE COMPANY
	€	€
Operating lease commitments as at 31 December 2018 as disclosed in the Group's and Company's financial statements	1,106,347	678,186
Discounted using the incremental borrowing rate at 1 January 2019	895,384	495,748
Less exemption for short-term leases recognised on a straight-line basis as expense	(163,879)	-
Lease liability recognised as at 1 January 2019	731,505	495,748
Of which are:		
Current lease liabilities	127,801	14,563
Non-current lease liabilities	603,704	481,185
	731,505	495,748

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 LEASES (Continued)

The following tables summarise the impacts of adopting IFRS 16 on the Group's and Company's statement of financial position as at 1 January 2019.

The Group	**Impact of changes in accounting policies as at 1 January 2019**		
31 December 2018	**As previously reported €**	**IFRS 16 adjustments €**	**As restated €**
Right-of-use assets	-	761,057	761,057
Prepayments	544,301	(29,552)	514,749
Lease liabilities	-	(731,505)	(731,505)
Total effect on net assets		-	

The Company	**Impact of changes in accounting policies as at 1 January 2019**		
31 December 2018	**As previously reported €**	**IFRS 16 adjustments €**	**As restated €**
Right-of-use assets	-	504,357	504,357
Prepayments	364,075	(8,609)	355,466
Lease liabilities	-	(495,748)	(495,748)
Total effect on net assets		-	

The Group	**Segment Assets**			**Segment Liabilities**		
	Licensing €	**Processing €**	**Total €**	**Licensing €**	**Processing €**	**Total €**
Additional ROU assets and lease liabilities at 1 January 2019	546,138	214,919	761,057	516,586	214,919	731,505

Further to the above, a new lease with effective date 1 January 2019 was entered into by the Group, resulting in a ROU asset and lease liability of €1.7m. The weighted average rate applied to this lease liability on 1 January 2019 was 1.61%.

The impact on the Group's and Company's pre-tax profit in the Income Statement in the reporting period is a reduction of other operating expenses by €413,802 and €38,863, increases in depreciation by €391,093 and €35,742, and increases in interest expense by €66,569 and €13,912, respectively. For the Group and the Company, this has resulted in an increase in earnings before interest and tax (EBIT) of €22,709 and €3,121, respectively, and an increase in EBITDA of €413,802 and €38,863. Earnings per share (EPS) decreased by €0.0002 and €0.0001 for the Group and the Company, respectively.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 IFRS 16 LEASES (Continued)

Impact on leases in which the Group or the Company are a lessor

Neither the Group nor the Company is a lessor. In this respect, no adjustments are necessary to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

4 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 except as disclosed above (see also Note 3).

4.1 BASIS OF CONSOLIDATION

4.1.1 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 interests to have a deficit balance.

4.1.2 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 FOREIGN CURRENCY

4.2.1 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 except for differences arising on the revaluation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. 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.

4.2.2 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 in the consolidated financial statements, and are presented within equity in the foreign currency translation reserve.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 FINANCIAL INSTRUMENTS

4.3.1 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.

Financial assets not classified at fair value through profit or loss (FVTPL), are initially recognised at fair value plus directly attributable transaction costs.

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 principal non-derivative financial assets: loans, trade receivables, investments and cash and cash equivalents.

4.3.1.1 CLASSIFICATION OF FINANCIAL ASSETS

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Debt instruments are subsequently measured at amortised cost, if they meet the following conditions:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments are subsequently measured at FVTOCI, if they meet the following conditions:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 FINANCIAL INSTRUMENTS (Continued)

4.3.1 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

4.3.1.1 CLASSIFICATION OF FINANCIAL ASSETS (Continued)

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The Business model

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

4.3.1.2 DEBT INSTRUMENTS MEASURED AT AMORTISED COST

The following financial assets are classified within this category – trade receivables, cash at bank, loans receivable.

Appropriate allowances for expected credit losses (ECLs) are recognised in profit or loss in accordance with the Group's accounting policy on ECLs.

Changes in the carrying amount as a result of foreign exchange gains or losses, impairment gains or losses and interest income are recognised in the profit or loss.

Interest income is recognised using the effective interest rate method and is included in the line item 'Finance income'.

Trade receivables which do not have a significant financing component are initially measured at their transaction price and are subsequently stated at their nominal value less any loss allowance for ECLs.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 FINANCIAL INSTRUMENTS (Continued)

4.3.1 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

4.3.1.3 EQUITY INSTRUMENTS DESIGNATED AS AT FVTOCI

The following financial assets are classified within this category – the Company's Other investment.

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity instrument is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Such financial assets are subsequently measured at fair value. Gains and losses arising from changes in fair value, including foreign exchange gains and losses, are recognised in other comprehensive income. The cumulative gain or loss that is recognised in other comprehensive income is not subsequently transferred to profit or loss.

Dividends on these equity instruments are recognised in profit or loss unless the dividends clearly represent recovery of part of the cost of the investment. If any, dividends are included in the line item 'Finance income'.

4.3.2 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, cancelled or expired.

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 principal non-derivative financial liabilities: loans, borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Trade payables are stated at their nominal value, unless the effect of discounting is material.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 FINANCIAL INSTRUMENTS (Continued)

4.3.3 DERIVATIVE FINANCIAL INSTRUMENTS

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

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 in profit or loss.

4.3.4 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.

4.3.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented as current liabilities in the statement of financial position.

4.4 PROPERTY, PLANT AND EQUIPMENT

4.4.1 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.

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.

4.4.2 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 PROPERTY, PLANT AND EQUIPMENT (Continued)

4.4.3 DEPRECIATION

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Buildings constructed on leased land are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership at the end of the lease term. Land is not depreciated.

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

• buildings	25 - 50 years
• electrical and plumbing installation	15 years
• furniture	10 years
• fixtures	10 years
• lifts	10 years
• other machinery	10 years
• air-conditioning	6 years
• motor vehicles	5 years
• computer hardware	4 years
• computer software	4 years
• office equipment	4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end, and adjusted if appropriate.

4.5 LEASES

Comparative year

In the comparative year, the significant accounting policies for leases were as follows:

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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 LEASES (Continued)

Current year

In the current year, the significant accounting policies for leases were as follows:

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the lessee's benefit.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment, over a similar term, and with a similar security.

The lease liability is presented in the statement of financial position as a separate line item.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 LEASES (Continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a ROU asset, the costs are included in the related ROU asset, unless those costs are incurred to produce inventories.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the ROU asset reflects that the Group expects to exercise a purchase option, the related ROU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The ROU assets are presented in the statement of financial position as a separate line item.

The Group applies IAS 36 to determine whether a ROU asset is impaired and accounts for any identified impairment loss as described in Note 4.8.3.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Other expenses' in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.5 LEASES (Continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components.

4.6 INTANGIBLE ASSETS

4.6.1 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 rights 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.

4.6.2 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.

4.6.3 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 INTANGIBLE ASSETS (Continued)

4.6.4 SOFTWARE RIGHTS

Software rights that are separable 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.

4.6.5 SUBSEQUENT EXPENDITURE

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and when it meets the definition of an intangible asset and the recognition criteria. All other expenditure is recognised in profit or loss as incurred.

4.6.6 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 INTANGIBLE ASSETS (Continued)

4.6.6 AMORTISATION (Continued)

The assessment of useful life of software is based on the following factors:

- The software is the main driver of the Group's revenue and is expected to remain for the foreseeable future;
- Highly qualified teams with robust expertise which enables the software to be efficiently managed;
- It is a mature product with years of development, knowhow and expertise;
- The software is maintained on a continuous basis to ensure that it keeps up with the technical, technological and commercial changes;
- Industry and market demand are stable due to the increase in technological change in the payment processes field;
- The company operates in a niche market with significant barriers to entry;
- The company owns the intellectual property rights for the software and therefore there is no definite period of control over the asset; and
- The usage of the asset is not dependent on the useful life of assets of other companies.

4.7 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 to the extent that they represent a capital contribution.

4.8 IMPAIRMENT

4.8.1 INVESTMENTS IN SUBSIDIAIRES

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 IMPAIRMENT (Continued)

4.8.1 INVESTMENTS IN SUBSIDIAIRES (Continued)

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.

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS

4.8.2.1 EXPECTED CREDIT LOSSES

The Group recognises a loss allowance for ECLs on the following – financial assets measured at amortised cost and contract assets. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since the initial recognition.

For trade receivables and contract assets that do not contain a significant financing component, the Group applies the simplified approach and recognises lifetime ECL.

Where a collective basis is applied, the ECLs on these financial assets are estimated using the provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of conditions at the reporting date.

For all other financial instruments, the Group uses the general approach and recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of an evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in equity, and does not reduce the carrying amount of the financial asset in the statement of financial position.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 IMPAIRMENT (Continued)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

4.8.2.1 EXPECTED CREDIT LOSSES (Continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument as at the reporting date with the risk of default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both the quantitative and the qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort and, where applicable, the financial position of the counterparties.

Forward-looking information considered includes, where applicable, the future prospects of the industries in which the Company's debtors operate, as well as consideration of various external sources of actual and forecasted economic information that relate to the Company's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information, that is available without undue cost or effort, that demonstrates otherwise.

Despite the above assessment, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Accordingly, for these financial assets, the loss allowance is measured at an amount equal to 12-month ECL. The Group has applied the low credit risk assumption for the following classes of financial assets – cash at bank.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 120 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 IMPAIRMENT (Continued)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

4.8.2.1 EXPECTED CREDIT LOSSES (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.

Measurement and recognition of ECLs

For financial assets, the credit loss is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. ECLs represent the weighted average of credit losses, with the respective risks of a default occurring as the weights.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information, where applicable.

Forward-looking information considered includes, where applicable, the future prospects of the industries in which the Company's debtors operate, as well as consideration for various external sources of actual and forecasted economic information that relate to the Company's core operations.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 IMPAIRMENT (Continued)

4.8.2 NON-DERIVATIVE FINANCIAL ASSETS (Continued)

4.8.2.1 EXPECTED CREDIT LOSSES (Continued)

Collective basis

If evidence of a significant increase in credit risk at the individual instrument level is not yet available, the Company performs the assessment of significant increases in credit risk on a collective basis by considering information on, for example, a group or sub-group of financial instruments.

Where the Company does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime ECL on an individual instrument basis, lifetime ECL is measured on a collective basis.

In such instances, the financial instruments are grouped on the basis of shared credit risk characteristics, such as the nature, size and industry.

4.8.3 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 CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). Subject to an operating segment ceiling test, for the purpose 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 IMPAIRMENT (Continued)

4.8.3 NON-FINANCIAL ASSETS (Continued)

Impairment losses are recognised in profit or loss unless the asset is carried at a revalued amount. For assets recognised at revalued amount, the impairment loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation recognised for that asset. 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 CGUs) 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.

4.9 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.

4.10 SHARE-BASED PAYMENT TRANSACTIONS

The grant-date fair value of equity-settled 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.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. As at each reporting date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.11 EMPLOYEE BENEFITS

Non-competition post-employment benefits due to employees holding senior management positions are payable upon cessation for whatever reason based on either a fixed amount on the then applicable annual salary. The cost of providing for these post-employment benefits is determined using the projected unit method, with estimations being carried out at each reporting date. In line with the recognition of other provisions, the post-employment benefits are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The liability recognised in the statement of financial position represents the present value of the expected future payments required to settle the obligation at the end of the reporting period. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows to be paid on termination using market yields. Such yields are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the estimated termination date. The Directors consider this to be an appropriate proxy to a high-quality corporate bond. The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Re-measurements of the net defined benefit liability, are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period. Re-measurements may include changes in the present value of the defined benefit obligation arising from experience adjustments and the effects of changes in the actuarial assumptions. Such re-measurements are reflected immediately in retained earnings.

4.12 PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as a finance cost.

4.13 WARRANTIES

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

4.14 REVENUE

Revenue is recognised when the Group or the Company satisfies a performance obligation by transferring control of a promised good or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.1 LICENCES

4.14.1.1 PERPETUAL LICENCES AND SIGNIFICANT CUSTOMISATION/IMPLEMENTATION SERVICES

Licence fees arise from software licence agreements where the Group grants non-exclusive licences to use specific BankWORKS® modules. In the case of perpetual licences, the fee is generally a one-time fee.

The Group accounts for individual products and services separately if they are distinct, that is, if a product or service is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract) and if a customer can benefit from it either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct).

In accordance with IFRS 15, the Group is required to assess each arrangement to understand whether licences are distinct from the significant implementation and customisation services provided with that licence and from the other services provided. For the purposes of understanding whether the licences are distinct, management is required to consider additional criteria including whether the customers can benefit from the use of the licence alone or otherwise and whether there exist activities which require significant integration, modification or which are otherwise interdependent.

In this respect, management has assessed that in the majority of the Group's contracts, the licence and the significant implementation and customisation services are to be considered as one performance obligation in terms of the above criteria.

The Group has determined that revenue from this performance obligation should be recognised provided the criteria for the recognition of a contract are satisfied, including having an enforceable right to payment. In this case, in accordance with IFRS 15, revenue is recognised as each licenced system is customised and set up according to the customer's specific needs, by reference to the stage of satisfaction of the performance obligation.

Payment for the licence and the significant customisation services is generally fixed and is payable by the customer in advance by way of milestone payments. Any cash received in advance of the provision of the customisation services is therefore recognised as a contract liability, thus representing the entity's obligation to perform the obligation. Such amounts are recognised as revenue over the customisation period.

There is not considered to be a significant financing component in such contracts as the period between the recognition of revenue under the stage of completion and the payment is less than one year.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.1 LICENCES (Continued)

4.14.1.1 PERPETUAL LICENCES AND SIGNIFICANT CUSTOMISATION/IMPLEMENTATION SERVICES (Continued)

Management has also considered IFRS 15's impact on contracts in which consideration for the promise is variable. For the licence business, this is relevant for contracts in which the Group's consideration is based on a percentage of revenues that are earned by the client from its own customers. For this variable consideration, the Group concludes that it cannot include its estimate of such revenues in the transaction price until the uncertainty is resolved. This is based on the fact that the variability of the fee based on the customer's own revenues indicates that the Group cannot conclude that it is highly probable that a significant reversal in the cumulative amount of revenue recognised would not occur. Accordingly, such estimates are not included before they are earned.

4.14.1.2 TERM LICENCE WITH AN OPTION TO PERPETUITY

The Group is party to an annually-renewable term licence agreement with an option by the client of converting to perpetuity.

In accordance with IFRS 15, the Group considers the customer's option to represent a material right in the hands of the customer which represents another performance obligation in the arrangement. Using criteria under IFRS 15, the Group allocated the consideration received between the annual term licences and the material right based on the relative standalone selling prices of a similar perpetual licence to a term licence over an expected period of use by the customer in order to determine the fair value to be allocated to the option to perpetuity. Accordingly, under IFRS 15, the Group recognises the revenue attributable to the term licence on an annual basis at a point in time, immediately upon renewal of the licence agreement to the next year and defers the difference between the agreed annual licence fee and the value attributable to the customer's option to convert and recognises this amount as a contract liability.

The cumulative amounts attributable to the option recognised as a contract liability, together with the additional one-time payment that falls due upon exercise of the option to convert the licence to perpetuity, are recognised as income at the earlier of the following events:

- Notification from the customer of a decision on exercising the option to convert the licence to perpetuity; and
- Termination of the agreement for whatever reason.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.2 SERVICES

The Group provides (a) transaction processing services; (b) maintenance services, such as ongoing support for BankWORKS®, software enhancements and software upgrades; and (c) other services, including change requests.

The agreements for the maintenance services and the other services are either entered into (i) at the same time with the sale of the licence; or (ii) after the sale of the licence, as part of a comprehensive package. Where the agreements are entered into at the same time with the sale of the licence, the Group assesses whether such agreements need to be combined with the licence contract for the purpose of IFRS 15.

The Group accounts for individual products and services separately if they are distinct, that is, if a product or service is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract) and if a customer can benefit from it either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct).

Transaction processing is determined to be a performance obligation which is distinct from the corresponding implementation or customisation activities that are performed in advance of such transaction processing (see Note 4.14.3). Transaction processing services are regarded as a series of distinct services that are substantially the same and that have the same pattern of transfer to the customer; the performance obligation is the fact that the Group needs to stand ready to perform, which obligation is satisfied over time. The consideration in respect of such services contains variable elements that are dependent on the volume of transactions processed, with a minimum monthly fee; management allocates the variable fees charged for each transaction to the time period in which the Group has the contractual right to bill the customer since such payments relate specifically to the Group's efforts to satisfy the performance obligation and allocating that amount entirely to that specific time period is consistent with the allocation objective in IFRS 15. The Group accordingly recognises the monthly billings to customers as revenue in the month of billing.

Maintenance services are generally billed quarterly or annually in advance. Regardless of whether the corresponding agreements for such services are entered into at the same time with the sale of the licence, these services are determined to be distinct from the corresponding licences under IFRS 15. Revenues allocated to the maintenance services are recognised over time in accordance with IFRS 15, as the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs. The transaction price is recognised as a contract liability at the time of receipt.

Revenue from other additional services requested by the client outside the scope of the original contract, such as changes that are requested after the sale of the licence and/or the period of customisation, are generally treated as a separate contract if the scope of the contract increases because of the addition of services that are distinct and the price charged is calculated at a man-rate per hour that reflects the standalone selling price of such additional services. This performance obligation is generally recognised over the period of such customisation.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.2 SERVICES (Continued)

Revenue from services provided in comprehensive packages continues to be recognised over time under IFRS 15 unless separate performance obligations are identified.

