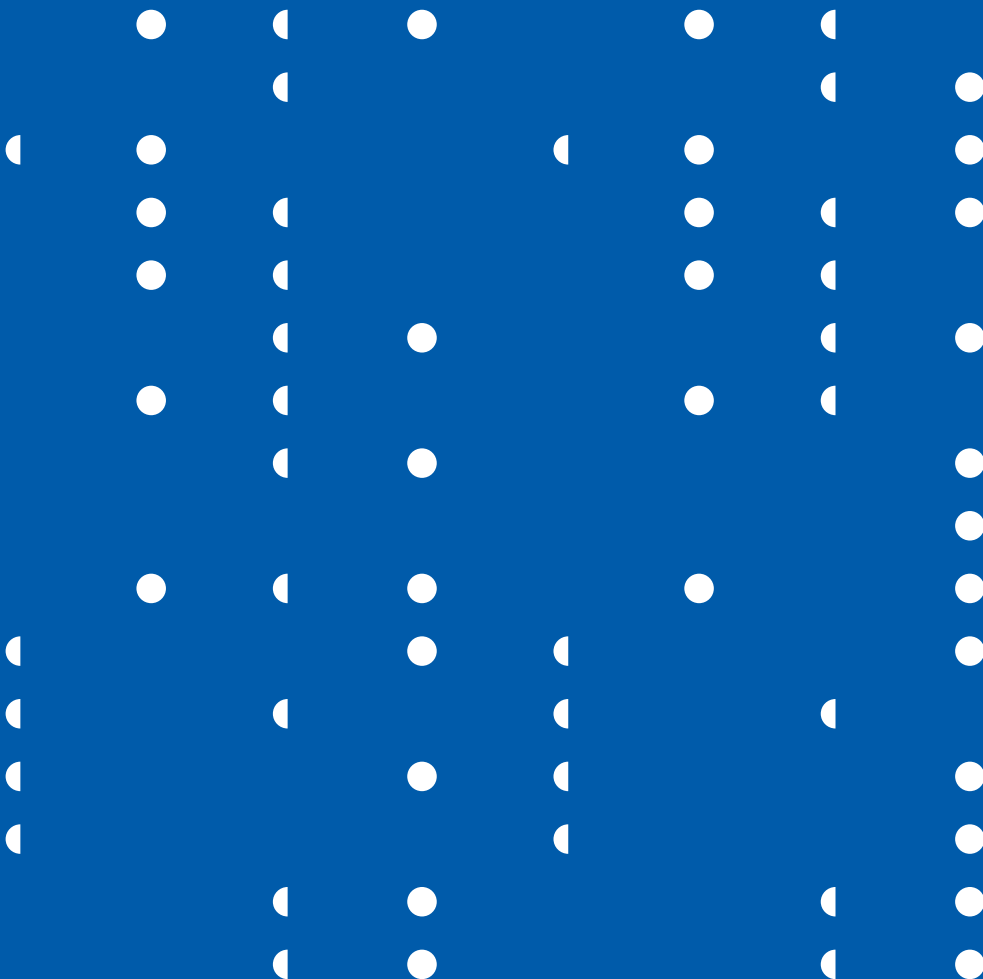
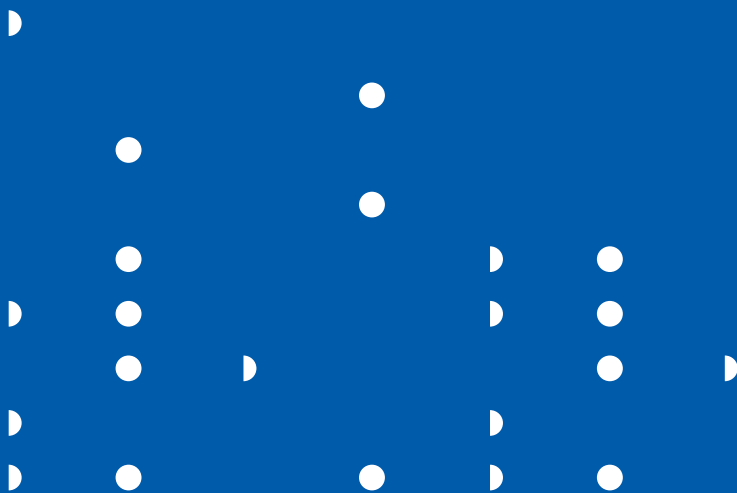


Annual Report & Financial Statements

2016







Our new identity encapsulates a clear way forward of where RS2 is heading.

Constructed with technology and security in mind, the brand was created based on a grid of Binary Code. This visual element will enhance the extra trust that RS2 is built on which is being a true business partner in the payments industry.

Our Vision Strategy Values

Enabling the future

Diversification | Product growth

Respect | Integrity | Partnership





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Independent Auditors' Report

Mission Statement & Business Philosophy

Our aim

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



Chairman's Statement

The past year of business greatly reflects our drive towards providing our present and future customers a complete and robust product through our software platform BankWORKS®. It has been another year where we have continued to implement our strategy and realise our plans to expand our footprint and enhance our brand awareness around the international market. 2016 has been a year of business development, investment and build up for further global growth.

Our efforts for international expansion and new market penetration are yielding the expected results in particular two markets in South America. This has been possible as our product and reputation continues to gain recognition within the industry, particularly when compared to current legacy systems providing similar software solutions but without the all round capabilities of BankWORKS®.

I am indeed very pleased to be able to introduce Mr. Patrick Clarke our new Chief Technology Officer, a person with an outstanding international reputation in the industry. It has been my pleasure to know Patrick for many years and I have no doubt that he will prove to be a very important appointment within our Group of companies.

As always, I would like to thank everyone within the RS2 Group, our Board of Directors and management but in particular our employees for their commitment, diligence and hard work throughout the whole of the past year. Their invaluable efforts have enabled us to again further our credibility in the industry, provide excellent service to our clients and contribute to a healthy working environment.

Thank you to you all.



Mario Schembri
Chairman

18 April 2017

Mario Schembri

Chairman



CEO's Statement

Dear Friends,

2016 has been a year of expansion and investment and the continuation of the implementation of our strategy. We have yet again registered a strong business performance in terms of revenue, current client portfolio and potential client pipeline. Despite the lower profitability, we are very proud of our overall achievements. This would not have been possible without the commitment, dedication and excellence of our board of directors, management and last but not least our employees.

"A year of expansion
and investment and
the continuation of
the implementation
of our strategy"

Radi Abd El Haj
Chief Executive Officer



Regional expansion and new markets

During 2016 we progressed significantly with our regional expansion plans. The US subsidiary is operating from its offices in Denver, while the Philippine subsidiary is operating from its offices in Manila. We are now present in Europe, Middle East, United States and Asia Pacific, truly an international company with worldwide presence.

A direct result of the robust reputation of our BankWORKS® product and of our delivery teams, is the strong pipeline of clients for both licensing and managed services solutions that we now hold in various new markets. Worth mentioning are the United States, Brazil, Argentina, Columbia, Mexico, Australia, Vietnam, India, Thailand and Indonesia.

The managed services business continues to increase its processing volumes, which have quadrupled since the beginning of the year. During the year a number of processing agreements and letters of intent were secured with new and existing clients. Revenue from such agreements is not yet reflected in 2016, but will be realised in 2017 and over the coming years.

Moreover we achieved a very important milestone in the United States when we secured a sponsorship with a US bank. The sponsorship is essential for the Group to carry out its managed services business.

Looking forward, license sales will depend on the geographical markets RS2 considers to be strategic where license clients do not compete with the Group's managed services business. While we are active in promoting the licensing business in Asia Pacific and Latin American markets, we are being selective in the United States and European markets where we see considerable potential for our managed services business. We are well placed to grow our managed services business in these markets by providing global acquiring services to multi-national merchants, payments service providers, and acquirers, by utilising the relationship RS2 has with various acquirers in these markets. In 2017 we are currently in the process of carrying out eight new managed services client implementations compared with two implementations in 2016.

During the year, we continued to attract experienced international industry specialists to join our ever-growing team. These individuals bring with them knowledge of the industry as well as specific expertise in their respective competencies and regions, which will be augmented with our continuous recruitment drive across all offices.

A direct result of the robust reputation of our BankWORKS® product and of our delivery teams, is the strong pipeline of clients for both licensing and managed services solutions that we now hold in various new markets.



● Offices ◐ Existing customers ◑ New markets

Innovation

In August 2015, we had announced that we achieved Oracle Exadata Optimised Status after successfully demonstrating BankWORKS® ability to process 40 million transactions per hour, doubling the processing volumes achieved in previous tests. During 2016, we once again surpassed our own processing capabilities and in October announced reaching 62 million transactions per hour on HPE Superdome X. Besides the significant increase in processing power, this latest benchmark test, proves that BankWORKS® is able to operate on a new hardware option. This provides our clients with the possibility of different infrastructure alternatives that are more resource and cost effective depending on their business needs.

Building on prior years, in 2016 we continued investing in new technology to enhance fault tolerance features and scalability of the BankWORKS® switch module. This will enable us to attract the larger players and Tier 1 customers that would otherwise be very difficult to engage. We are planning to introduce such fault tolerance features on commodity hardware and also on HP Non-Stop OS. The decision to go into this investment is based on the fact that there are very few players today on the market who are trusted in offering this type of product hence the industry is looking for alternative offering.

We continue to attract significant attention in the market, particularly due to the flexibility, performance and modularity of the BankWORKS® platform in comparison with other systems currently on the market that are nowadays regarded as legacy systems. The BankWORKS® platform has always been an Omni channel, multi-currency, multi-language and multi-institutional enabler. This is particularly valuable today, allowing clients to customise the system to their own specific needs. This differentiator is particularly true in the US market.

Another important differentiator that we as RS2 are able to offer our clients within managed services is global acquiring. Through flexibility and modularity of BankWORKS® we are able to allow our clients to consolidate their worldwide business through one platform. This enables them to operate more efficiently and cost effectively, again making our solution more desirable than the competition.

The BankWORKS® platform has always been an Omni channel, multi-currency, multi-language and multi-institutional enabler.



Financial highlights

The Group recognised total revenues of €17.2m in 2016. Revenue generation remained strong and, albeit lower than 2015, it continues to sustain the growth registered in the past years. The decrease in revenue is attributable to the implementation of our strategy of intensifying our focus on the managed services business. Due to the different inherent characteristics of revenue recognition between the license and managed services, this may result in lower revenue and profitability in the interim period until stabilisation occurs.

Processing fees generated by the managed services business, increased by 24%. This increase reflects additional revenue from new and existing clients in the form of implementation and transaction fees. The Group concluded further agreements towards the end of 2016 and in the beginning of 2017, the revenue from which is expected to be realised during 2017 and later years.

Consistent with prior years, service fees from both the licensing and the processing business accounts towards the larger portion of the revenue mix, 61% (2015: 62%). Licence fees amount to 20% (2015: 20%) and maintenance fees amount to 12% (2015: 12%).

In its efforts to continue servicing its current client base and being able to take on potential new client opportunities, the Group continues to invest heavily in human resources and infrastructure, and thus during the year under review it continued to build up its operations staff complement by an average of 11% compared to the prior year. The increase in personnel costs was partly offset by a reduction in amortisation of intangible assets for the year as the earlier additions to intangible assets reached full amortisation by the end of 2015. Total cost of sales for the year amounts to €10.3m.

Gross profit of the Group for the year stands at €6.9m, with a gross profit margin of 40%, a reduction of 8% when compared to 2015. This is attributable to an increase in cost of sales that is not proportionate to the decline in revenues.

Group marketing and promotional expenses increased again for the second year running, this year by 45% (2015: 68%) over the prior year. This reflects the Group's special efforts to bolster its penetration in foreign markets in line with its strategy of global expansion through increased participation in major industry events and marketing related travel. These increased activities are contributing directly to the Group's business pipeline and translating into new clients.

Administrative expenses increased by 43% when compared to 2015 which increase is directly linked to the setting up of the offices in the United States and the Philippines, increase in salaries expenses at the Head Office and other general administrative expenses. Such expenses relate to increased human resources costs, higher travelling expenses, legal and professional set-up costs and premises rental expenses.

Contrary to the previous year, during 2016 the Group was negatively impacted by fluctuations in foreign currency movements amounting to €1.4m as represented under other expenses mainly as result of fluctuations to the Pound Sterling against the Euro.