There should not be a significant financing component in relation to such services as the period between the recognition of revenue and the payment is always less than one year.

4.14.3 IMPLEMENTATION AND CUSTOMISATION FEES FOLLOWED BY TRANSACTION PROCESSING SERVICES

Where the Group receives a fee for customisation and implementation activities without the sale of a licence, which are followed by transaction processing services, it assesses whether the fee relates to the transfer of a promised good or service.

Where the fee relates to an activity that the Group is required to undertake at or near contract inception to fulfil the contract and that activity does not result in the transfer of a promised good or service to the customer, the fee is treated as an advance payment for future goods or services and, therefore, is recognised as revenue when those future goods or services are provided.

Where the fee relates to a distinct performance obligation and that activity results in the transfer of a promised good or service to the customer, the related revenue is recognised over the customisation period. Determining whether the activity represents a distinct performance obligation and whether it results in a transfer of a promised good or service to the customer requires judgement.

This is based on the Group's conclusion that by the time the customised software is live, the customer has already obtained and paid for the right to have that software solution hosted elsewhere, without having to pay an additional amount for such customisation and implementation activities, subject to a migration fee as a separate service that is distinct and a penalty for the cancellation of future transaction processing services (which reduces with the number of remaining months) and without the requirement for a different service provider to pay for an additional licence in this regard.

4.14.4 CONTRACT COSTS

Contract costs that are recognised as an asset are amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. An impairment loss is recognised in profit or loss to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less (b) the costs that relate directly to providing those goods or services and that have not been recognised as expenses. An impairment reversal is recognised when the impairment conditions no longer exist or have improved but the increased carrying amount of the asset shall not exceed the amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.4 CONTRACT COSTS (Continued)

Incremental costs of obtaining a contract

The incremental costs of obtaining a contract with a customer are recognised as an asset if the entity expects to recover those costs. Costs to obtain a contract that would have been incurred, regardless of whether the contract was obtained, are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer.

Applying the practical expedient in paragraph 94 of IFRS 15, the Company recognises the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

Costs to fulfil a contract

The costs incurred in fulfilling a contract with a customer that are not within the scope of another Standard are recognised as an asset only if (a) the costs relate directly to a contract or an anticipated contract that the entity can specifically identify; (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) the costs are expected to be recovered.

4.14.5 CONTRACT MODIFICATIONS

A contract modification, such as changes that are requested after the sale of the licence and/or the period of customisation, is accounted for as a separate contract if (a) the scope of the contract increases because of the addition of promised goods or services that are distinct; and (b) the price of the contract increases by an amount of consideration that reflects the entity's standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

For a contract modification that is not accounted for as a separate contract, the entity accounts for the promised goods or services not yet transferred at the date of the contract modification based on the specific facts and circumstances. A contract modification is accounted for as if it were a termination of the existing contract and the creation of a new contract if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification. A contract modification is accounted for as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. If the remaining goods or services are partly distinct and partly not distinct, the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract are accounted for in a manner that is consistent with the objectives of IFRS 15.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.14 REVENUE (Continued)

4.14.6 ALLOCATION OF A DISCOUNT

Where a discount is provided, the Group and the Company allocate that discount entirely to one or more, but not all, performance obligations in the contract if the following criteria are met: (a) the entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a standalone basis; (b) the entity also regularly sells on a standalone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the standalone selling prices of the goods or services in each bundle; and (c) the discount attributable to each bundle of goods or services is substantially the same as the discount in the contract and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs. If these criteria are not met, the discount is allocated proportionately to all performance obligations in the contract.

4.14.7 ALLOCATION OF VARIABLE CONSIDERATION

The Group and the Company allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation if both of the following criteria are met: (a) the terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service); and (b) allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in IFRS 15 when considering all of the performance obligations and payment terms in the contract.

4.15 FINANCE INCOME AND COSTS

Finance income comprises interest income on bank balances, loans receivable, movements in provisions for non-operating exchange gains, finance income arising on measuring payables at amortised cost using the effective interest rate method and gains on derivatives recognised in the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method as further described in the accounting policies for non-derivative financial assets.

Finance costs comprise interest expense on borrowings, interest on late payments, movements in provisions for non-operating exchange losses, and finance cost arising on measuring receivables at amortised cost using the effective interest rate method recognised in profit or loss.

Borrowing costs that are not directly attributable to the acquisition and construction of qualifying assets are recognised in profit or loss.

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

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.16 GOVERNMENT GRANTS

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs, are recognised in profit or loss in the period in which they become receivable.

4.17 INCOME TAX

Income tax expense comprises current and deferred tax. Current 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 assets are recognised for unused tax losses, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 EARNINGS PER SHARE

The Group presents basic 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.

4.19 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Group's other components. Operating results of all operating segments are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4.20 DIVIDENDS

Dividends to holders of equity instruments are recognised as liabilities in the period in which they are declared. Dividends to holders of equity instruments are recognised directly in equity.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, however the Group and the Company have not early adopted the new or amended standards in preparing these financial statements. Those which may be relevant to the Group and the Company are set out below.

The Group and the Company do not expect a material impact resulting from other standards and interpretations not included below.

5.1 AMENDMENTS TO IFRS 3, DEFINITION OF A BUSINESS

The amendments relate to a revised definition of a 'business' as follows:

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

The definition of the term "outputs" is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

5.1 AMENDMENTS TO IFRS 3, DEFINITION OF A BUSINESS (Continued)

An entity can apply a "concentration test" that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of group assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries. Application of the changes would also affect the accounting for disposal transactions.

Differences in accounting between business combinations and asset acquisitions include, amongst other things, the recognition of goodwill, recognition and measurement of contingent consideration, accounting for transaction costs, and deferred tax accounting.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Management is currently assessing the impact of this change and the impact expected to have on the books of the Group in view of the acquisition made in 2020.

5.2 AMENDMENTS TO IAS 1 AND IAS 8, DEFINITION OF MATERIAL

The amendments relate to a revised definition of 'material' as follows:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Three new aspects of the new definition include (i) obscuring; (ii) could reasonably be expected to influence; and (iii) primary users.

The amendments stress especially five ways material information can be obscured:

- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; and
- if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for periods beginning on or after 1 January 2020. Earlier application is permitted. Management is assessing the impact of these amendments.

5 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

5.3 AMENDMENTS TO IAS 1, CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

The amendments affect only the presentation of liabilities in the statement of financial position – not the amount or timing of recognition of any asset, liability, income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual periods beginning on or after 1 January 2022.

6 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); and
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.

6 DETERMINATION OF FAIR VALUES (Continued)

6.1 OTHER INVESTMENT

Under IFRS 9, the other investment is classified as an equity instrument designated as at FVTOCI upon initial recognition.

The fair value of the other investment as at 31 December 2019 and 2018 is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. Such fair values are based on unobservable inputs, being cash flow projections of the investee for a period of up to 5 years. Recent average inflation rates in the region of operations are used to determine the terminal growth rate used to extrapolate the terminal values whilst the discount rate encompasses the relevant market risk premium and the industry specific risk.

6.2 LOANS RECEIVABLE

The fair value of loans receivable 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.

6.3 NON-DERIVATIVE FINANCIAL LIABILITIES

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6.4 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of the interest rate swap is based on the banker's quote which comprises a present value of future cash flows discounted at the applicable year end discount rate.

6.5 SHARE-BASED PAYMENT TRANSACTIONS

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

For the cash-settled share-based payment, the most significant input was the share price of the underlying US subsidiary, which share price was measured on the basis of a discounted cash flow model, with inputs and sensitivities being largely in line with those identified in Note 11.5. Expected dividends were not included in the fair value measurement since the individual is entitled to the rights of a shareholder, including the right to receive dividends from the date of grant of shares.

7 FINANCIAL RISK MANAGEMENT

7.1 OVERVIEW

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- 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. The Company's exposure to such risks is substantially similar to that of the Group unless otherwise stated.

7.2 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.

7.3 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 trade receivables from customers, contract assets, loans receivable and cash held with financial institutions. For the Company, credit risk also arises in relation to the financial guarantee in Note 12.10.

7.3.1 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.

7 FINANCIAL RISK MANAGEMENT (Continued)

7.3 CREDIT RISK (Continued)

7.3.1 TRADE AND OTHER RECEIVABLES (Continued)

43% of the Group's revenue is attributable to sales transactions with two major customers (2018: 85% attributable to sales transactions with two major customers) as per Note 8.4. The Group's revenue is mainly generated through sales transactions concluded with customers situated in Europe (2018: Europe).

The majority of the Group's customers have been transacting with the Group for several years, and losses have occurred infrequently. In monitoring customer credit risk, customers are classified according to their credit characteristics, geographic location and ageing profile. Trade receivables relate to the Group's customers to whom services are rendered.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures and a collective provision where necessary unless this is considered to be immaterial.

7.3.2 LOANS RECEIVABLE

Loans receivable are presented net of an allowance for doubtful debts.

7.3.3 CONTRACT ASSETS

These are tested for impairment in terms of the ECL model.

7.3.4 CASH AT BANK

The Group's cash is placed with reputable financial institutions with credit ratings of AA- and BBB, such that management does not expect any institution to fail to meet repayments of amounts held in the name of the Group.

7.3.5 FINANCIAL GUARANTEES

The ECL allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive.

7.4 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.

7 FINANCIAL RISK MANAGEMENT (Continued)

7.5 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.

7.5.1 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 are the USD and the 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.

7.5.2 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.

Interest on certain loans receivable and cash at bank are also tested for interest rate risk.

7.5.3 EQUITY PRICE RISK

The Group is exposed to equity risks arising from equity investments classified at FVTOCI. Equity investments measured at FVTOCI are held for strategic rather than trading purposes. The Group does not actively trade such investments.

This exposure is not considered to be material.

7.6 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The capital structure consists of debt and items presented within equity in the statement of financial position. 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. The Board of Directors manage the Company's capital structure and make adjustments to it, in light of changes in economic conditions. The capital structure is reviewed on an ongoing basis. Based on recommendations of the Directors, the Company balances its overall capital structure through the payments of dividends, new share issues, as well as the issue of new debt or the redemption of existing debt. 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.

8 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.
- ***Other segments*** – Other segments consist of financial services, that is the provision of acquiring and e-money services as well as the management of terminals and merchant book while selling, installing, servicing terminals and processing card transactions in the German market. This segment does not meet the quantitative thresholds for reportable segments in 2019 or 2018.

The Group has initially applied IFRS 16 as from 1 January 2019. The impact on the Group's other expenses, depreciation and finance costs (and thus the effect on EBITDA and EBIT) are outlined in Note 3.1. Comparative information is not restated and continues to be reported under IAS 17 and IFRIC 4.

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.

8 OPERATING SEGMENTS (Continued)

8.1 INFORMATION ABOUT REPORTABLE SEGMENTS

31 December 2019	Licensing	Processing	Total reportable segments	All other segments	Total
	€	€	€	€	€
External revenues *	13,569,801	8,529,920	22,099,721	-	22,099,721
Inter-segment revenues	5,274,336	675,758	5,950,094	-	5,950,094
Segment revenues	18,844,137	9,205,678	28,049,815	-	28,049,815
Finance income	57,038	329	57,367	-	57,367
Finance expense	(146,760)	(32,566)	(179,326)	-	(179,326)
Depreciation and amortisation	(1,579,380)	(363,350)	(1,942,730)	-	(1,942,730)
Movement in provision for impairment loss on receivables	74,877	(114,391)	(39,514)	-	(39,514)
Movement in amounts written off	(33,517)	-	(33,517)	-	(33,517)
Reportable segment profit/(loss) before income tax	1,904,754	(4,044,747)	(2,139,993)	(121,926)	(2,261,919)
Income tax expense	(968,554)	(120,270)	(1,088,824)	-	(1,088,824)
Reportable segment assets	28,888,780	10,996,451	39,885,231	181,319	40,066,550
Capital expenditure	151,582	306,311	457,893	-	457,893
Reportable segment liabilities	15,872,882	10,191,856	26,064,738	128,245	26,192,983

8 OPERATING SEGMENTS (Continued)

8.1 INFORMATION ABOUT REPORTABLE SEGMENTS (Continued)

31 December 2018	Licensing	Processing	Total reportable segments	All other segments	Total
	€	€	€	€	€
External revenues *	21,245,662	3,762,733	25,008,395	-	25,008,395
Inter-segment revenues	507,536	-	507,536	-	507,536
Segment revenues	21,753,198	3,762,733	25,515,931	-	25,515,931
Finance income	73,944	1,467	75,411	-	75,411
Finance expense	(73,576)	(42,452)	(116,028)	-	(116,028)
Depreciation and amortisation	(1,169,314)	(222,508)	(1,391,822)	-	(1,391,822)
Movement in provision for impairment loss on receivables	(9,216)	(27,691)	(36,907)	-	(36,907)
Movement in amounts written off	160,300	-	160,300	-	160,300
Reportable segment profit/(loss) before income tax	8,650,699	(2,232,393)	6,418,306	-	6,418,306
Income tax expense	(3,099,868)	(223,798)	(3,323,666)	-	(3,323,666)
Reportable segment assets	25,717,307	5,923,956	31,641,263	-	31,641,263
Capital expenditure	165,585	850,198	1,015,783	-	1,015,783
Reportable segment liabilities	9,178,059	5,722,736	14,900,795	-	14,900,795

8 OPERATING SEGMENTS (Continued)

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

	2019 €	2018 €
External Revenues		
Total revenue for reportable segments *	**28,049,815**	25,515,931
Elimination of inter-segment transactions	**(5,950,094)**	(507,536)
Consolidated revenue	**22,099,721**	25,008,395
Finance income		
Total finance income for reportable segments	**57,367**	75,411
Elimination of inter-segment transactions	**(26,243)**	(43,882)
Consolidated finance income	**31,124**	31,529
Finance expense		
Total finance expense for reportable segments	**179,326**	116,028
Elimination of inter-segment transactions	**(27,681)**	(43,881)
Consolidated finance expense	**151,645**	72,147
Depreciation and amortisation		
Total depreciation and amortisation for reportable segments	**1,942,730**	1,391,822
Elimination of inter-segment transactions	**(146,665)**	(146,667)
Consolidated depreciation and amortisation	**1,796,065**	1,245,155
(Loss)/Profit before income tax		
Total (loss)/profit before income tax for reportable segments	**(2,139,993)**	6,418,306
Loss before income tax for other segments	**(121,926)**	-
Elimination of inter-segment transactions	**146,663**	146,660
Consolidated reportable segment (loss)/profit before income tax	**(2,115,256)**	6,564,966
Assets		
Total assets for reportable segments	**39,885,231**	31,688,370
Assets for other segments	**181,319**	-
Elimination of computer software	**(1,210,003)**	(1,356,670)
Elimination of contract assets	**(6,041,322)**	(1,619,996)
Elimination of other inter-segment assets	**(1,003,170)**	(741,592)
Consolidated total assets	**31,812,055**	27,970,112
Liabilities		
Total liabilities for reportable segments	**26,064,738**	14,947,902
Liabilities for other segments	**128,245**	-
Elimination of inter-segment balances	**(2,398,367)**	(2,592,459)
Elimination of inter-segment accruals	**(5,762,218)**	(1,743,776)
Elimination of other inter-segment liabilities	**(305,521)**	126,260
Consolidated total liabilities	**17,726,877**	10,737,927

Assets allocated to reportable segments exclude the BankWORKS® licence held by the subsidiary and any contract assets recognised in relation to services provided between licensing and processing segments. Likewise, the Group liabilities exclude accruals, inter-segment balances and inter-segment liabilities.

* In 2018, this includes the release of deferred income as at 1 January 2018, amounting to €5.6m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

8 OPERATING SEGMENTS (Continued)

8.3 GEOGRAPHICAL INFORMATION

In presenting information for the Group on the basis of geographical segments, revenue is based on the geographical location of its customers. Segment assets are based on the geographical location of the assets.

	Revenues €	Non-current assets €
31 December 2019		
Malta	**130,527**	**14,160,515**
UK and Ireland	**11,737,177**	**-**
USA	**4,827,587**	**4,129,854**
Other countries	**5,404,430**	**2,444,757**
	22,099,721	**20,735,126**
31 December 2018		
Malta	473,149	13,711,810
UK and Ireland *	19,692,750	-
USA	-	2,544,004
Other countries	4,842,496	605,155
	25,008,395	16,860,969

* Includes the release of deferred income amounting to €5.6m as detailed in Notes 8.2 and 22.

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

8.4 MAJOR CUSTOMERS

For the year ended 31 December 2019, revenues from two (2018: two) major customers of the licensing segment amounted to €4,479,595 and €5,052,542 (2018: €14,179,647* and €4,066,970) of the Group's total revenues.

* Includes the release of deferred income amounting to €5.6m as detailed in Notes 8.2 and 22.