The Group recognised a net amount of €0.7m in impairment losses on trade receivables and accrued income. This is after reversing the effect of provisions for impairment accounted for in previous years and after eliminating the effect of unwinding of amortisation on the receivable balances. These impairment losses result from default and/or doubt on the recovery of receivables accumulated over the past few years. Notwithstanding this, the Group maintains a strong client base widening the diversity of its client portfolio by attracting new clients from different regions across the globe.

EBITDA for 2016 stands at €2.3m, representing 13% of total revenue. Eliminating the effect of the impairment loss, EBITDA would increase to €3m, representing 17% of total revenue.

The Group is reporting a profit before tax of €0.9m, representing a net profit margin of 5%. Income tax expense for 2016 amounts to €0.4m, leaving a profit after tax of €0.5m.

Group assets decreased from €35.2m to €31.9m and total equity decreased from €23.9m to €21.9m. Net cash generated from operating activities amounts to €2.7m when compared with €6.2m in 2015. After payment of €0.6m in acquisition of property, plant and equipment and a payment of dividend of €2.5m, the Group closes the year with a cash balance of €6.3m, compared with €7.2m at end of 2015. Notwithstanding a year where the Group experienced an increase in staff and other costs relating to expansion in the United States and Philippines and the impact of exchange fluctuations against the Euro, the Group is still in a strong cash flow position to continue with its growth strategy.

Finally I thank our loyal shareholders for their support, our employees for their hard work and dedication, and our management and board of directors for their direction. I personally look forward to continue working with all of you towards achieving even higher goals.

**For another
consecutive year
reward our loyal
shareholders with
yet another
dividend payment.**



Radi Abd El Haj
Chief Executive Officer

18 April 2017



Board of Directors



Mario Schembri

Chairman of the Board and Non-Executive Director

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



Radi Abd El Haj

Chief Executive Officer and Executive Director

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



Maurice Xuereb

Non-Executive Director

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



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.



Franco Azzopardi

Non-Executive Director

Mr Azzopardi, a Certified Public Accountant with a UK post-graduate MSc in Finance, spent 27 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 serving as President.



Christopher Wood

Non-Executive Director

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



John Elkins

Non-Executive Director

John Elkins currently serves on the boards of FINCA International, ELATERAL Ltd. 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 2002-7 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.



Dr Ivan Gatt LL.D.

Company Secretary

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

Corporate Social Responsibility

RS2 considers Corporate Social Responsibility (CSR) an integral part in its business conduct and we pride ourselves in having philanthropic organisations, as well as Sports Clubs who have been receiving our ongoing support for the past number of years, and by today consider RS2 as a partner. RS2 considers education as a fundamental element in growing its product and an important contributor to innovation. It is for this reason that RS2 focuses on student integration within the business.

RS2 has been working with MITA on the Student Placement Programme to give the opportunity to students to gain hands-on work experience in the ICT industry. Throughout 2016 we have hosted several educational sessions to give students exposure to the industry to attain the feel of a work environment. Numerous students were also given the opportunity to work with RS2 in summer and experienced working on real-time deadlines whilst receiving continuous mentoring from team leaders and team colleagues and some of them joined the company later after they graduated. Our senior executives have actively supported this programme by dedicating their time to coach the students by providing business talks, guidance, product awareness and exposure to innovation. The Group firmly believes that this program provides value to the Maltese community while creating a gateway to the Group to gain prospective new employees with new talents.

The Group also encourages and supports employee activities aimed at donating funds to charitable institutions. Our Events Committee are in fact very highly involved and committed and are continuously organising events for good causes and other fun, team building events. Every year a number of charitable activities are held to raise funds that are donated to Puttinu Cares as well as L-Istrina. In addition to contributing to society, these activities also help as team building events since they bring employees to work together on joint tasks out of the work environment and create a sense of total employee involvement.

The Group is confident that it can achieve a balanced and holistic value for its shareholders while nurturing sound CSR initiatives. Following the company's CSR framework, a portfolio of diverse initiatives was taken up, which ventures into various categories from the business model that RS2 strives to achieve and maintain.

RS2 also prioritises internal requests as this helps boost the employees' confidence in the company's commitment towards its members of staff. RS2 also uses this business model to continuously affirm its efforts in becoming a sustainable company and a leader on the forefront within the IT industry.

Every year RS2 spends considerable sums in supporting various organisations in Malta and Gozo such as:

- **Schola Cantorum Jubilate**
- **Kavallieri Handball Club**
- **Kavallieri Volleyball**
- **Din I-Art Helwa**
- **Ms Denise Hili - Right2Smile**
- **Fundraising for the Cystic Fibrosis Foundation**
- **Cospicua Scout Group**
- **Mr Nicholas Micallef - Triathlete Sponsorship**
- **Fleur de Lys Volleyball Club**
- **L-Istrina**
- **Mr Ryan Spiteri - Cycling Challenge for Cancer**

RS2's main focus for 2016 was its international expansion into new markets, which in turn has shown considerable growth in the recruitment of staff. This has allowed the outreach program to become much more relevant and important and drives us further in making our contributions count and account to more than just a drop in the ocean.

Directors' Report

For the year ended 31 December 2016

The directors present their report, together with the financial statements of RS2 Software p.l.c. (the "Company") and its subsidiaries, RS2 Smart Processing Ltd, RS2 Software LLC, RS2 Software LAC LTDA and RS2 Software APAC Inc. (collectively referred to the "Group"), for the year ended 31 December 2016.

Board of Directors

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

Principal activities

The Group is principally engaged in the development, installation, implementation and marketing of computer software for financial institutions under the trade mark of BankWORKS® and the processing of payment transactions with the use of BankWORKS®. Consistent with previous years, there was 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 Group generated revenues of €17.2m (2015: €19.4m) and registered profit before tax of €0.9m (2015: €6.4m). At 31 December 2016, the Group's total assets amounted to €31.9m (2015: €35.2m).

A comprehensive review of the business and performance of the Group during the year under review, and, an indication of future developments, are given in the Chief Executive Officer's Statement set out on pages 12 to 20 of this Annual Report.

Principal Risks and Uncertainties

In its operations, the Group has exposure to credit risk, liquidity risk and market risk. The Group's objectives, policies and processes target to mitigate the effect of such risk by constant measuring and managing such risk, whilst proactively managing its capital. A more comprehensive outlook of such risk exposure and the Group's response can be viewed in notes 6 and 28 to these financial statements.

Dividends

The directors recommend that at the next Annual General Meeting, the shareholders approve the declaration of a dividend of €0.01 per share amounting to €1,583,332 payable on 22 June 2017.