9 PROPERTY, PLANT AND EQUIPMENT

9.1 THE GROUP

	Land and buildings €	Leasehold Improvements €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Cost					
Balance at 1 January 2018	7,885,316	1,353,905	3,363,437	197,432	12,800,090
Additions	43,230	48,962	923,591	-	1,015,783
Effects of movement in exchange rates	-	(123)	(24,774)	(118)	(25,015)
Balance at 31 December 2018	7,928,546	1,402,744	4,262,254	197,314	13,790,858
Balance at 1 January 2019	7,928,546	1,402,744	4,262,254	197,314	13,790,858
Additions	48,621	-	409,272	-	457,893
Impairment of asset	-	-	(736)	-	(736)
Effects of movement in exchange rates	-	1,301	17,690	1,258	20,249
Balance at 31 December 2019	7,977,167	1,404,045	4,688,480	198,572	14,268,264
Depreciation					
Balance at 1 January 2018	1,032,860	165,267	2,594,068	104,336	3,896,531
Depreciation for the year	107,123	62,801	316,107	39,347	525,378
Effects of movement in exchange rates	-	214	11,100	125	11,439
Balance at 31 December 2018	1,139,983	228,282	2,921,275	143,808	4,433,348
Balance at 1 January 2019	1,139,983	228,282	2,921,275	143,808	4,433,348
Depreciation for the year	104,068	69,991	420,639	18,291	612,989
Impairment of asset	-	-	(411)	-	(411)
Effects of movement in exchange rates	-	744	8,037	631	9,412
Balance at 31 December 2019	1,244,051	299,017	3,349,540	162,730	5,055,338
Carrying amounts					
At 1 January 2018	6,852,456	1,188,638	769,369	93,096	8,903,559
At 31 December 2018	6,788,563	1,174,462	1,340,979	53,506	9,357,510
At 31 December 2019	**6,733,116**	**1,105,028**	**1,338,940**	**35,842**	**9,212,926**

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

9.2 THE COMPANY

	Land and buildings €	Leasehold Improvements €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Cost					
Balance at 1 January 2018	7,885,317	1,330,722	2,302,994	175,034	11,694,067
Additions	43,230	-	122,356	-	165,586
Balance at 31 December 2018	7,928,547	1,330,722	2,425,350	175,034	11,859,653
Balance at 1 January 2019	7,928,547	1,330,722	2,425,350	175,034	11,859,653
Additions	48,621	-	102,962	-	151,583
Balance at 31 December 2019	7,977,168	1,330,722	2,528,312	175,034	12,011,236
Depreciation					
Balance at 1 January 2018	1,024,609	164,311	1,790,708	99,234	3,078,862
Depreciation for the year	107,122	55,271	214,192	34,981	411,566
Balance at 31 December 2018	1,131,731	219,582	2,004,900	134,215	3,490,428
Balance at 1 January 2019	1,131,731	219,582	2,004,900	134,215	3,490,428
Depreciation for the year	104,068	56,185	201,710	13,608	375,571
Balance at 31 December 2019	1,235,799	275,767	2,206,610	147,823	3,865,999
Carrying amounts					
At 1 January 2018	6,860,708	1,166,411	512,286	75,800	8,615,205
At 31 December 2018	6,796,816	1,111,140	420,450	40,819	8,369,225
At 31 December 2019	**6,741,369**	**1,054,955**	**321,702**	**27,211**	**8,145,237**

10 LEASES

This note provides information about lease agreements for which the Group is a lessee during 2019. These include:

10.1 An agreement for leased premises at Imġarr 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 terminate the concession only in case of specific reasons which hinder the Company's operations. Upon expiration of the emphyteutical grant, the emphyteutical site and any improvements thereon shall devolve on the Government without any obligation on the latter to compensate the Company.

10.2 An agreement with a computer hardware company to lease a server in relation to a combination of managed hosting services and a private cloud infrastructure. The agreement was for a three-year period commencing in September 2012. This was renewed in September 2015 and again in September 2018. It expired in April 2019 and was not renewed again.

10.3 An agreement for leased offices in Denver, USA. The lease is for a five-year term, commencing during 2016, lasting until March 2021 with an option for the lessee to renew for a further five-year term and to terminate subject to a notice in writing provided that the conditions of the contract agreement are satisfied.

10.4 An agreement for leased offices in Manila, Philippines. The lease was for a three-year period commencing during June 2016, and was subsequently renewed in June 2019 for another five-year term, lasting until June 2024. The renewal of this lease has been treated as a new lease in accordance with IFRS 16. The agreement includes an option to renew the lease term provided that both parties mutually agree on the new contract provisions. The lease may not be terminated prior to the lease termination date; however in so doing the lessee will be liable to penalties.

10.5 An agreement for a leased apartment in Mosta, Malta. The lease was for a two-year period commencing during June 2017, and was subsequently renewed in June 2019 for another two-year term, lasting until June 2021. The renewal of this lease has been treated as a new lease in accordance with IFRS 16. This agreement includes an option to renew or extend the lease term provided that both parties mutually agree. The lease can be terminated provided that the lessee gives one month's notice.

10.6 An agreement for leased offices in Neu-Isenburg, Germany. The lease is for a ten-year term, lasting until December 2028 with an extension clause that stipulates that if the tenancy is not terminated by either party at least six months before the end date, this is renewed again for a futher five-year term. Accordingly, the enforcebale period of this lease (and the lease term) is 10 years. This agreement was entered into on 1 January 2019.

In the comparative year, the aforementioned leases were classified as operating leases under IAS 17.

10 LEASES (Continued)

10.7 CURRENT YEAR

Upon adoption of IFRS 16, the Group applied the practical expedient applicable to short-term leases in paragraph 6 of IFRS 16 for the agreement which the Group was party with a computer hardware company to lease a server in relation to a combination of managed hosting services and a private cloud infrastructure. No ROU asset had therefore been recognised by the Group for this lease.

The following table presents the carrying amounts of the Group's and the Company's ROU assets recognised and the movements during the period:

	The Group €	The Company €
Land and buildings		
As at 1 January 2019 upon adoption of IFRS 16	761,057	504,357
Depreciation charge for the year	(391,093)	(35,742)
Additions to right-of-use assets	2,190,807	28,505
As at 31 December 2019	2,560,771	497,120

The following table presents the carrying amounts of the Group's and the Company's lease liabilities and the movements during the period:

	The Group €	The Company €
As at 1 January 2019 upon adoption of IFRS 16	731,505	495,748
Additions	2,190,807	28,505
Accretion of interest	66,569	13,912
Payments	(426,779)	(45,010)
As at 31 December 2019	2,562,102	493,155
Current	363,773	26,922
Non-current	2,198,329	466,233

The maturity analysis of lease liabilities is disclosed in Note 29.2.

The following are the amounts recognised in profit or loss for financial year ended 31 December 2019:

	The Group €	The Company €
Depreciation expense	391,093	35,742
Interest expense on lease liabilities	66,569	13,912
Expenses relating to short-term leases	163,879	-
Total amount recognised in profit or loss	621,541	49,654

The total cash outflow for leases amounted to €426,779 and €45,010 for the Group and the Company, respectively.

No variable lease payments exist as at 31 December 2019 with respect to the leases held by the Group and the Company.

No residual value guarantees apply with respect to the leases held by the Group and the Company as at 31 December 2019.

10 LEASES (Continued)

10.8 COMPARATIVE YEAR

During 2018, the Group and the Company were a party to a number of operating leases as described in Notes 10.1 to 10.5. The Group and the Company had the following non-cancellable payments for the financial year ended 31 December 2018:

	The Group €	The Company €
Less than one year	337,092	33,509
Between one and five years	238,212	113,634
More than five years	531,043	531,043
	1,106,347	678,186

The following amounts were recognised as administrative expenses in the statement of comprehensive income for the financial year ended 31 December 2018 in respect of these operating leases:

	The Group €	The Company €
Operating lease expense	706,395	36,026

11 INTANGIBLE ASSETS AND GOODWILL

11.1 THE GROUP

	Goodwill €	Internally generated computer software €	Software rights €	Other computer software €	Total €
Cost					
Balance at 1 January 2018	621,075	14,743,945	3,000,000	686,649	19,051,669
Additions	–	1,268,232	–	–	1,268,232
Effects of movement in exchange rates	29,453	–	–	32,563	62,016
Balance at 31 December 2018	650,528	16,012,177	3,000,000	719,212	20,381,917
Balance at 1 January 2019	650,528	16,012,177	3,000,000	719,212	20,381,917
Additions	–	1,137,503	–	1,086,112	2,223,615
Effects of movement in exchange rates	12,509	–	–	13,829	26,338
Balance at 31 December 2019	663,037	17,149,680	3,000,000	1,819,153	22,631,870
Amortisation					
Balance at 1 January 2018	–	10,933,681	1,225,000	–	12,158,681
Charge for the year	–	519,777	200,000	–	719,777
Balance at 31 December 2018	–	11,453,458	1,425,000	–	12,878,458
Balance at 1 January 2019	–	11,453,458	1,425,000	–	12,878,458
Charge for the year	–	591,983	200,000	–	791,983
Balance at 31 December 2019	–	12,045,441	1,625,000	–	13,670,441
Carrying amounts					
At 1 January 2018	621,075	3,810,264	1,775,000	686,649	6,892,988
At 31 December 2018	650,528	4,558,719	1,575,000	719,212	7,503,459
At 31 December 2019	**663,037**	**5,104,239**	**1,375,000**	**1,819,153**	**8,961,429**

11 INTANGIBLE ASSETS AND GOODWILL (Continued)

11.2 THE COMPANY

	Internally generated computer software €	Software rights €	Total €
Cost			
Balance at 1 January 2018	14,743,945	3,000,000	17,743,945
Additions	1,268,234	-	1,268,234
Balance at 31 December 2018	16,012,179	3,000,000	19,012,179
Balance at 1 January 2019	16,012,179	3,000,000	19,012,179
Additions	1,137,504	-	1,137,504
Balance at 31 December 2019	17,149,683	3,000,000	20,149,683
Amortisation			
Balance at 1 January 2018	10,933,681	1,225,000	12,158,681
Amortisation for the year	519,777	200,000	719,777
Balance at 31 December 2018	11,453,458	1,425,000	12,878,458
Balance at 1 January 2019	11,453,458	1,425,000	12,878,458
Amortisation for the year	591,983	200,000	791,983
Balance at 31 December 2019	12,045,441	1,625,000	13,670,441
Carrying amounts			
At 1 January 2018	3,810,264	1,775,000	5,585,264
At 31 December 2018	4,558,721	1,575,000	6,133,721
At 31 December 2019	**5,104,242**	**1,375,000**	**6,479,242**

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

11.4 The internally generated computer software, which is continually under development, is recognised annually and the relative amortisation is charged annually in line with the accounting policy in Note 4.6.6. The remaining amortisation period for the software rights amounts to 6 years 11 months (2018: 7 years 11 months).

11 INTANGIBLE ASSETS AND GOODWILL (Continued)

11.5 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL

Goodwill arose from the acquisition of 26% of the issued share capital of RS2 Software LLC (formerly Transworks LLC) in 2009. During 2014, the Company acquired a further 38.2% shareholding in RS2 Software LLC for $500,000. For the purposes of impairment testing of goodwill arising on the acquisition of RS2 Software LLC (now merged into RS2 Software INC.), the recoverable amount of the related CGU containing goodwill was based on its value-in-use and was determined by discounting the projected future cash flows to be generated from RS2 Software LLC. In 2018, RS2 Software LLC was merged into a newly formed company, RS2 Software INC., in which the Company held the same percentage holding that it held in RS2 Software LLC. For this purpose management prepared forecasts of net cash flows for the five-year period 2020 – 2024 (2018: five-year period 2019 - 2023) and applied growth rates for subsequent years.

11.5.1 PAST PERFORMANCE AND OUTLOOK

North America presents the largest market in the growing global payment industry. Electronic payment growth continues to benefit from secular trends. Mega-mergers in the card processing market have created a void of providers to serve ISOs, ISVs and PayFacs. Legacy players have blurred the value chain and operate patchworks of legacy platforms cobbled together through acquisitions and technology-oriented new entrants still focus on niche markets but creating massive shareholder value. RS2 Software INC. has adapted and certified RS2 p.l.c.'s proven BankWORKS® payment processing platform for the North American Market, activated its first BIN sponsorship and hired a core team.

RS2 Software INC. now offers a global, complete and modern cloud-based processing platform (issue/settle/acquire) for any form of payment (including crypto-currency), with rich functionality and API enablement. RS2 Software INC. is positioned as a service provider that enables innovators to create their own payment ecosystem. Focus is on filling the void created by mega-mergers: target customers are technical ISOs, ISVs, PayFacs and technology companies with merchant base. The core global platform has launched online processing in Q4 2019 and will expand to offline processing and acquiring in early 2020 while issuer and closed-loop processing will follow in late 2020. Initial target customers are wholesale online ISOs, ISVs and PayFacs.

11 INTANGIBLE ASSETS AND GOODWILL (Continued)

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

11.5.2 ASSUMPTIONS

There are a number of assumptions and estimates involved in calculating the present value of future cash flows from the Group's businesses, including management's expectations of:

- growth in forecast net cash flows, calculated as adjusted operating profit or loss before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- uncertainty of future technological developments;
- long-term growth rates; and
- discount rates to reflect the risks involved.

The key assumptions used in the calculation of the value-in-use of RS2 Software INC., being the forecasted net cash flows and the discount rate, used in a risk-adjusted cash flow forecast, are:

(i) Forecasted Pre-Tax Net Cash Inflows/(Outflows)*:

	2019 €	2020 €	2021 €	2022 €	2023 €	2024 €
31 December 2019 (risk-adjusted)	Not applicable	14,407	1,165,579	921,898	2,172,694	4,255,612
31 December 2018 (risk-adjusted)	(2,007,466)	(597,296)	2,791,594	3,070,754	3,555,326	Not applicable

The cash flow projections used to calculate value-in-use consider the above forecast net cash flows for five years and a terminal growth rate of 1.78% (2018: 1.62%). These projections comprise cash flow movements based on:

- revenue expected to be generated over the following five years, with growth being projected on the forecasted sales volumes and charges. Such revenue forecasts comprise the revenue potential of current leads and ongoing negotiations with prospective clients, as well as revenue expected from new targets. The percentage of total forecasted revenue expected to be generated in the next five years from currently negotiated business is as follows:

	2019	2020	2021	2022	2023	2024
31 December 2019	Not applicable	74%	62%	41%	30%	25%
31 December 2018	78%	30%	17%	17%	17%	Not applicable

11 INTANGIBLE ASSETS AND GOODWILL (Continued)

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

11.5.2 ASSUMPTIONS (Continued)

- expenses expected to be incurred to generate forecasted revenues. Such expenses mainly encompass wages and salaries for staff engaged in management, operations, sales and administration; operating costs including hosting and software related; consultancy fees, travelling and other ancillary expenses.

For both 2019 and 2018, the projection risk was reflected in the forecasted net cash (outflows)/inflows.

(ii) Discount rate*:

	2019	2018
Post-tax	**13.3%**	14.4%
Pre-tax	**16.1%**	17.6%

* The discount rate is a measure based on the US risk-free rate (based on US Government 30-year bond), industry specific risk rate and the estimated projection risk rate of the business initiative. The discount rate reflects the current market assessments of the time value of money and management's assessment of the risks specific to the projected cash flows.

11.5.3 TERMINAL GROWTH RATE

Cash flows beyond 2024 have been extrapolated using a terminal growth rate of 1.78% (2018: 1.62%). The terminal growth rate was determined based on management’s estimate of the long-term compounded annual cash flow growth rate, consistent with the assumption that a market participant would make.

11.5.4 ASSESSMENT

At Company level, the recoverable amount of RS2 Software INC. was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Software INC. at 31 December 2019 which stood at €9.9m (2018: €5.2m).

At Group level, the carrying amount of the CGU, which includes other computer software in relation to RS2 Software INC., amounts to €1.5m (2018: €1.1m), of which goodwill amounts to €0.7m (2018: €0.6m).

11 INTANGIBLE ASSETS AND GOODWILL (Continued)

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

11.5.4 ASSESSMENT (Continued)

In line with the outcome of such assessments, management is of the opinion that the investment in RS2 Software INC., both from a Company and a Group perspective, is not impaired. Based on management's assumptions, the RS2 Software INC.'s recoverable amount in the separate financial statements would exceed the carrying amount by approximately €1.6m after applying stress testing to the model (2018: €223k), based on reasonably possible changes.

The selection of assumptions and estimates by management involves significant judgement and changes in these assumptions could result in the determination of a recoverable amount which is materially different to the results obtained using the variables selected by the Company and may lead to an impairment loss being recognised. This is particularly so in respect to the discount rate, timing of cash flows and projected level of operations used in the cash flow projections. A change in management's assumptions could cause the carrying amount of the Company's investment in RS2 Software INC. to materially exceed the recoverable amount. The business plan is based on the management's expectation of the penetration of the US market. Should the annual cash inflows deteriorate from those originally projected for each year from 2020 to 2024 (2018: 2019 to 2023), then the carrying amount would exceed the recoverable amount, irrespective of whether such changes emanate from changes in revenue growth rates or changes in EBITDA growth rates. Such eventuality will also arise should the discount rate be increased as a result of a significant increase in the overall risk. The Company is providing sensitivity analysis in connection with the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the changes required for carrying amounts to equal the recoverable amounts and how they would be affected by such hypothetical changes in the assumptions, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The changes required for carrying amounts to equal recoverable amount in RS2 Software INC. are as follows:

i) Deterioration of annual cash flows brought about by decrease in cash inflows of 0.95% or an increase in cash outflows of 0.75% (2018: deterioration of annual net cash flows of 0.8%); and

ii) Increase of discount rate by 1.5% (2018: 1%).