Reserves

Retained earnings amounting to €16,791,843 for the Company and €11,506,618 for the Group are being carried forward.

Important events since end of the accounting period

In line with previous announcements, the Company has concluded three major agreements for its managed services business, RS2 Smart Processing Ltd. In Europe, one contract has been signed with a global leader and one of the largest acquirers in payment processing and technology. A second contract has been signed with a Latin American company whilst a third contract has been signed with a Canadian company the names of which may be communicated at a future time. The benefits of these agreements will materialize in the later part of 2017.

Pursuant to Listing Rule 5.62

Upon due consideration of the Company's profitability, balance sheet, capital adequacy and solvency, the directors are satisfied that at the time of approving the financial statements, the Company has adequate resources to continue operating as a going concern for the foreseeable future.

Pursuant to Listing Rule 5.64**Rule 5.64.1 - Share capital structure**

On 23 June 2016, the Company resolved:

- to capitalise a sum not exceeding €500,000 from the Company's non-distributable reserves of the share premium account and to allot the amount so capitalised as fully paid bonus shares to the shareholders of the Company. Following the allotment of 5,000,000 ordinary shares as bonus shares, the Company's issued share capital is of €9,499,991.20 divided into 94,999,912 Ordinary Shares of €0.10 each, each Ordinary Share being fully paid up; and
- to re-designate the authorised share capital previously consisting of 100,000,000 Ordinary Shares of €0.10 each to 166,666,667 Ordinary Shares of €0.06 each. Following the share split, the Company's issued share capital amounts to €9,499,991.22 divided into 158,333,187 Ordinary Shares of €0.06 each, each ordinary shares being fully paid up.

All of the issued shares of the Company form part of one class of Ordinary Shares in the Company, which shares are listed on the Malta Stock Exchange. All of the shares have the same rights and entitlement and rank pari passu between themselves. The following are highlights attaching to the Ordinary Shares:

Dividends:

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

Voting rights:

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

Pre-emption rights:

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

Capital distributions:

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

Transferability:

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

Other:

The shares are not redeemable.

Rule 5.64.3 – Holding in excess of 5% of the share capital

On the basis of the information available to the Company as at 31 December 2016, Information Technology Management Holding Limited ("ITM") and Barclays Bank Plc ("Barclays") hold 75,235,003 and 28,895,833 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 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 directors may make recommendations and nominations to the shareholders for the appointment of directors at the next annual general meeting.

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

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

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

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

Rule 5.64.8 – Amendments to the Memorandum and Articles of Association

Amendments to the Memorandum and Articles of Association of the Company are regulated by the Companies Act, 1995 (Chapter 386, Laws of Malta). Subject to the provisions of Article 79 of the Act, and the Approval of the Listing Authority, the Company may by extraordinary resolution alter or add to its Memorandum and Articles of Association.

Rule 5.64.9 – Powers of the board members

The directors are vested with the management of the Company, and their powers of management and administration emanate directly from the Memorandum and Articles of Association and the law. The directors are empowered to act on behalf of the Company and in this respect have the authority to enter into contracts and sue and be sued in representation of the Company. In terms of the Memorandum and Articles of Association they may do all such things that are not by the Memorandum and Articles of Association reserved for the Company in general meeting.

By virtue of a resolution of the shareholders dated 23 June 2016, the Company resolved to re-designate the authorised share capital previously consisting of 100,000,000 Ordinary Shares of €0.10 each to 166,666,667 Ordinary Shares of €0.06 each.

By virtue of extraordinary resolution of the shareholders dated 2 May 2008, the Board of Directors is authorised to issue any share capital of the Company which is unissued, which authority is valid for a maximum period of five (5) years, renewable for further periods of five (5) years each. As at 31 December 2016, the Company had eight million three hundred thirty-three thousand four hundred eighty (8,333,480) 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.

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.

Pursuant to Listing Rule 5.70

The Company is party to an agreement for subcontracted services with RS Consult GmbH, which is partly (24%) owned by a Director of the Company. Services provided by RS Consult GmbH to the Company during 2016 amounted to €1,303,040 (2015: €995,178).

Approved by the Board of Directors on 18 April 2017 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 2016

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 2016, 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 2016, the position of Chairman was occupied by Mr Mario Schembri.

The delegation of specific responsibilities to appropriate Committees, namely the Audit Committee and the Remuneration Committee is taken care of by the Chairman of the Board. On the other hand, the Chief Executive Officer takes care of the day to day running of the Company's business. During 2016, 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 directors, five of whom are independent (the non-independent non-executive director being the Chairman. The Chairman also has a full-time employment contract with the Company). In determining the independence or otherwise of its directors, the Board has considered, amongst others, the Principles relating to independence contained in the Code, the Company's own practice as well as general good practice.

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

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

Principle Four: The Responsibilities of the Board

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

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

Board Committees

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

Audit Committee

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

The Audit Committee is responsible for managing the Board's relationship with the external auditors, for monitoring the audit of the annual and consolidated accounts, making recommendations to the Board on their appointment and monitoring their independence, especially with respect to non-audit services.

Mr Maurice Xuereb, an independent non-executive director appointed by the Board acts as Chairman, whilst Dr Robert Tufigno and Mr Franco Azzopardi, both independent non-executive directors act as members. The Company Secretary, Dr Ivan Gatt acts as secretary to the Committee.

Mr Maurice Xuereb occupied various managerial and executive positions within the industry and is deemed to be a competent member of the Audit Committee. Mr Franco Azzopardi is a qualified accountant and auditor who the Board considers as the person competent in accounting and auditing. Dr Robert Tufigno has practiced in the fields of general commercial law, property law and litigation and due to his legal expertise, Dr Robert Tufigno is deemed a competent member of the Audit Committee by the Board. The Board of Directors of the Company considers that the Audit Committee as a whole has the required competence relevant to the payment software industry. In fact, each member has an individual skill set which complements the skills required in this industry.

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

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

The Board meetings were attended as follows:

	Meetings held: 6 Attended
Mr Maurice Xuereb	6
Dr Robert Tufigno	5
Mr Franco Azzopardi	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: 6
Attended**

Executive Director

Mr Radi Abd El Haj (Chief Executive Officer)	6
--	---

Non-executive Directors

Mr Mario Schembri (Chairman)	6
Mr Maurice Xuereb	6
Dr Robert Tufigno	6
Mr Franco Azzopardi	5
Mr Christopher Wood	4
Mr John Elkins	6

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. 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 40 to 42. This section also includes a "Remuneration Statement" which deals with the remuneration of directors and senior management.