12 INVESTMENTS IN SUBSIDIARIES

12.1

	THE COMPANY	
	2019	2018
	€	€
Balance at 1 January	**9,836,399**	6,819,753
Acquisitions	**175,000**	25,000
Contribution to subsidiaries	**4,303,046**	3,034,087
Discount unwind on accrued income receivable from subsidiary	**160,918**	(42,441)
Balance at 31 December	**14,475,363**	9,836,399

12.2 Contribution to subsidiaries are unsecured, interest free and represent capital contributions.

12.3

	Place of business	Ownership interest fully paid-up		Nature of business
		2019	2018	
		%	%	
RS2 Smart Processing Ltd	RS2 Buildings, Fort Road, Mosta MST1859 Malta	**99.99**	99.99	Transaction processing services with the use of BankWORKS®
RS2 Software INC	Twelfth floor, Suite No. 1285, South Ulster, Denver, Colorado USA	**64.20**	64.20	Transaction processing services with the use of BankWORKS®
RS2 Software LAC LTDA	Rua Manoel de Nóbrega Município de São Paulo Estado de São Paulo Brazil	**99.00**	99.00	Provision of support and other related services to the Company and its clients
RS2 Software APAC Inc	Unit 1501 AccraLaw Tower 2nd Avenue Corner 30th Street Bonifacio Global City Barangay Fort Bonifacio Taguig City 1634, Metro Manila Philippines	**99.99**	99.99	Provision of support and other related services to the Company and its clients
RS2 Germany GmbH	Martin-Behaim-Straße 12 63263 Neu-Isenburg Germany	**100.00**	100.00	Provision of support and other related services to the Company and its clients
RS2 Holding Europe GmbH	Martin-Behaim-Straße 12 63263 Neu-Isenburg Germany	**100.00**	-	Holding company

12 INVESTMENTS IN SUBSIDIARIES (Continued)

12.4 On 12 June 2009, the Company acquired control of RS2 Software LLC, a transaction processing company in the United States of America, by acquiring 26% of the shares and voting interests in the company. On 24 September 2014, the Company acquired a further 38.2% shareholding in RS2 Software LLC. On 16 February 2018, a new company, RS2 Software INC. was incorporated and the Company held 64.2% shareholding in it. The newly formed corporation merged with RS2 Software LLC on 28 March 2018. As further detailed in Note 30.1, in February 2018, the Group recruited a new CEO for its North American business. As disclosed in that note, the executive was granted 12,500 new shares in RS2 Software INC., with certain vesting conditions and restrictions. As further detailed in that note, in March 2019, the Group granted 5,626 share options to the management of the subsidiary with certain vesting conditions and restrictions. These arrangements are accounted for as a cash-settled arrangement and accordingly a corresponding liability is recognised in the Group financial statements. During the period in which such individuals will hold the shares, the Group's effective voting rights will be reduced accordingly.

As at 31 December 2019 issued ordinary share capital in RS2 Software INC. amounted to €1,398,576 (2018: €1,398,576). Loss for the year amounts to €4,361,902 (2018: €2,809,555) and the retained earnings reserve totals (€987,457) (2018: (€1,299,238)). The translation reserve of RS2 Software INC. comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to (€186,608) (2018: (€157,344)).

12.5 On 29 May 2012, the Company subscribed to and was allotted 1,200 shares in RS2 Smart Processing Ltd, a company registered in Malta, representing 99.99% of the share capital of this subsidiary. During 2015, RS2 Smart Processing Ltd increased its authorised share capital to 1,500,000 ordinary shares at a nominal value of €1.00 each. The increase in share capital was fully subscribed by the existing shareholders as at 31 December 2014 in a proportionate manner.

At Company level, the recoverable amount of RS2 Smart Processing Ltd was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Smart Processing Ltd at 31 December 2019 which stood at €2.9m (2018: €3.7m). The key assumptions used in the calculation of the value-in-use of RS2 Smart Processing Ltd are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

In a prior year, the Company entered into a contract with a subsidiary at favourable rates, thus giving rise to an additional cost of investment in the subsidiary and in interest income in the Company's statement of comprehensive income between the date of the contract and 31 December 2019. During this period, the Company also transferred the respective financing component to retained earnings through a reduction in the cost of investment in the subsidiary. Such transfers were considered to be immaterial in prior years. Given that this interest element represents an 'in-substance' capital contribution provided by the Company in its capacity as a parent undertaking, the Cost of Investment was reinstated (against retained earnings) during the current year.

As at 31 December 2019 issued ordinary share capital in RS2 Smart Processing Ltd amounted to €1,500,000 (2018: €1,500,000). Profit for the year amounts to €196,884 (2018: €353,364) and the retained earnings reserve totals (€1,510,085) (2018: (€1,706,969)). Other reserve relates to post-employment benefits to key management personnel amounting to €23,429 (2018: (€523)).

12 INVESTMENTS IN SUBSIDIARIES (Continued)

12.6 On 16 September 2015, the Company subscribed to and was allotted 3,465 shares in RS2 Software LAC LTDA, a company registered in Brazil, representing 99.00% of the share capital of this subsidiary.

As at 31 December 2019 issued ordinary share capital in RS2 LAC LTDA amounted to €789 (2018: €789). Profit for the year amounts to €10,567 (2018: loss for the year €16,645) and the retained earnings reserve totals (€38,281) (2018: (€48,848)). The translation reserve of RS2 LAC LTDA comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to €6,550 (2018: €6,124).

12.7 On 4 April 2016, the Company subscribed to and was allotted 55,745 shares of PhP100 each in RS2 Software APAC Inc., a company registered in the Philippines, representing 99.99% of the share capital of this subsidiary.

As at 31 December 2019 issued ordinary share capital in RS2 Software APAC Inc. amounted to €112,105 (2018: €112,105). Profit for the year amounts to €58,335 (2018: loss for the year €81,912) and the retained earnings reserve totals €383,563 (2018: €320,327). The translation reserve of RS2 APAC Inc. comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable and amounts to (€41,098) (2018: (€63,248)).

At Company level, the recoverable amount of RS2 Software APAC Inc. was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Software APAC Inc. at 31 December 2019 which stood at €1.1m (2018: €1.1m). The key assumptions used in the calculation of the value-in-use of RS2 Software APAC Inc. are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

12.8 On 2 February 2018, the Company subscribed to and was allotted 1 share equivalent to €25,000 in RS2 Germany GmbH, a company registered in Germany, representing 100.00% of the share capital of this subsidiary.

As at 31 December 2019 issued ordinary share capital in RS2 Germany GmbH amounted to €25,000 (2018: €25,000). Loss for the year amounts to €9,340 (2018: €34,349) and the retained earnings reserve totals €606,311 (2018: €615,651).

At Company level, the recoverable amount of RS2 Germany GmbH was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Germany GmbH at 31 December 2019 which stood at €0.7m (2018: €0.7m). The key assumptions used in the calculation of the value-in-use of RS2 Germany GmbH are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

12 INVESTMENTS IN SUBSIDIARIES (Continued)

12.9 On 1 November 2019, the Company subscribed to and was allotted 25,000 shares equivalent to €25,000 in RS2 Holding Europe GmbH, a company registered in Germany, representing 100.00% of the share capital of this subsidiary.

As at 31 December 2019, issued ordinary share capital in RS2 Holding Europe GmbH amounted to €25,000. Loss for the year and the retained loss reserve amounts to €121,926. Other reserves amount to €150,000.

At Company level, the recoverable amount of RS2 Holding Europe GmbH was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment in shares and advances to RS2 Holding Europe GmbH at 31 December 2019 which stood at €0.2m. The key assumptions used in the calculation of the value-in-use of RS2 Holding Europe GmbH are the forecasted net cash flows and the discount rate and any major fluctuations in these unobservable inputs may significantly impact the estimated recoverable amount and consequently, any excess of such amount over the carrying amount.

12.10 During 2015, a Parental Guarantee was entered into between the Company and a supplier which ensures the payments of any monetary obligations owed by one of the subsidiaries. As at the end of 2019, the guarantee amounted to €nil (2018: €131,565).

12.11 Other than as disclosed, there are no significant restrictions on the ability to access or use assets, and settle liabilities of the Group.

12.12 NON-CONTROLLING INTERESTS

RS2 Software INC.	2019	2018
NCI percentage	**35.80%**	35.80%
	€	€
Non-current assets	**2,982,685**	1,144,628
Current assets	**2,466,641**	129,546
Non-current liabilities	**(793,248)**	-
Current liabilities	**(4,431,568)**	(1,374,401)
Net assets	**224,510**	(100,227)
Net assets attributable to NCI	**80,375**	(35,881)
Adjustments:		
Share of capital contribution due to the Company	**(3,124,502)**	(1,454,986)
Adjustment upon elimination of investment in subsidiary	**133,367**	263,546
Amounts due to the Company	**(49,034)**	(49,034)
Amounts due to subsidiaries	**(10,150)**	(9,959)
Foreign currency translation reserve attributable to NCI	**(57,485)**	(36,132)
Other adjustments	**98,977**	(13,891)
Net assets attributable to other NCI	**789**	207
Net liabilities attributable to total NCI	**(2,927,663)**	(1,336,130)
Revenue	**4,302,492**	-
Loss	**(4,361,902)**	(2,809,555)
Total comprehensive loss	**(59,410)**	(2,809,555)
Loss attributable to NCI	**(21,269)**	(1,005,821)
Loss attributable to other NCI	**(1,548,910)**	(168)
Loss attributable to total NCI	**(1,570,179)**	(1,005,989)
Cash flows from operating activities	**(2,154,942)**	(1,688,236)
Cash flows from investing activities	**(1,797,016)**	(253,927)
Cash flows from financing activities (dividends to NCI: nil)	**4,595,641**	2,033,640
Net increase in cash and cash equivalents	**643,683**	91,477

13 OTHER INVESTMENT

13.1

	GROUP AND COMPANY	
	2019 €	2018 €
Non-current		
Financial investment	**217,105**	217,105

13.2 These 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. Under IFRS 9, the other investment is classified as an equity instrument designated at FVTOCI upon initial recognition.

14 TRADE AND OTHER RECEIVABLES

14.1

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Current				
Trade receivables owed by third parties	**2,778,811**	1,136,050	**615,741**	396,655
Trade receivables owed by subsidiaries	**-**	-	**1,351,798**	726,889
Trade receivables owed by other related parties	**976,242**	10,423	**976,242**	10,430
Other receivables	**434,207**	408,697	**4,824**	6,084
	4,189,260	1,555,170	**2,948,605**	1,140,058

14.2 Transactions with related parties are set out in Note 33 to these financial statements.

14.3 Trade receivables for the Group and the Company are shown net of impairment losses recognised during the year as disclosed in Note 23.4.

14.4 Information about the Group's exposure to credit and market risks for trade receivables is included in Note 29.

14.5 LOANS RECEIVABLE

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Non-current				
Loans receivable from parent company	**786,170**	775,722	**786,170**	775,722
Loans receivable from subsidiaries	**-**	-	**58,019**	34,870
	786,170	775,722	**844,189**	810,592
Current				
Amounts owed by other related parties	**137,938**	7,438	**6,444**	7,438
	137,938	7,438	**6,444**	7,438

14 TRADE AND OTHER RECEIVABLES (Continued)

14.6 Amounts due by parent company are secured and bear interest at the rate of 2% per annum.

14.7 Amounts due by subsidiaries and other related parties as at 31 December 2019 were unsecured, repayable on demand and did not bear any interest.

14.8 Transactions with related parties are set out in Note 33 to these financial statements.

14.9 The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 29.

15 ACCRUED INCOME AND CONTRACT COSTS

15.1

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Current				
Contract assets owed by third parties	**1,536,420**	3,080,782	**782,961**	2,690,864
Contract assets owed by parent company	**120,000**	120,000	**120,000**	120,000
Contract assets owed by subsidiary	**-**	-	**3,212,785**	474,344
Contract assets owed by other related parties	**302,815**	1,117,688	**302,815**	1,117,688
	1,959,235	4,318,470	**4,418,561**	4,402,896
Accrued income owed by subsidiary	**-**	-	**639,798**	286,541
Contract costs	**654,265**	335,072	**-**	-
	2,613,500	4,653,542	**5,058,359**	4,689,437

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Category of activity				
Licence fees excluding customisation	**313,556**	1,352,543	**304,169**	1,510,244
Service fees, transaction processing and customisation	**1,615,469**	2,842,349	**3,759,937**	2,537,737
Maintenance fees	**-**	13,139	**252,937**	247,228
Re-imbursement of expenses	**30,210**	110,439	**57,418**	107,687
Other recharges	**-**	-	**44,100**	-
	1,959,235	4,318,470	**4,418,561**	4,402,896
Accrued income	**-**	-	**639,798**	286,541
Contract costs	**654,265**	335,072	**-**	-
	2,613,500	4,653,542	**5,058,359**	4,689,437

15 ACCRUED INCOME AND CONTRACT COSTS (Continued)

15.2 Significant changes in the contract assets balances during the period are as follows:

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Balance at 1 January	**4,318,470**	939,029	**4,402,896**	1,024,306
Increases as a result of further progress	**884,230**	3,515,136	**3,722,635**	3,355,136
Release of opening contract assets to revenue	**(3,332,324)**	-	**(3,576,589)**	-
Other Movements	**88,859**	(135,695)	**(130,381)**	23,454
Balance at 31 December	**1,959,235**	4,318,470	**4,418,561**	4,402,896

15.3 The decrease in impairment loss during 2019 amounted to €40,000. The impairment loss of 2018 amounted to €25,000.

15.4 Transactions with related parties are set out in Note 33 to these financial statements.

15.5 CONTRACT COSTS

In relation to implementation and customisation which is followed by transaction processing services, the following applies: (a) where the fee is treated as an advance payment for future goods or services and is therefore recognised as revenue when those future goods or services are provided, the related costs are amortised on a straight-line basis over the period that the related future service is expected to be transferred to the customer; and (b) where the fee relates to a distinct performance obligation and that activity results in the transfer of a promised good or service to the customer, the related revenue and costs are recognised over the customisation period.

Other contract costs mainly relate to the deferral of costs incurred by the Group in relation to the provision of certain scoping and development services necessary for the implementation of pilot services in anticipation of a potential long-term strategic relationship with another party for the development and commercialisation of a customised processing and payments solution for use in the travel industry. During the performance of the scoping and development services, each of the two parties is required to bear its own cost, subject to the recovery of certain costs by the Group if such activity is terminated by the counterparty.

No amortisation of contract costs took place in 2019 and 2018 due to the fact that the related activities to which those contract costs relate had not commenced during these periods.

16 CASH AND CASH EQUIVALENTS

16.1

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Cash at bank	**2,416,380**	3,395,335	**1,136,295**	2,792,451
Cash in hand	**5,831**	7,637	**5,400**	6,493
	2,422,211	3,402,972	**1,141,695**	2,798,944

17 CAPITAL AND RESERVES

17.1 SHARE CAPITAL

	GROUP AND COMPANY	
	2019 No.	2018 No.
ISSUED SHARE CAPITAL		
Ordinary Shares		
On issue at 1 January - fully paid-up	**171,527,619**	171,527,619
Bonus issue	**21,440,950**	-
On issue at 31 December - fully paid-up	**192,968,569**	171,527,619

AUTHORISED SHARE CAPITAL

At 31 December 2019, the authorised share capital comprised 200,000,000 (2018: 200,000,000) ordinary shares at a nominal value of €0.06 each (2018: €0.06 each). On 20 June 2017, the Company resolved to re-designate the authorised share capital previously consisting of 166,666,667 Ordinary Shares of €0.06 each to 200,000,000 Ordinary Shares of €0.06 each.

SHAREHOLDER RIGHTS

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company. All shares rank equally with regards to the Company's residual assets.

17.2 SHARE PREMIUM

Share premium amounting to €1,077 (2018: €1,077) represents the balance of premium on issue of five million (5,000,000) ordinary shares of a nominal value of €0.20 each at a share price of €0.80 each. Share premium is shown net of transaction costs of €207,266 directly attributable to the issue of the ordinary shares. During the year ended 31 December 2017, the Company allotted 13,194,432 bonus shares (1 for every 12 held) approved by the AGM held on 20 June 2017 at a nominal value of €0.06 each, amounting to €791,666 out of its share premium reserve. During the year ended 31 December 2016, the Company allotted 5,000,000 bonus shares (1 for every 18 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During the year ended 31 December 2014, the Company allotted 2,500,000 bonus shares (1 for every 17 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2013, the Company allotted 2,500,000 bonus shares (1 for every 16 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2012, the Company allotted 2,499,956 bonus shares (1 for every 15 held) at a nominal value of €0.20 each, amounting to €499,991 out of its share premium reserve.

17 CAPITAL AND RESERVES (Continued)

17.3 RESERVES

17.3.1 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.

17.3.2 SHARE OPTION RESERVE

The share option reserve represents the fair value at grant date of the employees expense in respect of equity-settled share-based payments based on the vesting period.

17.3.3 OTHER RESERVE

The other reserve relates to share-based payments granted by the Company to its employees under its employee share-based payment arrangements.

17.3.4 FAIR VALUE RESERVE

The fair value reserve represents the cumulative gains and losses arising on the revaluation of equity investments at FVTOCI that have been recognised in other comprehensive income.

17.3.5 EMPLOYEE BENEFITS RESERVE

The employee benefits reserve includes non-competition post-employment benefits due to employees holding senior management positions as further disclosed in Note 28 to these financial statements.

17.4 RETAINED EARNINGS

During the year ended 31 December 2019, the Company allotted 21,440,950 bonus shares (1 for every 8 held) approved by the AGM held on 18 June 2019 at a nominal value of €0.06 each, amounting to €1,286,457 out of its retained earnings.

17.5 DIVIDENDS

The following dividends were declared and paid by the Company:

For the year ended 31 December	2019 €	2018 €
Dividend, net of income tax	-	2,504,303
Dividend per ordinary share	-	0.0146

The amount stated was being transferred out of the Company's Retained Earnings Reserve. Such dividends were distributed from profits earned by the Company which have been relieved from tax by investment tax credits in terms of Regulation 4(8)(a) of the Investment Aid Regulations and on allotment.

17 CAPITAL AND RESERVES (Continued)

17.6 AVAILABILITY OF RESERVES FOR DISTRIBUTION

The non-distributable reserves include the Share premium reserve, Employee benefits reserve, Fair value reserve, Other reserves and the Share option reserve.

18 BANK BORROWINGS

18.1

	GROUP AND COMPANY	
	2019 **€**	2018 €
Non-current liabilities		
Non-current portion of secured bank loan:		
Repayable between one and five years	**66,805**	199,820
At end of year	**66,805**	199,820
Current liabilities		
Current portion of secured bank loan	**3,912,653**	634,197

18.2 Bank borrowings represent the balances on three banking facilities. The first facility is repayable over a period of 5 years from the first drawdown, is repayable in full by 2 July 2020, and is subject to interest at the rate of 3% over the 3-month euribor rate. The second facility is repayable over a period of 7 years, is repayable in full by 12 May 2022 and is subject to interest at the rate of 3% over the 3-month euribor rate. The third facility is an overdraft facility used for working capital requirements in connection with routine business operations, repayable on demand at the Bank's discretion and is subject to interest at the rate of 2.7% over the 3-month euribor rate, floored at 0% per annum.

On 19 December 2019, the Company was sanctioned a loan used to finance the investment cost relating to the cost of acquisition of a merchant acquiring company based in Germany (see Note 34.1), repayable on demand at the Bank's discretion and is subject to interest at the rate of 2.7% over the 3-month euribor rate, floored at 0% per annum.

As at 31 December 2018, the Company's bank borrowings also included a facility repayable over a period of 10 years from the first drawdown, subject to interest at the rate of 2.5% over the 3-month euribor rate, as well as another facility repayable over a period of 5 years from the first drawdown, subject to interest at the rate of 3% over the 3-month euribor rate. Both facilities were fully repaid during financial year ended 31 December 2019.

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

18 BANK BORROWINGS (Continued)

18.4 As at 31 December 2019, the Group had undrawn overdraft facilities of €9,720,502 (2018: €1,000,000).

18.5 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 instrument.

The Group's exposure to liquidity and interest rate risks for financial assets and liabilities are disclosed in Note 29.

19 DEFERRED TAX ASSETS AND LIABILITIES

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

The Group	Assets		Liabilities		Balance	
	2019 €	2018 €	**2019 €**	2018 €	**2019 €**	2018 €
Property, plant and equipment	**-**	-	**(98,541)**	(110,425)	**(98,541)**	(110,425)
Intangible assets	**-**	-	**(2,090,993)**	(2,085,720)	**(2,090,993)**	(2,085,720)
Impairment loss on receivables	**51,472**	22,942	**-**	-	**51,472**	22,942
Provision for exchange fluctuations	**70,470**	76,663	**-**	-	**70,470**	76,663
Unabsorbed losses	**376,017**	376,017	**-**	-	**376,017**	376,017
Unabsorbed capital allowances	**303,193**	514,451	**-**	-	**303,193**	514,451
Temporary difference on expected credit losses under IFRS 9	**13,650**	28,350	**-**	-	**13,650**	28,350
Temporary difference on revenues previously recorded under IAS 18	**-**	172,785	**(63,513)**	-	**(63,513)**	172,785
Temporary difference on leases under IFRS 16	**4,091**	-	**-**	-	**4,091**	-
Tax assets/(liabilities)	**818,893**	1,191,208	**(2,253,047)**	(2,196,145)	**(1,434,154)**	(1,004,937)
Set off of tax	**(818,893)**	(1,191,208)	**818,893**	1,191,208	**-**	-
Net tax liabilities	**-**	-	**(1,434,154)**	(1,004,937)	**(1,434,154)**	(1,004,937)

19 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

19.1 DEFERRED TAX ASSETS AND LIABILITIES ARE ATTRIBUTABLE TO THE FOLLOWING: (Continued)

The Company	Assets		Liabilities		Balance	
	2019 €	2018 €	**2019 €**	2018 €	**2019 €**	2018 €
Property, plant and equipment	**-**	-	**(97,634)**	(109,054)	**(97,634)**	(109,054)
Intangible assets	**-**	-	**(1,667,493)**	(1,610,887)	**(1,667,493)**	(1,610,887)
Impairment loss on receivables	**1,869**	13,376	**-**	-	**1,869**	13,376
Provision for exchange fluctuations	**71,322**	76,674	**-**	-	**71,322**	76,674
Temporary difference on expected credit losses under IFRS 9	**13,650**	28,350	**-**	-	**13,650**	28,350
Temporary difference on revenues previously recorded under IAS 18	**229,087**	465,385	**-**	-	**229,087**	465,385
Temporary difference on leases under IFRS 16	**4,091**	-	**-**	-	**4,091**	-
Tax assets/(liabilities)	**320,019**	583,785	**(1,765,127)**	(1,719,941)	**(1,445,108)**	(1,136,156)
Set off of tax	**(320,019)**	(583,785)	**320,019**	583,785	**-**	-
Net tax liabilities	**-**	-	**(1,445,108)**	(1,136,156)	**(1,445,108)**	(1,136,156)

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

19.3 Deferred tax assets have not been recognised in respect of tax losses, until such time as more definitive information becomes available that sufficient tax profit will be available against which the Group can use the benefits therefrom. The movement in unrecognised deferred tax asset for the year amounted to €593,237 (2018: €883,830).

19 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

19.4 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

The Group	Balance 1 Jan 2018 €	Recognised in profit or loss €	Balance 31 Dec 2018 €	Balance 1 Jan 2019 €	Recognised in profit or loss €	Balance 31 Dec 2019 €
Property, plant and equipment	(125,274)	14,849	(110,425)	**(110,425)**	**11,884**	**(98,541)**
Intangible assets	(2,079,384)	(6,336)	(2,085,720)	**(2,085,720)**	**(5,273)**	**(2,090,993)**
Impairment loss on receivables	1,751	21,191	22,942	**22,942**	**28,530**	**51,472**
Provision for exchange fluctuations	85,444	(8,781)	76,663	**76,663**	**(6,193)**	**70,470**
Unabsorbed losses	376,017	-	376,017	**376,017**	**-**	**376,017**
Unabsorbed capital allowances	839,407	(324,956)	514,451	**514,451**	**(211,258)**	**303,193**
Temporary difference on expected credit losses under IFRS 9	36,750	(8,400)	28,350	**28,350**	**(14,700)**	**13,650**
Temporary difference on revenues recognised in line with IFRS 15	2,130,288	(1,957,503)	172,785	**172,785**	**(236,298)**	**(63,513)**
Temporary difference on leases under IFRS 16	-	-	-	**-**	**4,091**	**4,091**
	1,264,999	(2,269,936)	(1,004,937)	**(1,004,937)**	**(429,217)**	**(1,434,154)**

The Company	Balance 1 Jan 2018 €	Recognised in profit or loss €	Balance 31 Dec 2018 €	Balance 1 Jan 2019 €	Recognised in profit or loss €	Balance 31 Dec 2019 €
Property, plant and equipment	(126,974)	17,920	(109,054)	**(109,054)**	**11,420**	**(97,634)**
Intangible assets	(1,553,217)	(57,670)	(1,610,887)	**(1,610,887)**	**(56,606)**	**(1,667,493)**
Impairment loss on receivables	1,751	11,625	13,376	**13,376**	**(11,507)**	**1,869**
Provision for exchange fluctuations	85,159	(8,485)	76,674	**76,674**	**(5,352)**	**71,322**
Temporary difference on expected credit losses under IFRS 9	36,750	(8,400)	28,350	**28,350**	**(14,700)**	**13,650**
Temporary difference on revenues recognised in line with IFRS 15	2,466,521	(2,001,136)	465,385	**465,385**	**(236,298)**	**229,087**
Temporary difference on leases under IFRS 16	-	-	-	**-**	**4,091**	**4,091**
	909,990	(2,046,146)	(1,136,156)	**(1,136,156)**	**(308,952)**	**(1,445,108)**

20 TRADE AND OTHER PAYABLES

20.1

	THE GROUP		THE COMPANY	
	2019 **€**	2018 €	**2019** **€**	2018 €
Trade payables	**615,077**	547,588	**415,127**	424,460
Other payables	**141,362**	61,938	**-**	-
Dividends payable	**25,752**	25,835	**25,752**	25,835
Other taxes and social securities	**867,655**	781,563	**777,473**	721,780
Amounts due to other related parties	**54,551**	35,082	**244,437**	279,813
	1,704,397	1,452,006	**1,462,789**	1,451,888

20.2 Transactions with related parties are set out in Note 33 to these financial statements.

20.3 The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 29.

21 ACCRUALS AND DEFERRED INCOME

21.1 ACCRUALS

	THE GROUP		THE COMPANY	
	2019 **€**	2018 €	**2019** **€**	2018 €
Current				
Accrued expenses owed to third parties	**1,813,532**	1,208,419	**913,241**	569,698
Amounts due to other related parties	**-**	-	**174,188**	-
	1,813,532	1,208,419	**1,087,429**	569,698

21.2 DEFERRED INCOME

	THE GROUP		THE COMPANY	
	2019 **€**	2018 €	**2019** **€**	2018 €
Current				
Contract liabilities owed by third parties	**1,336,090**	1,507,023	**1,162,594**	1,423,223
Contract liabilities owed by subsidiary	**-**	-	**240,679**	38,616
Contract liabilities owed by other related parties	**500,422**	542,620	**500,422**	542,620
	1,836,512	2,049,643	**1,903,695**	2,004,459
Deferred income owed by subsidiary	**-**	-	**48,981**	47,107
	1,836,512	2,049,643	**1,952,676**	2,051,566

21 ACCRUALS AND DEFERRED INCOME (Continued)

21.2 DEFERRED INCOME (Continued)

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Category of activity				
Licence fees excluding customisation	**26,243**	550,828	**239,581**	584,161
Service fees, transaction processing and customisation	**317,890**	187,814	**171,738**	109,297
Maintenance fees	**1,432,879**	1,251,501	**1,432,876**	1,251,501
Comprehensive packages	**59,500**	59,500	**59,500**	59,500
	1,836,512	2,049,643	**1,903,695**	2,004,459
Deferred income	**-**	-	**48,981**	47,107
	1,836,512	2,049,643	**1,952,676**	2,051,566

Significant changes in the contract liabilities balances during the period are as follows:

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Balance at 1 January	**2,049,643**	7,818,322	**2,004,459**	7,661,345
Release of opening contract liabilities to revenue	**(626,146)**	(5,701,568)	**(626,146)**	(5,701,568)
Increases due to cash received, excluding amounts recognised as revenue during the year	**183,721**	(496,676)	**337,992**	(441,051)
Other movements	**229,294**	429,565	**187,390**	485,733
Balance at 31 December	**1,836,512**	2,049,643	**1,903,695**	2,004,459

22 REVENUE

22.1 DISAGGREGATION OF REVENUE

Revenue is stated after deduction of sales rebates and indirect taxes and comprises of revenue from contracts with customers.

In the following table, revenue is disaggregated by category of activity, primary geographical market and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

22.1.1	**Licensing**		**Processing**		**Total**	
Category of activity	**2019 €**	2018 €	**2019 €**	2018 €	**2019 €**	2018 €
Licence fees excluding customisation*	**1,034,527**	9,717,162	**-**	-	**1,034,527**	9,717,162
Service fees, transaction processing and customisation	**8,187,455**	7,836,644	**7,975,386**	3,636,131	**16,162,841**	11,472,775
Maintenance fees	**3,355,383**	2,824,197	**36,991**	29,138	**3,392,374**	2,853,335
Comprehensive packages	**714,000**	737,333	**-**	-	**714,000**	737,333
Re-imbursement of expenses	**278,436**	162,121	**517,543**	65,669	**795,979**	227,790
	13,569,801	21,277,457	**8,529,920**	3,730,938	**22,099,721**	25,008,395

The revenue recognised in the Group statement of comprehensive income during the year ended 31 December 2019 amounted to €4.8m in relation to implementation activities (without the sale of a licence) which are considered to be a distinct performance obligation resulting in the transfer of a promised good or service to the customer.

22.1.2	**Licensing**		**Processing**		**Total**	
Geographical markets	**2019 €**	2018 €	**2019 €**	2018 €	**2019 €**	2018 €
Europe*	**11,837,217**	20,433,937	**3,433,203**	3,506,882	**15,270,420**	23,940,819
Middle East	**925,356**	751,282	**118,316**	50,177	**1,043,672**	801,459
North America	**524,578**	-	**4,303,009**	-	**4,827,587**	-
South America	**-**	-	**159,568**	117,043	**159,568**	117,043
Asia	**282,650**	60,443	**515,824**	88,631	**798,474**	149,074
	13,569,801	21,245,662	**8,529,920**	3,762,733	**22,099,721**	25,008,395

22.1.3	**Licensing**		**Processing**		**Total**	
Timing of revenue recognition	**2019 €**	2018 €	**2019 €**	2018 €	**2019 €**	2018 €
Transferred at a point in time *	**-**	9,150,000	**-**	-	**-**	9,150,000
Transferred over time **	**13,569,801**	12,095,662	**8,529,920**	3,762,733	**22,099,721**	15,858,395
	13,569,801	21,245,662	**8,529,920**	3,762,733	**22,099,721**	25,008,395

2019 balances for processing fees include revenue from customised implementation during the period in the North American region.

* 2018 balances include the release of deferred income as at 1 January 2018, amounting to €5.6m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, was recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

** Where this relates to a licence that is not distinct from customised implementation, this refers to the period of customisation.

22 REVENUE (Continued)

22.2 CONTRACT BALANCES

The following table provides information about the Group and the Company's receivables, contract assets and contract liabilities from contracts with customers.

	THE GROUP		THE COMPANY	
	2019 **€**	2018 €	**2019** **€**	2018 €
Receivables, which are included in 'Trade and other receivables'	**4,189,260**	1,555,170	**2,948,605**	1,140,058
Contract assets	**1,959,235**	4,318,470	**4,418,561**	4,402,896
Contract liabilities	**(1,836,512)**	(2,049,643)	**(1,903,695)**	(2,004,459)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The contract liabilities primarily relate to the advance consideration received from customers, for which the revenue recognition criteria are not yet met.

22.3 The following tables include revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2019.

	THE GROUP			
	2020 **€**	**2021** **€**	**2022 and beyond** **€**	**Total** **€**
Licence fees	**194,751**	**-**	**-**	**194,751**
Services fees	**1,498,675**	**418,293**	**48,000**	**1,964,968**

	THE COMPANY			
	2020 **€**	**2021** **€**	**2022 and beyond** **€**	**Total** **€**
Licence fees	**194,751**	**300,000**	**480,000**	**974,751**
Services fees	**41,941**	**125,000**	**48,000**	**214,941**

22 REVENUE (Continued)

22.3 (Continued)

The following tables include revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at 31 December 2018.

	THE GROUP			
	2019 €	2020 €	2021 and beyond €	Total €
Licence fees	1,055,756	-	-	1,055,756
Services fees	190,118	151,150	772,373	1,113,641

	THE COMPANY			
	2019 €	2020 €	2021 and beyond €	Total €
Licence fees	1,055,756	60,000	580,000	1,695,756
Services fees	158,906	6,000	58,000	222,906

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less. The Group also does not disclose information about the remaining performance obligations that have a fixed amount and for which the Group has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph B16 of IFRS 15.

The above also excludes fees from transaction processing services that are recognised in terms of Note 4.14.3.

23 PROFIT BEFORE INCOME TAX

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

	2019 €	2018 €
Auditors' remuneration	**115,000**	41,075

The fees payable to the auditors of the subsidiaries in relation to audit services for 2019 amounts to €12,003 (2018: €13,738).

23.2 OTHER INCOME

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Realised operating exchange gains	**-**	-	**-**	11,966
Unrealised operating exchange gains	**22,931**	15,127	**34,516**	26,734
Other income	**36,075**	51,964	**29,808**	51,312
Dividend receivable	**5,415**	-	**5,415**	-
	64,421	67,091	**69,739**	90,012

During the year ended 31 December 2019, the Company was granted funds through schemes administered by Malta Enterprise, MITA and other government bodies. These schemes consist of both Maltese government schemes as well as schemes emanating from European Union funds. For 2019, grants amounted to €29,808 (2018: €51,312) which are captured as part of other income in the note above.