**Principle 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 a particular director should be in writing, signed, contain the number of shares held in the sender's name and should be delivered to the attention of the Company Secretary at the principal offices of the Company.

Any two Members of the Company holding at least five per cent (5%) of the shares conferring a right to attend and vote at general meetings of the Company, may convene an Extraordinary General Meeting in accordance with the provisions of the Articles of Association.

The Company's presence is also on the worldwide web through its website at www.rs2.com, which contains information and news about the Company, its products, developments and activities, as well as an investors' section.

Principle Eleven: Conflicts of Interest

The directors are strongly aware of their responsibility to act at all times in the interest of the Company and its shareholders as a whole and of their obligation to avoid conflicts of interest, irrespective of whoever appointed them to the Board.

The Board has approved an Internal Code of Dealing that details the obligations of the directors, as well as those of senior management and other individuals having access to sensitive information, on dealings in the equity of the Company within the parameters of the law and the Principles.

Each director has declared his interest in the share capital of the Company distinguishing between beneficial and non-beneficial interest.

In accordance with the provisions of the Articles of Association of the Company, any actual, potential or perceived conflict of interest must be immediately declared by a director to the other members of the Board, who then (also possibly through a referral to the Audit Committee) decide on whether such a conflict exists. In the event that the Board perceives such interest to be conflicting with the director's duties, the conflicted director is required to leave the meeting and both the discussion on the matter and the vote, if any, on the matter concerned are conducted in the absence of the conflicted director.

Principle Twelve: Corporate Social Responsibility

The Company understands that it has an obligation towards society at large to put into practice sound principles of Corporate Social Responsibility (CSR). It is therefore committed to embark on initiatives which support the community, the environment, as well as sports and the arts.

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

Part 2: Non Compliance with the Code**Principle Two: Chairman and Chief Executive Officer**

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

Principle Four: The Responsibilities of the Board

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

Principle Eight B: Nomination Committee

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

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

Principle Nine (Code provision 9.3): Relations with Shareholders and with the Market

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

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

The measures currently available for shareholders notably the right to put items on the agenda of the Annual General Meeting and to table draft resolutions and the right to ask questions provide the necessary safeguards for the protection of the 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.



Mario Schembri
Chairman

18 April 2017



Radi Abd El Haj
Director

Remuneration Committee Report

For the year ended 31 December 2016

Terms of Reference and Membership

The remit of the Remuneration Committee (the "Committee") is set out in the Terms of Reference adopted by the Board of Directors. The Committee is composed of four (4) non-executive directors, Dr Robert Tufigno (Chairman), Mr Maurice Xuereb, Mr Franco Azzopardi and Mr Mario Schembri. The Chief Executive Officer is invited to attend meetings of the Committee where appropriate. The Chairman of the Committee, Dr Robert Tufigno is independent in accordance with Code Provision 8.A.1.

Meetings

The Committee held one (1) meetings during the period under review. The Committee determined and/or made recommendations to the Board on the following matters:

Structure of CEO, management and directors' salaries for financial years 2015 and 2016.

	Meetings held: 1 Attended
Dr Robert Tufigno (Chairman)	1
Mr Maurice Xuereb	1
Mr Franco Azzopardi	1
Mr Mario Schembri [^]	0

[^] Excused due to the nature of the meeting

Remuneration Statement

Remuneration Policy - Directors

The determination of the remuneration arrangements for Board members is determined by the Committee. The 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.

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 2017.

In addition, the Committee is responsible for authorising all remuneration arrangements involving share options. During the year under review, no share options were allocated. There were 1,460 share options outstanding at 31 December 2016.

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

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

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

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

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	€ 120,665
Variable Remuneration	Nil
Fixed Remuneration as full time employees of the Group	€ 546,969
Others	€ 72,293

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	€ 547,323
Variable Remuneration	Nil
Share Options	Nil
Others	Nil

**Dr Robert Tufigno**

Chairman, Remuneration Committee

18 April 2017

Statement of the Directors pursuant to Listing Rule 5.68

For the year ended 31 December 2016

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 46 to 121 are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and that the Directors' Report includes a fair view of the performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 18 April 2017 by:



Mario Schembri
Chairman



Radi Abd El Haj
Director

Company Information

For the year ended 31 December 2016

Directors

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

Company Secretary

Dr Ivan Gatt

Registered Office

RS2 Buildings
Fort Road, Mosta MST 1859
Malta

Country of Incorporation

Malta

Company Registration Number

C 25829

Auditors

KPMG
Portico Building
Marina Street
Pietà PTA 9044
Malta

Legal Advisers

Gatt Tufigno Gauci Advocates
66, Old Bakery Street
Valletta VLT 1454
Malta

Directors' Responsibility for the Financial Statements

For the year ended 31 December 2016

Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of RS2 Software p.l.c. (the "Company") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company and the Group as at the end of the financial period and of the profit or loss of the Company and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act.

The directors are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Group establishes and maintains internal control to provide reasonable assurance with regards to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Group's business. This responsibility includes establishing and maintaining controls pertaining to the Group's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 18 April 2017 by:



Mario Schembri
Chairman



Radi Abd El Haj
Director



Financial Statements



Statements of Financial Position

As at 31 December 2016

THE GROUP

		2016	2015	1 January 2015
		€	Restated* €	Restated* €
Assets	Note			
Property, plant and equipment	8	9,034,813	9,059,244	8,081,423
Intangible assets	9	6,815,112	6,901,911	6,961,734
Other investment	11	131,785	131,785	131,785
Loans and receivables from related parties	12	-	-	32,087
Accrued income	13	-	354,000	1,440,750
Trade and other receivables	12	-	-	764,731
Total non-current assets		15,981,710	16,446,940	17,412,510
Trade and other receivables	12	1,999,483	3,008,042	4,167,186
Loans and receivables from related parties	12	918,566	810,422	868,045
Prepayments		624,578	511,788	347,781
Accrued income	13	6,011,551	7,219,601	4,844,414
Cash at bank and in hand	14	6,344,155	7,193,681	4,520,446
Total current assets		15,898,333	18,743,534	14,747,872
Total assets		31,880,043	35,190,474	32,160,382