23.3 OTHER EXPENSES

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Realised operating exchange losses	**51,888**	4,462	**47,364**	-
Other expenses	**59,402**	8,487	**-**	10
	111,290	12,949	**47,364**	10

23 PROFIT BEFORE INCOME TAX (Continued)

23.4 IMPAIRMENT LOSS ON TRADE RECEIVABLES AND CONTRACT ASSETS

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Decrease in provision for impairment loss on trade receivables	**(32,877)**	-	**(32,877)**	-
Increase in provision for impairment loss on trade receivables	**114,391**	60,907	**-**	33,216
Reversal/increase of bad debts written off	**33,517**	(160,300)	**33,517**	(160,300)
Impairment loss on trade receivables	**(2,000)**	(49,000)	**(2,000)**	(49,000)
Impairment loss on contract assets	**(40,000)**	25,000	**(40,000)**	25,000
	73,031	(123,393)	**(41,360)**	(151,084)

23.5 EXPENSES BY NATURE

		THE GROUP		THE COMPANY	
	Note	**2019 €**	2018 €	**2019 €**	2018 €
Wages and salaries	27.1	**14,106,547**	10,548,644	**8,789,591**	7,407,139
Directors' emoluments	27.1	**918,917**	882,369	**798,917**	762,369
Non-competition benefits	27.1	**323,849**	38,338	**322,866**	29,797
Share-based arrangements	27.1	**311,278**	681,970	**100,000**	100,000
Subcontracted costs		**471,618**	1,695,615	**2,993,352**	2,251,197
Professional fees		**1,777,588**	1,321,712	**501,845**	353,102
Consultancy fees		**517,851**	407,126	**418,333**	329,273
Travelling expenses		**1,389,264**	856,360	**929,703**	668,226
Participation in fairs and seminars		**162,043**	129,961	**145,788**	129,960
Depreciation	9, 10	**1,004,082**	525,378	**411,313**	411,566
Amortisation	11	**791,983**	719,777	**791,983**	719,777
Impairment loss on trade receivables and contract assets	23.4	**73,031**	(123,393)	**(41,360)**	(151,084)
Other expenses		**2,310,827**	786,045	**138,103**	(78,985)
		24,158,878	18,469,902	**16,300,434**	12,932,337

23.6 As disclosed in Notes 8.2 and 22, in the comparative year, profit before tax includes the release of the deferred income at 1 January 2018 of €5.6m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

24 FINANCE COSTS AND INCOME

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Bank interest income	**625**	651	**296**	625
Interest on loans receivable	**10,447**	10,447	**10,447**	10,447
Discount unwind of trade receivable and accrued income	**-**	-	**26,243**	42,441
Change in fair value of interest rate swap	**18,180**	20,431	**18,180**	20,431
Other interest and similar income	**1,872**	-	**1,872**	-
Finance income	**31,124**	31,529	**57,038**	73,944
Bank interest expense	**(53,239)**	(64,825)	**(53,117)**	(64,805)
Other expenses	**(10,920)**	(5,233)	**(7,385)**	(5,193)
Non-operating unrealised exchange loss	**(20,917)**	(2,089)	**(19,228)**	(2,488)
Interest expense on lease liabilities	**(66,569)**	-	**(13,912)**	-
Finance costs	**(151,645)**	(72,147)	**(93,642)**	(72,486)
Net finance (costs)/income	**(120,521)**	(40,618)	**(36,604)**	1,458

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

25 INCOME TAX EXPENSE

25.1 RECOGNISED IN PROFIT OR LOSS

		THE GROUP		THE COMPANY	
Current tax expense	**Note**	**2019 €**	2018 €	**2019 €**	2018 €
Current tax charge for the year		**(658,534)**	(1,053,344)	**(647,466)**	(1,051,432)
Tax withheld in foreign jurisdictions		**-**	1,072	**-**	1,072
Withholding tax on interest received		**(50)**	(99)	**(44)**	(91)
Foreign tax charge for the year		**(1,023)**	(1,359)	**-**	-
Other movements		**-**	-	**(9,384)**	-
		(659,607)	(1,053,730)	**(656,894)**	(1,050,451)
Deferred tax expense					
Origination and reversal of temporary differences	19.4	**(429,217)**	(2,269,936)	**(308,952)**	(2,046,146)
Income tax expense		**(1,088,824)**	(3,323,666)	**(965,846)**	(3,096,597)

25 INCOME TAX EXPENSE (Continued)

25.2 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	
	2019 €	2018 €	**2019 €**	2018 €
(Loss)/Profit before tax	**(2,115,257)**	6,564,966	**2,452,698**	8,912,331
Income tax using the domestic income tax rate of 35%	**740,340**	(2,297,738)	**(858,444)**	(3,119,316)
Effect of tax rates in foreign jurisdictions	**17,504**	(23,438)	**-**	1,072
Tax effect of:				
Non-taxable income	**12,917**	32,938	**10,021**	32,941
Non-deductible expenses	**(1,095,732)**	(54,158)	**(109,050)**	(15,856)
Different tax rates on bank interest income	**59**	125	**59**	125
Depreciation charges not deductible by way of capital allowances	**(8,432)**	904	**(8,432)**	4,437
Unrecognised deferred tax assets on unrelieved tax losses	**(593,237)**	(987,429)	**-**	-
Elimination of intercompany transaction	**(162,243)**	5,130	**-**	-
Income tax expense	**(1,088,824)**	(3,323,666)	**(965,846)**	(3,096,597)

26 EARNINGS PER SHARE

The calculation of basic EPS at the respective reporting dates is calculated on the profit attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding during the year.

The EPS was derived by dividing the profit attributable to ordinary shareholders of the Group and the Company by 192,968,569 (2018: 171,527,619), being the equivalent weighted-average number of ordinary shares outstanding during the year.

During 2019, there was an increase in the number of ordinary shares held through a bonus issue (see Note 17). The calculation of EPS in 2019 had therefore been adjusted to be based on the revised number of shares held at the end of the respective year.

(Loss)/Earnings per share of the Group and the Company for the year ended 31 December 2019 amounted to (€0.008) and €0.008 respectively (2018: €0.022 and €0.030).

The effect on EPS upon the initial adoption of IFRS 16 on 1 January 2019 is disclosed in Note 3.1.

26 EARNINGS PER SHARE (Continued)

As disclosed in Notes 8.2 and 22, in the comparative year, profit before tax includes the release of the deferred income at 1 January 2018 of €3.64m (net of tax), representing revenues of €5.6m and deferred tax of €1.96m. Accordingly, the amount of €5.6m, which was already recognised in revenues prior to 1 January 2018 in terms of IAS 18, is recognised in revenues again in 2018 as a result of the adoption of IFRS 15.

27 PERSONNEL EXPENSES

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

		THE GROUP		THE COMPANY	
	Note	2019 €	2018 €	2019 €	2018 €
Directors' emoluments:					
Fees		**160,905**	173,340	**160,905**	173,340
Remuneration		**651,166**	601,774	**531,166**	481,774
Non-competition benefits	28	**3,933**	31,510	**2,950**	25,272
Indemnity insurance		**12,210**	12,210	**12,210**	12,210
Fringe benefits		**94,636**	95,045	**94,636**	95,045
Key management personnel emoluments:					
Remuneration		**1,672,339**	1,318,542	**759,102**	481,391
Non-competition benefits	28	**319,916**	6,828	**319,916**	4,525
Share-based arrangements	30	**272,377**	681,970	**100,000**	100,000
Fringe benefits		**13,287**	12,740	**7,930**	7,002
		3,200,769	2,933,959	**1,988,815**	1,380,559
Wages and salaries		**12,403,034**	8,645,913	**7,520,921**	6,427,447
Social security contributions		**599,857**	571,449	**501,638**	491,299
Share-based arrangements	30	**38,901**	-	**-**	-
		16,242,561	12,151,321	**10,011,374**	8,299,305

Personnel expenses incurred during the year include share-based arrangements. Other personnel expenses included in the above table are short-term in nature. Personnel expenses incurred during the year do not include long-term and termination benefits.

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

	THE GROUP		THE COMPANY	
	2019 No.	2018 No.	2019 No.	2018 No.
Operating	**246**	227	**187**	190
Management and administration	**71**	55	**49**	47
	317	282	**236**	237

28 POST-EMPLOYMENT BENEFITS

28.1 Non-competition post-employment benefits due to employees holding senior management positions are payable upon cessation based on an agreed fixed amount or the then applicable annual salary. Such benefits are commensurate to the non-compete clauses which bind personnel not to compete with the Company, or its subsidiaries, for periods ranging between one and three years. This liability is recognised in the statement of financial position and represents the present value of the defined benefit obligation as at 31 December 2019 based on the following:

i) Discount rate, determined by reference to market yields at the end of the reporting period. This discount rate is used to discount the liability to the net present value;

ii) The expectation of the respective employees' termination date; and

iii) The expected future salary growth in line with the Group's policies.

The discount rate is based on market yields arising on high-quality European Corporate Bonds. Such yields are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the estimated termination date. The Directors consider such rates to be an appropriate proxy to a high-quality corporate bond.

When estimating the expected years to retirement, the Directors considered the current age and the respective tenure of the key management personnel so far. It was concluded that a maximum term of 10 years, from 2016, is a more realistic time period to consider compared to other term periods.

A reasonable growth rate was used when determining the future salary growth rates to be deployed in the valuation model, which assumption took into account the general percentage increases of the more recent years and also the Group's budgeted projections.

The movement in the liability is as follows:

	THE GROUP		THE COMPANY	
Post-employment liabilities	**2019 €**	2018 €	**2019 €**	2018 €
Present value at 1 January	**2,529,916**	2,105,586	**1,923,907**	1,508,640
Recognised in profit or loss:				
Discount unwind	**4,736**	38,338	**3,753**	29,797
New post-employment benefits recognised during the year	**319,113**	-	**319,113**	-
Recognised in other comprehensive income:				
Remeasurement adjustment	**92,746**	385,992	**116,698**	385,470
Present value at 31 December	**2,946,511**	2,529,916	**2,363,471**	1,923,907

The remeasurement adjustment is as a result of financial actuarial losses resulting from an adjustment in the annual salary of certain executives. The new employment benefits recognised during 2019 relate to service costs for the employment of one of the executives.

28 POST-EMPLOYMENT BENEFITS (Continued)

28.1 (Continued)

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Non-current liabilities				
Employee benefits	**2,687,855**	1,836,524	**2,252,049**	1,812,485
Current liabilities				
Employee benefits	**258,656**	693,392	**111,422**	111,422

The post-employment benefit exposes the Group and the Company to the following risks:

i) Interest rate risk, since a decrease in market yield will increase the liability; and

ii) Longevity risk, since the longer the key management person remains in office the higher the liability.

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

	THE GROUP		THE COMPANY	
	2019	2018	**2019**	2018
Discount rates	**0.23% - 0.51%**	1.34% - 3.14%	**0.23% - 0.51%**	1.45% - 3.14%
Expected years to termination (weighted average)	**6.25 yrs**	8.1 yrs	**6.48 yrs**	8.37 yrs

The cost of providing for these post-employment benefits is determined using the projected unit credit method, with estimations being carried out at each reporting date. Due to the nature of the assumptions, in accordance with the provisions of IAS 19, the Group and the Company did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

28 POST-EMPLOYMENT BENEFITS (Continued)

28.1 (Continued)

The Group and the Company are providing sensitivity analysis in connection with the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the liability would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in the post-employment benefits obligation. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the net present value of the post-employment benefit obligation decreases by €145,918 (increases by €43,037) at Company level and €175,569 (increases by €49,985) at Group level.

- If the expected years to termination increases (decreases) by two years with all other assumptions held constant, the net present value of the post-employment benefit obligation decreases by €10,731 (increases by €10,798) at Company level and by €12,696 (increases by €12,772) at Group level.

- If the salaries of key management personnel increase (decrease) by an additional 1% over the budgeted increase with all other assumptions held constant, the net present value of the post-employment benefit obligation increases by €141,850 (decreases by €132,945) at Company level and by €172,344 (decreases by €161,714) at Group level.

29 FINANCIAL INSTRUMENTS

29.1 CREDIT RISK

29.1.1 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	
	2019 €	2018 €	**2019 €**	2018 €
Non-current assets				
Amounts receivable from related parties	**786,170**	775,722	**844,189**	810,592
	786,170	775,722	**844,189**	810,592
Current assets				
Trade and other receivables	**4,189,260**	1,555,170	**2,948,605**	1,140,058
Loans and receivables from related parties	**137,938**	7,438	**6,444**	7,438
Accrued income and contract costs	**2,613,500**	4,653,542	**5,058,359**	4,689,437
Cash at bank	**2,416,380**	3,395,335	**1,136,295**	2,792,451
	9,357,078	9,611,485	**9,149,703**	8,629,384

Further to the above, the Company's maximum credit exposure to the financial guarantee is disclosed in Note 12.10.

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

	Carrying Amount			
	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Non-current assets				
Europe	**786,170**	775,722	**786,170**	775,722
South America	**-**	-	**58,019**	34,870
	786,170	775,722	**844,189**	810,592
Current assets				
Europe	**3,286,208**	5,596,808	**7,320,245**	5,306,982
Middle East	**467,726**	221,532	**452,056**	211,486
South America	**145,544**	44,052	**-**	-
North America	**1,645,253**	180,000	**-**	167,282
Asia	**1,395,967**	173,758	**241,107**	151,183
	6,940,698	6,216,150	**8,013,408**	5,836,933

The above amounts include amounts due by the Group's and the Company's two major customers in the banking and payments industry as shown on the following page. Revenues from these customers are disclosed in Note 8.4.

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.1 EXPOSURE TO CREDIT RISK (Continued)

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Customers situated in Europe	**1,824,566**	3,409,053	**1,824,566**	3,409,053

29.1.2 IMPAIRMENT LOSSES

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

	THE GROUP			
	Gross 2019 €	**Impairment 2019 €**	Gross 2018 €	Impairment 2018 €
Not past due	**3,492,126**	**-**	700,003	-
31 days to 60 days	**142,693**	**-**	370,473	-
61 days to 90 days	**(280,099)**	**-**	174,842	-
Over 90 days	**1,917,711**	**159,063**	1,172,562	79,550
	5,272,431	**159,063**	2,417,880	79,550

	THE COMPANY			
	Gross 2019 €	**Impairment 2019 €**	Gross 2018 €	Impairment 2018 €
Not past due	**675,978**	**-**	148,295	-
31 days to 60 days	**116,905**	**-**	198,488	-
61 days to 90 days	**263,243**	**-**	92,173	-
Over 90 days	**2,760,453**	**17,341**	1,571,351	52,219
	3,816,579	**17,341**	2,010,307	52,219

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.2 IMPAIRMENT LOSSES (Continued)

The tables below detail, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on financial guarantee contracts.

	THE GROUP		THE COMPANY	
Bank balances	**2019 €**	2018 €	**2019 €**	2018 €
External rating grades				
AA - BBB-	**2,416,380**	3,395,335	**1,136,295**	2,792,451
Gross/net carrying amount at 31 December	**2,416,380**	3,395,335	**1,136,295**	2,792,451

	THE GROUP		THE COMPANY	
Loans receivable	**2019 €**	2018 €	**2019 €**	2018 €
Internal rating grades				
Performing [(1)]	**924,108**	783,160	**850,633**	818,030
Gross/net carrying amount at 31 December	**924,108**	783,160	**850,633**	818,030

	THE COMPANY	
Financial guarantee contract	**2019 €**	2018 €
Internal rating grades		
Performing [(1)]	**-**	131,565
Maximum exposure at 31 December	**-**	131,565

[(1)] The contracting party has a low risk of default and does not have any past due amounts (12m ECL).

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.2 IMPAIRMENT LOSSES (Continued)

THE GROUP

31 December 2019	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade debtors and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Internal rating grades			
Not in default - simplified model applied	1,824,567	4,362,928	-
in default	-	-	147,064
Gross carrying amount at 31 December 2019	1,824,567	4,362,928	147,064
Loss allowance at 31 December 2019	(1,000)	(38,000)	(147,064)
Net carrying amount at 31 December 2019	1,823,567	4,324,928	-

THE COMPANY

31 December 2019	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade debtors and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Internal rating grades			
Not in default - simplified model applied	7,128,642	277,524	-
in default	-	-	5,341
Gross carrying amount at 31 December 2019	7,128,642	277,524	5,341
Loss allowance at 31 December 2019	(1,000)	(38,000)	(5,341)
Net carrying amount at 31 December 2019	7,127,642	239,524	-

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.2 IMPAIRMENT LOSSES (Continued)

THE GROUP

31 December 2018	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade debtors and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Internal rating grades			
Not in default - simplified model applied	3,409,053	2,545,587	-
in default	-	-	65,550
Gross carrying amount at 31 December 2018	3,409,053	2,545,587	65,550
Loss allowance at 31 December 2018	(49,000)	(32,000)	(65,550)
Net carrying amount at 31 December 2018	3,360,053	2,513,587	-

THE COMPANY

31 December 2018	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade debtors and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Internal rating grades			
Not in default - simplified model applied	4,854,539	769,415	-
in default	-	-	38,219
Gross carrying amount at 31 December 2018	4,854,539	769,415	38,219
Loss allowance at 31 December 2018	(49,000)	(32,000)	(38,219)
Net carrying amount at 31 December 2018	4,805,539	737,415	-

Write-offs during the reporting period amounted to €33,517 (2018: €23,410). No reversals of write-offs happened during the year ended 31 December 2019 (2018: €160,300).

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.2 IMPAIRMENT LOSSES (Continued)

THE GROUP

31 December 2019	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade receivables and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Opening balance at 1 January 2019	49,000	32,000	65,550
Movement during the year	(48,000)	6,000	81,514
Closing balance 31 December 2019	**1,000**	**38,000**	**147,064**

THE COMPANY

31 December 2019	Lifetime ECL not-credit impaired		Lifetime ECL credit impaired
Trade receivables and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Opening balance at 1 January 2019	49,000	32,000	38,219
Movement during the year	(48,000)	6,000	(32,878)
Closing balance 31 December 2019	**1,000**	**38,000**	**5,341**

29 FINANCIAL INSTRUMENTS (Continued)

29.1 CREDIT RISK (Continued)

29.1.2 IMPAIRMENT LOSSES (Continued)

THE GROUP

31 December 2018	**Lifetime ECL not-credit impaired**		**Lifetime ECL credit impaired**
Trade receivables and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Balance at 31 December 2017 under IAS 39	160,300	-	5,003
Adjustment upon initial application of IFRS 9	-	105,000	-
Opening balance at 1 January 2018 under IFRS 9	160,300	105,000	5,003
Movement during the year	(111,300)	(73,000)	60,547
Closing balance 31 December 2018	49,000	32,000	65,550

THE COMPANY

31 December 2018	**Lifetime ECL not-credit impaired**		**Lifetime ECL credit impaired**
Trade receivables and contract assets	**Individual Impairments €**	**Collective Impairments €**	**Individual Impairments €**
Balance at 31 December 2017 under IAS 39	160,300	-	5,003
Adjustment upon initial application of IFRS 9	-	105,000	-
Opening balance at 1 January 2018 under IFRS 9	160,300	105,000	5,003
Movement during the year	(111,300)	(73,000)	33,216
Closing balance 31 December 2018	49,000	32,000	38,219

29 FINANCIAL INSTRUMENTS (Continued)

29.2 LIQUIDITY RISK

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

31 December 2019	Carrying amount €	Contractual Cash flows €	12 months or less €	1 - 2 years €	2 - 5 years €	More than 5 years €
The Group						
Secured bank loans	**3,979,458**	**(3,984,221)**	**(3,916,135)**	**(57,372)**	**(10,714)**	**-**
Interest rate swap	**9,497**	**(8,410)**	**(7,846)**	**(564)**	**-**	**-**
Accrued expenses	**1,813,532**	**(1,813,532)**	**(1,813,532)**	**-**	**-**	**-**
Trade and other payables	**1,704,397**	**(1,704,397)**	**(1,704,397)**	**-**	**-**	**-**
Post-employment benefits	**2,946,511**	**(2,749,648)**	**(528,746)**	**-**	**-**	**(2,220,902)**
Lease liabilities	**2,562,102**	**(2,880,987)**	**(422,813)**	**(339,539)**	**(888,706)**	**(1,229,929)**
	13,015,497	**(13,141,195)**	**(8,393,469)**	**(397,475)**	**(899,420)**	**(3,450,831)**
The Company						
Secured bank loans	**3,979,458**	**(3,984,221)**	**(3,916,135)**	**(57,372)**	**(10,714)**	**-**
Interest rate swap	**9,497**	**(8,410)**	**(7,846)**	**(564)**	**-**	**-**
Accrued expenses	**1,087,429**	**(1,087,429)**	**(1,087,429)**	**-**	**-**	**-**
Trade and other payables	**1,462,789**	**(1,462,789)**	**(1,462,789)**	**-**	**-**	**-**
Post-employment benefits	**2,363,471**	**(2,118,604)**	**(381,512)**	**-**	**-**	**(1,737,092)**
Lease liabilities	**493,155**	**(642,814)**	**(40,409)**	**(28,409)**	**(88,067)**	**(485,929)**
	9,395,799	**(9,304,267)**	**(6,896,120)**	**(86,345)**	**(98,781)**	**(2,223,021)**

31 December 2018	Carrying amount €	Contractual Cash flows €	12 months or less €	1 - 2 years €	2 - 5 years €	More than 5 years €
The Group						
Secured bank loans	834,017	(852,162)	(647,584)	(136,560)	(68,018)	-
Interest rate swap	27,677	(25,173)	(16,764)	(7,846)	(563)	-
Accrued expenses	1,208,419	(1,208,419)	(1,208,419)	-	-	-
Trade and other payables	1,452,006	(1,452,006)	(1,452,006)	-	-	-
Post-employment benefits	2,529,916	(2,790,310)	(381,512)	-	-	(2,408,798)
	6,052,035	(6,328,070)	(3,706,285)	(144,406)	(68,581)	(2,408,798)
The Company						
Secured bank loans	834,017	(852,162)	(647,584)	(136,560)	(68,018)	-
Interest rate swap	27,677	(25,174)	(16,764)	(7,846)	(564)	-
Accrued expenses	569,698	(569,698)	(569,698)	-	-	-
Trade and other payables	1,451,888	(1,451,888)	(1,451,888)	-	-	-
Post-employment benefits	1,923,907	(2,118,604)	(381,512)	-	-	(1,737,092)
	4,807,187	(5,017,526)	(3,067,446)	(144,406)	(68,582)	(1,737,092)

29 FINANCIAL INSTRUMENTS (Continued)

29.3 CURRENCY RISK

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

	2019							
	NZD	**SGD**	**PHP**	**USD**	**JOD**	**BRL**	**GBP**	**CAD**
The Group								
Trade receivables	**249,419**	**-**	**18,067,910**	**2,094,578**	**-**	**198,194**	**894,417**	**38,626**
Accrued income	**218,476**	**-**	**-**	**514,290**	**-**	**-**	**257,035**	**-**
Cash at bank	**100**	**-**	**177,346**	**1,189,299**	**-**	**7,461**	**92,147**	**432**
Trade payables	**-**	**(7,811)**	**(619,703)**	**(250,835)**	**(2,441)**	**(13,894)**	**(2,220)**	**-**
Deferred income	**(42)**	**-**	**-**	**(275,925)**	**-**	**-**	**(427,016)**	**(2,000)**
Gross statement of financial position exposure	**467,953**	**(7,811)**	**17,625,553**	**3,271,407**	**(2,441)**	**191,761**	**814,363**	**37,058**
The Company								
Trade receivables	**-**	**-**	**-**	**779,813**	**-**	**13,894**	**723,417**	**-**
Accrued income	**-**	**-**	**-**	**2,600,062**	**-**	**-**	**257,035**	**-**
Cash at bank	**-**	**-**	**-**	**268,811**	**-**	**-**	**46,187**	**-**
Trade payables	**-**	**-**	**(138,645)**	**(142,533)**	**(2,441)**	**-**	**(2,220)**	**-**
Deferred income	**-**	**-**	**-**	**(185,214)**	**-**	**-**	**(427,016)**	**-**
Gross statement of financial position exposure	**-**	**-**	**(138,645)**	**3,320,939**	**(2,441)**	**13,894**	**597,403**	**-**

	2018				
	PHP	**USD**	**JOD**	**BRL**	**GBP**
The Group					
Trade receivables	7,030,078	389,605	-	1,155	1,946
Accrued income	-	212,340	-	-	966,431
Cash at bank	397,887	194,168	-	39,637	509,792
Trade payables	(898,862)	(233,397)	-	(12,577)	(24,043)
Deferred income	-	(745,108)	-	-	(484,676)
Gross statement of financial position exposure	6,529,103	(182,392)	-	28,215	969,450
The Company					
Trade receivables	-	389,605	-	13,732	1,946
Accrued income	-	212,236	-	-	966,431
Cash at bank	-	402,309	-	-	509,792
Trade payables	36,615	(229,243)	-	-	(24,043)
Deferred income	-	(744,503)	-	-	(484,676)
Gross statement of financial position exposure	36,615	30,404	-	13,732	969,450

29 FINANCIAL INSTRUMENTS (Continued)

29.3 CURRENCY RISK (Continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	**2019**	2018
NZD 1	**0.5883**	0.5860	**0.6005**	0.5863
SGD 1	**0.6548**	0.6279	**0.6618**	0.6414
USD 1	**0.8933**	0.8468	**0.8902**	0.8734
JOD 1	**1.2595**	1.1943	**1.2564**	1.2262
BRL 1	**0.2266**	0.2321	**0.2214**	0.2250
PHP 1	**0.0172**	0.0161	**0.0176**	0.0166
GBP 1	**1.1392**	1.1303	**1.1754**	1.1179
CAD 1	**0.6732**	0.6539	**0.6850**	0.6408

SENSITIVITY ANALYSIS

A 10 percent strengthening of the Euro against the following currencies as 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 2018.

	THE GROUP		THE COMPANY	
	Equity €	Profit or loss €	Equity €	Profit or loss €
31 December 2019				
NZD	**(576,208)**	**(576,208)**	**-**	**-**
SGD	**517**	**517**	**517**	**517**
USD	**(291,206)**	**(291,206)**	**(295,615)**	**(295,615)**
JOD	**307**	**307**	**307**	**307**
BRL	**(4,243)**	**(4,243)**	**(295)**	**(295)**
PHP	**(30,976)**	**(30,976)**	**244**	**244**
GBP	**(95,717)**	**(95,717)**	**(70,217)**	**(70,217)**
CAD	**(34,122)**	**(34,122)**	**-**	**-**
31 December 2018				
USD	(23,575)	(23,575)	(2,655)	(2,655)
BRL	(636)	(636)	(310)	(310)
PHP	(10,861)	(10,861)	(61)	(61)
GBP	(108,375)	(108,375)	(108,375)	(108,375)
CAD	(17,759)	(17,759)	-	-

A 10 percent weakening of the Euro against the above currencies as at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

29 FINANCIAL INSTRUMENTS (Continued)

29.4 INTEREST RATE RISK

29.4.1 PROFILE

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

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Fixed rate instruments				
Financial assets	**786,170**	775,722	**786,170**	775,722
Variable rate instruments				
Financial assets	**2,416,380**	3,395,335	**1,136,295**	2,792,452
Financial liabilities	**(3,988,955)**	(861,694)	**(3,988,955)**	(861,694)
	(1,572,575)	2,533,641	**(2,852,660)**	1,930,758

29.4.2 INTEREST RATE RISK

The Group is exposed to interest rate risk on its financial instruments arising from movements in the Bank's 3-month euribor rate. Part of this interest rate risk exposure is hedged through the use of an interest rate swap.

29.4.3 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 in the following page. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2018.

29 FINANCIAL INSTRUMENTS (Continued)

29.4 INTEREST RATE RISK (Continued)

29.4.3 CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS (Continued)

THE GROUP

	Profit or loss		Equity	
	100 bp increase €	**100 bp decrease €**	**100 bp increase €**	**100 bp decrease €**
31 December 2019				
Variable rate instruments	**(12,770)**	**22,018**	**(12,770)**	**22,018**
31 December 2018				
Variable rate instruments	35,114	(28,786)	35,114	(28,786)

THE COMPANY

	Profit or loss		Equity	
	100 bp increase €	**100 bp decrease €**	**100 bp increase €**	**100 bp decrease €**
31 December 2019				
Variable rate instruments	**(25,571)**	**9,179**	**(25,571)**	**9,179**
31 December 2018				
Variable rate instruments	29,085	(22,757)	29,085	(22,757)

29.5 FAIR VALUES

29.5.1 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. Derivative financial instruments are carried at fair value.

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

The basis for determining fair value is disclosed in Note 6.

29 FINANCIAL INSTRUMENTS (Continued)

29.6 MEASUREMENT OF FAIR VALUES

29.6.1 FAIR VALUES HIERARCHY

The fair value measurement for 'Other investment' have been categorised as Level 3 fair values based on the inputs to the valuation techniques used. Bank borrowings and derivatives have been categorised as Level 2 fair values.

The key assumptions used in the calculation of the equity value of the other investment are the forecasted net cash flows and the discount rate which are used in a risk-adjusted cash flow forecast. The forecasted pre-tax net cash inflows range from €2.8m to €5.4m, with the discount rate used being 13.3%.

For the 'Other investment' in Note 13, the Group and the Company are providing sensitivity analysis in connection with the key assumption applied. This analysis is prepared at the end of the reporting period and shows how the investment would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in the value of the investment. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The fair value of such investment was calculated using the discounted cash flow method which served as the basis to determine the equity value of this investment at the end of the reporting period.

- If the discount rate is 100 basis points higher/(lower) with all other assumptions held constant, the equity value of this investment decreases by €15,461 (increases by €17,919). The higher the discount rate, the lower the fair value.

- If the revenue growth rate is 100 basis points higher/(lower) with all other assumptions held constant, the equity value of this investment increases by €12,653 (decreases by €10,866). The higher the growth rate, the higher the fair value.

30 SHARE-BASED PAYMENT ARRANGEMENTS

30.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS

At 31 December 2019, the Group had the following share-based payment arrangements:

RS2 employee share option scheme (equity-settled)

An RS2 Employee Trust was set up during the year ended 31 December 2010 to purchase and hold 750,000 ordinary shares in the Company in order to satisfy the future exercise of options by employees in accordance with the scheme.

The number of shares in respect of which share options were granted under the Scheme in a three (3) year period is limited to 2% of the issued share capital of the Company (850,000 shares), and options are exercisable at any time up to eight (8) years from the date on which the options are granted.

The scheme was implemented during 2011, being the first year of performance, and 2013, being the last year of performance.

Performance-related share-based payment (equity-settled)

During 2017, the Company recruited a new member of senior management personnel (referred to as 'key management personnel' in Note 27). His contract stipulates that, provided the employee has reached the Performance Targets linked to Net Profit for each of the three consecutive calendar years commencing from the date of commencement of employment, the Company may in its absolute discretion, grant to the Employee a one-time assignment of shares. The Company is accruing for the eventuality of such settlement over the period that the Performance Targets need to be met so as to have a full provision for this amount by the end of the three year period.

The share-based payment recorded during the year by the Group and the Company with respect to key management personnel amounted to €100,000 (2018: €100,000). No share-based payments are recorded during the year with respect to share-based payments to directors.

Performance-related share-based payment (cash-settled)

In terms of an agreement entered into in February 2018, an executive (referred to as 'key management personnel' in Note 27) of RS2 Software INC. was granted 12,500 new shares in the subsidiary (the 'Award shares'), with certain vesting conditions and restrictions. In terms of the agreement, upon transfer of the Award shares to the individual, the latter obtained all the rights of a shareholder, including the right to vote and to receive any dividends with respect to such shares, provided however that the individual may not sell, transfer, pledge or assign unvested Award shares.

The Award shares shall vest monthly in equal instalments over a service period of 36 months with an accelerated vesting upon a Change of Control Event during the vesting period and with the requirement to forfeit all Award Shares (whether vested or unvested) in the case of termination or resignation during a fixed specified period from the date of grant.

30 SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

30.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

The arrangement also includes the right by the company to repurchase and the right by the executive to sell the vested Award shares at fair market value in the case of termination or resignation happening after the expiration of a fixed specified period.

In terms of agreements entered into in March 2019, management of RS2 Software INC. were granted 5,626 share options in the subsidiary (the 'share options'), with certain vesting conditions. In terms of the agreement, upon vesting of the share options, the participant may exercise all or a portion of the options vested to the extent of the shares vested.

The share options shall vest to 75% after not less than three but not more than four years of continued service completed since the grant date and to 100% after not less than three years of continued service completed since the grant date. Options will become fully exercisable and vested as of the time of a Change in Control with the requirement to forfeit share options (vested and unvested) in the case of termination for cause. Upon termination, all shares issued upon exercise of the options shall be subject to a call option by the company to repurchase at fair market value. Based on the terms of the contracts, it is concluded that the company has a present obligation to settle in cash, hence their classification as cash-settled share-based payment arrangements.

The expense recognised in profit or loss during 2019 amounted to €211,278 (2018: €581,970) and the corresponding liability at year end amounted to €793,248 (2018: €581,970), which was computed on the graded vesting approach. In respect of the executive, 91% (2018: 49%) of the Award shares were vested by 31 December 2019. In respect of the share options, 23% were vested by 31 December 2019.

The key assumptions used in the calculation of the value of the cash-settled share-based awards are the forecasted net cash flows and the discount rate which are used in a risk-adjusted cash flow forecast. The forecasted pre-tax net cash flows range from net cash inflows of €14k (2018: net cash outflows of €2m) to net cash inflows of €4.3m (2018: €3.6m), with the discount rate used being 13.3% (2018: 14.4%).

The Group is providing sensitivity analysis in connection with the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the liability would be affected by such hypothetical changes in the assumptions that were reasonably possible at that date, while holding all other assumptions constant. The below sensitivity is for illustrative purposes only and may not be representative of the actual changes in this shared-based payment obligation. This is due to the fact that it is unlikely that a change in assumptions would occur in isolation of one another. The present value of such liability was calculated using the projected unit credit method at the end of the reporting period.

- If the discount rate is 100 basis points higher/(lower) with all other assumptions held constant, the net present value of the share-based payment obligation decreases by €201,995 (increases by €242,707).
- If the revenue growth rate is 100 basis points higher/(lower) with all other assumptions held constant, the net present value of the share-based payment obligation increases by €176,615 (decreases by €148,357).

30 SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

30.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS (Continued)

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Non-Current liabilities				
Share-based payments	**277,104**	581,970	**-**	-
Current liabilities				
Share-based payments	**516,144**	-	**-**	-

The share-based payment liability at the end of the comparative period was reclassified accordingly to non-current in the statement of financial position in line with the terms and conditions of the arrangements.

30.2 OUTSTANDING SHARE OPTIONS

There were 146,220 (2018: 157,248) share options outstanding at 31 December 2019.

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Current liabilities				
Share-based payments	**793,248**	581,970	**-**	-

31 CAPITAL COMMITMENTS

The Group and the Company have no capital commitments in 2020. Capital commitments in 2019 amount to €122,271 relating to hardware for an application development in the US for US customers.

32 CONTINGENCIES

A contingent liability may arise on certain claims against the Group on warranties arising in the ordinary course of the Group's business. Based on historical facts, the likeliness of any future warranty claims is deemed to be remote and thus not require to be disclosed.

33 RELATED PARTIES

33.1 PARENT AND ULTIMATE CONTROLLING PARTY

The Company is owned up to 50.04% by Information Technology Management Holding Limited ("ITM"), a local registered company, the registered office of which is 66, Old Bakery Street, Valletta, Malta. The ultimate parent company of the Group is RS2 Holding GmbH, a company registered in Germany. In his capacity as ultimate shareholder of ITM, Radi Abd El Haj indirectly holds 50.04% of the issued share capital of the Company.

33 RELATED PARTIES (Continued)

33.2 IDENTITY OF RELATED PARTIES

The Company has a related party relationship with its parent company, its subsidiaries, the Company's key management personnel (including its Directors and the Company's senior management), and entities in which the Directors or their immediate relatives have an ownership interest and management entities that provide key management personnel services to the Group ("other related parties"). The compensation of such management entities amount to €45,583 (2018: €49,211) and is included in the table below as part of the legal and administrative services.