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

Approved by the Board of Directors on 18 April 2017 and signed on its behalf by:



Mario Schembri
Chairman



Radi Abd El Haj
Director

THE GROUP

		2016	2015	1 January 2015
	Note	€	Restated* €	Restated* €
Equity				
Share capital	15	9,499,991	8,999,991	8,999,991
Reserves	15	1,000,910	1,529,262	1,572,030
Retained earnings	15	11,506,618	13,409,110	10,481,308
Total equity attributable to equity holders of the Company		22,007,519	23,938,363	21,053,329
Non-controlling interest		(142,187)	(8,674)	10,940
Total equity		21,865,332	23,929,689	21,064,269
Liabilities				
Bank borrowings	16	1,859,899	2,465,781	2,710,067
Employee benefits	26	1,922,045	1,914,139	1,876,515
Deferred tax liabilities	17	758,265	1,302,005	1,134,666
Derivatives	16	84,254	119,187	159,749
Total non-current liabilities		4,624,463	5,801,112	5,880,997
Bank borrowings	16	993,937	978,850	725,846
Trade and other payables	18	849,711	1,122,918	1,160,738
Current tax payable		958,215	1,436,346	1,355,350
Accruals	19	828,974	587,456	547,332
Employee benefits	26	111,422	-	-
Deferred income	19	1,647,989	1,334,103	1,425,850
Total current liabilities		5,390,248	5,459,673	5,215,116
Total liabilities		10,014,711	11,260,785	11,096,113
Total equity and liabilities		31,880,043	35,190,474	32,160,382

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

Approved by the Board of Directors on 18 April 2017 and signed on its behalf by:


Mario Schembri
Chairman

Radi Abd El Haj
Director

Statements of Financial Position

As at 31 December 2016

THE COMPANY

		2016	2015	1 January 2015
		€	Restated* €	Restated* €
Assets	Note			
Property, plant and equipment	8	8,713,657	8,834,473	7,816,089
Intangible assets	9	5,327,256	5,461,335	5,669,953
Investments in subsidiaries	10	5,737,262	2,730,104	1,148,774
Other investment	11	131,785	131,785	131,785
Loans and receivables from related parties	12	23,751	2,185,830	3,204,963
Accrued income	13	1,241,928	2,061,205	3,527,483
Trade and other receivables	12	-	-	764,731
Total non-current assets		21,175,639	21,404,732	22,263,778
Trade and other receivables	12	1,804,112	2,807,063	4,100,640
Loans and receivables from related parties	12	1,554,951	810,422	868,045
Prepayments		425,540	436,805	297,453
Accrued income	13	6,314,841	7,634,132	5,193,985
Cash at bank and in hand	14	5,535,139	6,634,403	3,731,903
Total current assets		15,634,583	18,322,825	14,192,026
Total assets		36,810,222	39,727,557	36,455,804

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

Approved by the Board of Directors on 18 April 2017 and signed on its behalf by:



Mario Schembri
Chairman



Radi Abd El Haj
Director

THE COMPANY

		2016	2015	1 January 2015
		€	Restated* €	Restated* €
Equity	Note			
Share capital	15	9,499,991	8,999,991	8,999,991
Reserves	15	891,139	1,413,739	1,512,786
Retained earnings	15	16,791,843	18,068,040	14,956,853
Total equity		27,182,973	28,481,770	25,469,630
Liabilities				
Bank borrowings	16	1,859,899	2,465,781	2,710,067
Employee benefits	26	1,356,070	1,358,420	1,330,848
Deferred tax liabilities	17	1,518,485	1,956,799	1,694,234
Derivatives	16	84,254	119,187	159,749
Total non-current liabilities		4,818,708	5,900,187	5,894,898
Bank borrowings	16	993,937	978,850	725,846
Trade and other payables	18	729,543	1,081,768	1,073,272
Current tax payable		958,215	1,436,346	1,355,350
Accruals	19	372,183	546,052	536,010
Employee benefits	26	111,422	-	-
Deferred income	19	1,643,241	1,302,584	1,400,798
Total current liabilities		4,808,541	5,345,600	5,091,276
Total liabilities		9,627,249	11,245,787	10,986,174
Total equity and liabilities		36,810,222	39,727,557	36,455,804

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

Approved by the Board of Directors on 18 April 2017 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 2016

THE GROUP

Attributable to equity holders of the Company

Note	Share capital €	Share premium €	Translation reserve €	Share option reserve €	Retained earnings €	Total €	Non-controlling interest €	Total equity €
Balance at 1 January 2015	8,999,991	1,292,743	59,244	220,043	12,357,823	22,929,844	10,940	22,940,784
Impact of prior year adjustment	27	-	-	-	(1,876,515)	(1,876,515)	-	(1,876,515)
Restated balance at 1 January 2015	8,999,991	1,292,743	59,244	220,043	10,481,308	21,053,329	10,940	21,064,269
Comprehensive income for the year (restated)								
Profit for the year (restated)	-	-	-	-	4,828,733	4,828,733	(9,386)	4,819,347
Other comprehensive income								
Foreign currency translation differences	-	-	56,279	-	-	56,279	(10,228)	46,051
Total other comprehensive income for the year	-	-	56,279	-	-	56,279	(10,228)	46,051
Total comprehensive income for the year (restated)	-	-	56,279	-	4,828,733	4,885,012	(19,614)	4,865,398
Transactions with owners of the Company								
Dividend to equity holders	-	-	-	-	(1,999,978)	(1,999,978)	-	(1,999,978)
Share options exercised	-	-	-	(99,047)	99,047	-	-	-
Balance at 31 December 2015	8,999,991	1,292,743	115,523	120,996	13,409,110	23,938,363	(8,674)	23,929,689
Balance at 1 January 2016	8,999,991	1,292,743	115,523	120,996	13,409,110	23,938,363	(8,674)	23,929,689
Comprehensive income for the year								
Profit for the year	-	-	-	-	576,906	576,906	(123,773)	453,133
Other comprehensive income								
Foreign currency translation differences	-	-	(5,752)	-	-	(5,752)	(9,740)	(15,492)
Total other comprehensive income for the year	-	-	(5,752)	-	-	(5,752)	(9,740)	(15,492)
Total comprehensive income for the year	-	-	(5,752)	-	576,906	571,154	(133,513)	437,641
Transactions with owners of the Company								
Bonus issue	500,000	(500,000)	-	-	-	-	-	-
Dividend to equity holders	-	-	-	-	(2,501,998)	(2,501,998)	-	(2,501,998)
	500,000	(500,000)	-	-	(2,501,998)	(2,501,998)	-	(2,501,998)
Share options exercised	-	-	-	(22,600)	22,600	-	-	-
Balance at 31 December 2016	9,499,991	792,743	109,771	98,396	11,506,618	22,007,519	(142,187)	21,865,332

The Notes on pages 58 to 121 are an integral part of these financial statements

THE COMPANY

Equity	Note	Share capital €	Share premium €	Share option reserve €	Retained earnings €	Total €
Balance at 1 January 2015		8,999,991	1,292,743	220,043	16,287,701	26,800,478
Impact of prior year adjustment	27	-	-	-	(1,330,848)	(1,330,848)
Restated balance at 1 January 2015		8,999,991	1,292,743	220,043	14,956,853	25,469,630
Comprehensive income for the year (restated)						
Profit for the year (restated)		-	-	-	4,930,368	4,930,368
Total comprehensive income for the year (restated)		-	-	-	4,930,368	4,930,368
Transactions recorded directly in equity						
Equity portion of financial asset		-	-	-	113,267	113,267
Discount unwind		-	-	-	(31,517)	(31,517)
		-	-	-	81,750	81,750
Transactions with owners of the Company						
Dividend to equity holders		-	-	-	(1,999,978)	(1,999,978)
Share options exercised		-	-	(99,047)	99,047	-
Balance at 31 December 2015		8,999,991	1,292,743	120,996	18,068,040	28,481,770
Balance at 1 January 2016		8,999,991	1,292,743	120,996	18,068,040	28,481,770
Comprehensive income for the year						
Profit for the year		-	-	-	1,232,154	1,232,154
Total comprehensive income for the year		-	-	-	1,232,154	1,232,154
Transactions recorded directly in equity						
Discount unwind		-	-	-	(28,953)	(28,953)
		-	-	-	(28,953)	(28,953)
Transactions with owners of the Company						
Bonus issue		500,000	(500,000)	-	-	-
Dividend to equity holders		-	-	-	(2,501,998)	(2,501,998)
Share options exercised		-	-	(22,600)	22,600	-
Balance at 31 December 2016		9,499,991	792,743	98,396	16,791,843	27,182,973

The Notes on pages 58 to 121 are an integral part of these financial statements

Statements of Comprehensive Income

For the year ended 31 December 2016

		THE GROUP		THE COMPANY	
	Note	2016 €	2015 Restated* €	2016 €	2015 Restated* €
Continuing Operations					
Revenue	20	17,171,291	19,437,614	15,629,023	18,005,849
Cost of sales		(10,307,069)	(10,083,741)	(8,895,042)	(8,794,926)
Gross profit		6,864,222	9,353,873	6,733,981	9,210,923
Other income	21	41,048	622,804	30,582	622,865
Marketing and promotional expenses		(803,681)	(554,239)	(731,003)	(551,183)
Administrative expenses		(3,609,731)	(2,533,540)	(2,732,932)	(2,278,510)
Capitalised development costs	9	498,177	860,844	498,177	860,844
Other expenses	21	(2,146,434)	(1,196,243)	(2,142,477)	(1,196,243)
Results from operating activities		843,601	6,553,499	1,656,328	6,668,696
Finance income	22	191,033	84,350	243,493	174,573
Finance costs	22	(153,818)	(211,395)	(142,308)	(210,680)
Net finance income/ (costs)		37,215	(127,045)	101,185	(36,107)
Profit before income tax	21	880,816	6,426,454	1,757,513	6,632,589
Income tax expense	23	(427,683)	(1,607,107)	(525,359)	(1,702,221)
Profit for the year		453,133	4,819,347	1,232,154	4,930,368
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences on foreign operations		(15,492)	46,051	-	-
Total comprehensive income		437,641	4,865,398	1,232,154	4,930,368
Profit attributable to:					
Owners of the Company		576,906	4,828,733	1,232,154	4,930,368
Non-controlling interest		(123,773)	(9,386)	-	-
Profit for the year		453,133	4,819,347	1,232,154	4,930,368
Total comprehensive income attributable to:					
Owners of the Company		571,154	4,885,012	1,232,154	4,930,368
Non-controlling interest		(133,513)	(19,614)	-	-
Total comprehensive income for the year		437,641	4,865,398	1,232,154	4,930,368
Earnings per share	24	€ 0.004	€ 0.030	€ 0.008	€ 0.031

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

Statements of Cash Flows

For the year ended 31 December 2016

		THE GROUP		THE COMPANY	
		2016	2015	2016	2015
		€	Restated*	€	Restated*
Cash flows from operating activities	Note				
Profit for the year		453,133	4,819,347	1,232,154	4,930,368
Adjustments for:					
Depreciation	8	653,518	617,127	481,867	452,979
Amortisation of intangible assets	9	632,256	1,069,462	632,256	1,069,462
Capitalised development costs	9	(498,177)	(860,844)	(498,177)	(860,844)
Provision for impairment loss on receivables	21	364,787	(1,169,280)	364,787	(1,169,280)
Bad debts written off	21	347,423	2,365,523	347,423	2,365,523
Interest payable	22	124,491	151,997	124,466	151,997
Interest receivable	22	(12,293)	(13,551)	(46,988)	(72,257)
Unwinding of discount on post-employment benefit	26	119,328	37,624	109,072	27,572
Unwinding of discount on trade receivables and accrued income	22	11,189	(30,237)	(17,766)	(61,754)
Income tax	23	427,683	1,607,107	525,359	1,702,221
Provision for exchange fluctuations	21/22	809,339	(196,789)	809,110	(196,789)
Gain on disposal of asset	21	(8,004)	-	(8,004)	-
Change in fair value of cash flow hedge	22	(34,933)	(40,562)	(34,933)	(40,562)
		3,389,740	8,356,924	4,020,626	8,298,636
Changes in trade and other receivables		951,892	(435,723)	905,055	(95,514)
Changes in trade and other payables		(88,313)	(183,417)	(231,389)	(173,050)
Cash generated from operating activities		4,253,319	7,737,784	4,694,292	8,030,072
Interest paid		(138,977)	(149,749)	(138,977)	(149,749)
Interest received		1,839	5,451	1,680	53,676
Income taxes paid		(1,446,642)	(1,358,772)	(1,441,803)	(1,358,661)
Net cash from operating activities		2,669,539	6,234,714	3,115,192	6,575,338
Cash flows from investing activities					
Acquisition of property, plant and equipment		(568,252)	(1,510,230)	(355,037)	(1,386,365)
Proceeds on sale of property, plant and equipment		9,000	-	9,000	-
Investment in subsidiary	10	-	-	(112,105)	(1,499,580)
Advances to subsidiaries		-	-	(842,307)	(608,901)
Repayment of advances to subsidiaries		-	-	28,458	1,873,257
Net cash used in investing activities		(559,252)	(1,510,230)	(1,271,991)	(1,621,589)