The Company uses the legal services of GTG Advocates in relation to advice given to the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The Company also uses consultancy services by one of the Directors amounting to €49,046 (2018: €50,593).

Directors of the Company hold directly and indirectly 51.70% (2018: 51.70%) of the voting shares of the Company.

33.3 RELATED PARTY TRANSACTIONS

	THE GROUP		THE COMPANY	
	2019 €	2018 €	**2019 €**	2018 €
Key management personnel				
Dividend paid to	**-**	41,428	**-**	41,428
Parent company				
Interest charged to	**10,447**	10,447	**10,447**	10,447
Dividend paid to	**-**	1,253,232	**-**	1,253,232
Subsidiaries				
Support services provided to			**5,274,336**	507,536
Support services provided by			**(2,541,036)**	(477,852)
Recharge of salaries to			**1,121,506**	719,134
Recharge of overheads to			**226,096**	209,195
Recharge of salaries by			**172,696**	142,788
Other related parties				
Depreciation charge on right-of-use asset	**172,003**	-	**-**	-
Interest expense on lease liability	**26,099**	-	**-**	-
Dividend paid to	**-**	457,036	**-**	457,036
Legal and administrative services provided by	**126,579**	146,167	**80,996**	96,956
Support services provided by	**-**	1,228,263	**-**	1,228,263
Support services provided to	**5,052,542**	3,251,369	**5,052,542**	3,251,369
Support services not yet invoiced provided by	**14,000**	220,000	**14,000**	220,000
Support services not yet invoiced provided to	**302,815**	1,119,865	**302,815**	1,119,865

33 RELATED PARTIES (Continued)

33.4 RELATED PARTY BALANCES

During the current and the prior year, the Group and the Company entered into transactions during the course of their normal business, with key management personnel. Transactions with key management personnel are set out in Notes 27 and 28 to these financial statements but are not included in Note 33.3. Additional information on amounts due to/by related parties is set out in Notes 14,15, 20 and 21 to these financial statements. The amounts in Notes 15, 20 and 21 were unsecured, repayable on demand and did not bear any interest.

34 SUBSEQUENT EVENTS

34.1 ACQUISITION OF KALICOM ZAHLUNGSSYSTEME KG

In December 2019, the RS2 Group has acquired a shelf company and has renamed it into Kalicom Zahlungssysteme GmbH (RS2 Holding Europe GmbH). The purpose of this acquisition was to purchase Kalicom Liebers Zahlungssysteme KG.

Kalicom Liebers Zahlungssysteme KG is one of the most successful commercial network operators for electronic, card-based payment systems with more than four thousand payment terminals, located in Reinsdorf, Germany. It serves SMEs across Germany with products including POS terminals, girocard/direct debit processing, routing of credit card transactions and referral of acquiring services.

On 1 January 2020, Kalicom Zahlungssysteme GmbH purchased 100% of Kalicom Liebers Zahlungssysteme KG, categorised as share deal. Kalicom Zahlungssysteme GmbH is a 100% subsidiary of RS2 Holding Europe GmbH, which is a 100% subsidiary of RS2 Software p.l.c.

The acquisition of KALICOM is a further step for RS2 to eliminate any dependencies on third parties to ensure first class services. At the same time, this gives RS2 a quick start into the German acquiring market.

The transaction is classified as a Class 1 transaction as per listing rules of the Malta Stock Exchange. The purchase price of this acquisition was €2,000,000 plus acquisition related costs. To finance this deal, RS2 Software p.l.c. increased its credit line with one of the Company's bankers. RS2 Software p.l.c. gave the purchaser an intercompany loan to pay the purchase price and the acquisition related costs. The costs related to this acquisition amount to €250,000 on legal fees and other related costs.

After closing as a result of the increase of the shares of Kalicom Liebers Zahlungssysteme KG to Kalicom Zahlungssysteme GmbH, all shares in the Company are united in the hands of Kalicom Zahlungssysteme GmbH.
The company is dissolved without liquidation and the business of the company with all assets and liabilities is taken over by Kalicom Zahlungssysteme GmbH.

34 SUBSEQUENT EVENTS (Continued)

34.1 ACQUISITION OF KALICOM ZAHLUNGSSYSTEME KG (Continued)

The acquisition gives RS2 Group a quick start into the direct merchant business with:

- Immediate capabilities of selling, installing and servicing terminals and processing girocard transactions in the German market for small but also mid-size accounts;
- An attractive portfolio of over 4,000 terminals and existing merchant book;
- Acquiring x-sell opportunity for a large part of the merchant book, allowing RS2 to benefit prospectively from the full acquiring margin; and
- Basis for further add-on acquisitions of smaller ISO portfolios in Germany.

The acquisition shows a prospectively interesting EBITDA margin contribution to the RS2 Group. The return of investment is estimated to be between five to seven years, depending on how fast the growth strategy could be realised.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition of Kalicom Zahlungssysteme GmbH:

	As at 1 January 2020 €
Assets	
Property, plant and equipment	27,200
Intangible assets	2,066,400
thereof Goodwill	*2,063,600*
Total non-current assets	**2,093,600**
Inventories	106,400
Trade and other receivables	38,000
Cash at bank and in hand	87,000
Total current assets	**231,400**
Total assets	**2,325,000**
Equity and liabilities	
Share capital	**25,000**
Liabilities to related companies	2,300,000
Total liabilities	**2,300,000**
Total equity and liabilities	**2,325,000**

These are provisional amounts extracted from the financial statements of Kalicom Liebers Zahlungssysteme KG for financial year ending 31 December 2019, and therefore are subject to change. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

34 SUBSEQUENT EVENTS (Continued)

34.1 ACQUISITION OF KALICOM ZAHLUNGSSYSTEME KG (Continued)

The following disclosures emanating from IFRS 3 *Business Combinations*, paragraph B64, are not being provided, since management is still in the process of making an assessment on them:

- a qualitative description of the factors that make up the goodwill recognised;
- the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration;
- for acquired receivables: (i) the fair value of the receivables; (ii) the gross contractual amounts receivable; and (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected;
- the total amount of goodwill that is expected to be deductible for tax purposes; and
- the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

34.2 PARTNERSHIP AGREEMENT WITH MOVIIRED

The Group has entered into a partnership agreement with MoviiRed in Colombia to offer consumers and merchants Direct Acquiring and Issuing services. Colombia is considered a target market for the Company in addition to the European and North American markets. An estimate of the financial effect of this subsequent event cannot as yet be determined.

34.3 COVID-19

The outbreak of COVID-19 is a rapidly evolving situation, which has severely impacted global commercial activities. The rapid development and quickly changing circumstances of this situation precludes any prediction as to its ultimate impact. However, recent studies indicate a continued adverse impact on economic and market conditions and a period of global economic slowdown.

The Company does not believe there is any financial impact to the financial statements as at 31 December 2019 as a result of this subsequent event.

Management is monitoring developments relating to COVID-19 closely and is coordinating its responses based on existing business continuity plans and on guidance from global health organisations, relevant governmental and supervisory bodies, and general pandemic response best practices as published in the recent Company Announcement.

34 SUBSEQUENT EVENTS (Continued)

34.3 COVID-19 (Continued)

After weeks into the crises, the Company can confirm that all business lines, Licensing, Processing and Merchant Services around the globe are operating fully remotely and at normal service levels.

Even though we are seeing some markets carefully opening up again, the Company is expecting that the economic impacts will continue throughout 2020. The payment industry has been a growing market for years, significantly outperforming other industries. The Company is expecting this long-term trend to continue and despite many market segments being significantly impacted we see the growth drivers, mainly e-Commerce and contactless payments, compensating for some of the traditional business lost.

While it is still too early to fully estimate the financial impact of this pandemic, an adverse effect on the Company's 2020 performance is expected. The Company's diversified business profile and the large part of stable and contracted revenues will however mitigate the impact. While the Company is seeing some projects being delayed, clients are holding on to the core initiatives. The Company has stress-tested its plans and is still expecting to grow significantly in revenues compared to 2019. The Licensing business is a stable business with a large part of the revenues being contracted. The Processing business will be down compared to the previous year as new businesses, even though contracted, not ramping-up as planned due to COVID-19 (e.g. the strategic arrangement in the travel industry). Existing clients are however performing above previous year and expected to continue doing so, whilst new businesses are being won. The US business is on schedule to go live with its first clients soon and expected to significantly contribute to the revenue growth, but also slower than originally planned. The newly acquired merchant business, even though seeing a significant drop in revenues, can compensate this bottom line hit through the applicable governmental measures introduced in Germany. The launch of the Company's own acquiring business will be delayed, however preparations are proceeding.

To mitigate the effects on the revenue side from delayed projects, cost containment measures have been put in place across all companies and non-contracted capital expenditure plans have been postponed. Measures taken include curtailing of personnel costs, deferment of payments and all other unnecessary costs. The Company is securing additional sources of funds and will have sufficient funds to meet its obligations.

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INDEPENDENT AUDITORS' REPORT

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

Report on the audit of the financial statements

Opinion

We have audited the individual financial statements of RS2 Software plc (the Company) and the consolidated financial statements of the Company and its subsidiaries (together, the Group), set out on pages 50 to 163, which comprise the Statements of Financial Position of the Company and the Group as at 31 December 2019, and the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows of the Company and the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2019, and of the Company's and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have been properly prepared in accordance with the requirements of the Companies Act (Cap.386).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the International Ethics Standards Board for *Accountants' Code of Ethics for Professional Accountants* (IESBA Code) together with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Maltese Code.

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INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Basis for Opinion (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In conducting our audit, we have remained independent of the Company and the Group and have not provided any of the non-audit services prohibited by article 18A(1) of the Accountancy Profession Act (Cap. 281).

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for the implementation activities without the sale of a licence in the consolidated financial statements

The Group's activities include BankWORKS® software implementation for its customers at its own site that is followed by transaction processing services performed by the Group for those customers without the sale of a software licence ('No Licence Cases').

The recognition of revenue by the Group with respect to the implementation activities in No Licence Cases was a matter that required significant auditor attention during the current year audit.

Report on the audit of the financial statements (Continued)

Accounting for the implementation activities without the sale of a licence in the consolidated financial statements (Continued)

The central issue was the determination of whether the implementation activities in the No Licence Cases represent a distinct performance obligation resulting in a transfer of a promised good or service to the customer prior to the commencement of the transaction processing services in terms of IFRS 15 – Revenue from contracts with customers. This assessment required the determination of whether control over the promised good or service had indeed been transferred to the customer over the implementation period in the No Licence Cases, and is a matter of applied judgement by the Directors.

The Group treats the implementation activities in No Licence Cases as a distinct performance obligation resulting in the transfer of a promised good or service to the customer in those cases where it is determined that by the time the customised software is live, the customer has already obtained the right to have that software solution hosted elsewhere, without the customer or a different service provider having to pay an additional amount for those implementation activities to the Group.

Where the implementation activities in No Licence Cases are assessed by the Directors to be a distinct performance obligation resulting in the transfer of a promised good or service to the customer, the related revenue and costs are recognised over the implementation period. In this respect, the revenue recognised in the Group statement of comprehensive income during the year ended 31 December 2019 amounted to EUR 4.8m. For the year ended 31 December 2018, such implementation activities had an immaterial net effect on the Group statement of comprehensive income.

Where the implementation activities in No Licence Cases are assessed by the Directors not to be a distinct performance obligation resulting in the transfer of a promised good or service to the customer, the implementation fee, if any, is treated as an advance payment for future goods or services and is recognised as revenue when those future goods or services are provided. The corresponding costs that meet the recognition criteria are also amortised over that period. At 31 December 2019 and 31 December 2018, the contract liability in this regard was nil as there were no advance payments in this respect.

Our audit procedures included the use of IFRS specialists to assess whether the judgement made by the Group regarding the recognition of implementation revenue in No Licence Cases is in accordance with the requirements of IFRS 15.

We also reviewed the adequacy of the disclosures set out in notes 4, 15, 21 and 22 to the financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Impairment testing of goodwill allocated to the Group's US operations in the consolidated financial statements

Under IFRSs, the Group is required to annually test the amount of goodwill included in the consolidated financial statements for impairment. This impairment test was significant to our audit because the amount of goodwill allocated to the Group's US operations as at 31 December 2019 amounted to EUR 0.7m, and this amount is material to the consolidated financial statements. In addition, the Directors' assessment process is highly judgmental and is based on assumptions, such as forecast business growth rates, profit margins, weighted average cost of capital and effective tax rate, which are affected by expected future market or economic conditions.

Our audit procedures to address the risk of material misstatement from this matter included:

- Involving an internal valuation specialist to assess the Group's impairment methodology determined from value-in-use calculations and the key assumptions applied by the Directors for this purpose.
- Performing sensitivity analysis of the impairment testing calculations to changes in key inputs such as the projected growth rate and the weighted average cost of capital.
- Reviewing the impairment testing calculations for reasonability, mathematical accuracy and consistency.

We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

The Group's disclosures about goodwill are included in note 11, which specifically explains that the Directors have assessed the carrying amount of goodwill as at 31 December 2019 to be recoverable and that there is no impairment in the value of the goodwill.

Impairment testing of investment in US subsidiary held by the Company in the individual financial statements

As at 31 December 2019, the Company held an investment in its US subsidiary amounting to EUR 9.8m which reported a loss for the year ended 31 December 2019 of EUR 4.4m. The Company performed an impairment assessment of its investment in conjunction with the testing of impairment of goodwill arising on the US operations. The carrying amount of the investment is material to the Company's financial statements and the Directors' assessment process is highly judgmental and is based on assumptions, such as forecast business growth rates, profit margins, weighted average cost of capital and effective tax rate, which are affected by expected future market or economic conditions.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Impairment testing of investment in US subsidiary held by the Company in the individual financial statements (Continued)

Our procedures to address the risk of material misstatement arising from this matter were carried out in conjunction with our audit procedures on the impairment testing of goodwill allocated to the Group's US operations and are set out in the description of the immediately preceding key audit matter. We also focused on the adequacy of the Company's disclosures in note 11 about those assumptions to which the outcome of the impairment tests are most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of the investment in subsidiary.

Information other than the financial statements and the auditor's report thereon

The Directors are responsible for the other information. The other information comprises (i) the Who We Are section, (ii) the Chairman's Statement, (iii) the Chief Executive Officer's Statement, (iv) the Directors' Report, (v) the Corporate Governance Statement of Compliance, (vi) the Statement on Corporate Social Responsibility, (vii) the Remuneration Committee Report, (viii) the Statement of Directors pursuant to Listing Rule 5.68, (ix) Company Information and (x) Statement of Directors' Responsibility for the Financial Statements. However, the other information does not include the individual and consolidated financial statements and our auditor's report thereon.

Except for our opinions on the Directors' report in accordance with the Companies Act (Cap. 386) and on the Corporate Governance Statement in accordance with the Listing Rules issued by the Maltese Listing Authority, our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of article 177 of the Companies Act (Cap. 386), and the statement required by Listing Rule 5.62 on the Company's and the Group's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Information other than the financial statements and the auditor's report thereon (Continued)

In accordance with the requirements of sub-article 179(3) of the Maltese Companies Act (Cap. 386) in relation to the Directors' Report on pages 24 to 30, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the individual and consolidated financial statements are prepared is consistent with those financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company, the Group and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities of the Directors and the Audit Committee for the financial statements

As explained more fully in the Statement of Directors' responsibilities on page 47, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and the requirements of the Companies Act (Cap. 386), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors have delegated the responsibility for overseeing the Company's and the Group's financial reporting process to the Audit Committee.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements

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

In terms of sub-article 179A(4) of the Maltese Companies Act (Cap. 386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the entity.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on the audit of the financial statements (Continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on other legal and regulatory requirements

Report on Corporate Governance Statement of Compliance

Pursuant to Listing Rule 5.94 issued by the Malta Financial Services Authority, in its capacity as the Listing Authority in Malta, the Directors are required to include in the Company's annual financial report a Corporate Governance Statement explaining the extent to which they have adopted the Code of Principles of Good Corporate Governance set out in Appendix 5.1 to Chapter 5 of the Listing Rules, and the effective measures that they have taken to ensure compliance with those principles. The Corporate Governance Statement is to contain at least the information set out in Listing Rule 5.97.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report to shareholders on the Corporate Governance Statement in the Company's annual financial report.

We read the Corporate Governance Statement and consider the implications for our report if we become aware of any information therein that is materially inconsistent with the financial statements or our knowledge obtained in the audit, or that otherwise appears to be materially misstated. We also review whether the Corporate Governance Statement contains at least the information set out in Listing Rule 5.97.

We are not required to, and we do not, consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Corporate Governance Statement set out on pages 32 to 41 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

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

Under the Companies Act (Cap. 386), we have responsibilities to report to you if in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; or
- we have been unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

We have nothing to report to you in respect of these responsibilities.

INDEPENDENT AUDITORS' REPORT (Continued)

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

Report on other legal and regulatory requirements (Continued)

Auditor tenure

We were first appointed by the members of the Company to act as statutory auditor of the Company and the Group on 19 June 2018 for the financial year ended 31 December 2018, and were subsequently reappointed as statutory auditor by the members of the Company for the year ended 31 December 2019. Accordingly, the period of total uninterrupted engagement as statutory auditor is two financial years.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee in accordance with the provisions of article 11 of the EU Audit Regulation No. 537/2014.

David Delicata as Director
in the name and on behalf of
Deloitte Audit Limited
Registered Auditor
Central Business District,
Birkirkara, Malta.

27 April 2020

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