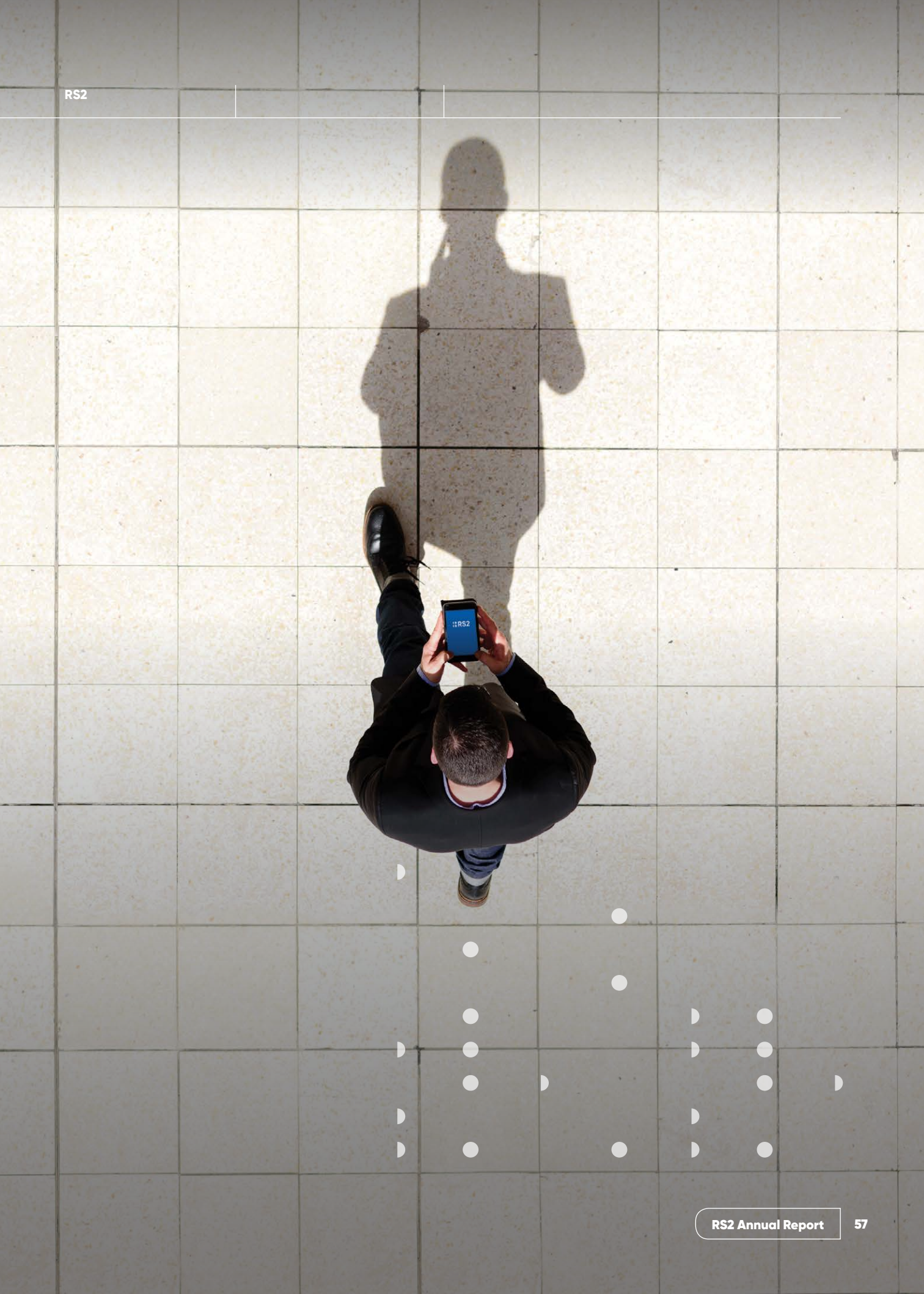
* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements

		THE GROUP		THE COMPANY	
		2016	2015	2016	2015
	Note	€	Restated* €	€	Restated* €
Cash flows from financing activities					
Dividends paid		(2,495,477)	(1,996,827)	(2,495,477)	(1,996,827)
Proceeds from bank borrowings		377,791	874,809	377,791	874,809
Repayments of bank borrowings		(968,585)	(866,091)	(968,585)	(866,091)
Net cash used in financing activities					
		(3,086,271)	(1,988,109)	(3,086,271)	(1,988,109)
Net (decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at 1 January		(975,984)	2,736,375	(1,243,070)	2,965,640
Effect of exchange rate fluctuations on cash held		7,193,681	4,512,037	6,634,403	3,723,494
		126,458	(54,731)	143,806	(54,731)
Cash and cash equivalents at 31 December	14	6,344,155	7,193,681	5,535,139	6,634,403

* Refer to Note 27

The Notes on pages 58 to 121 are an integral part of these financial statements



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Notes to the Financial Statements

For the year ended 31 December 2016

1 REPORTING ENTITY

RS2 Software p.l.c. (the "Company") is a public limited liability company domiciled and incorporated in Malta. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The consolidated and separate financial statements (the "financial statements") have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. These financial statements have also been drawn up in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta), (the "Act") to the extent that such provisions do not conflict with the applicable framework.

2.2 BASIS OF MEASUREMENT

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

- derivative financial instruments

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

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

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

2 BASIS OF PREPARATION (Continued)

2.4 USE OF ESTIMATES AND JUDGEMENTS

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

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have a significant risk resulting in a material adjustment in the amounts recognised in the financial statements is included in the following notes:

Note 2.4.1 impairment reviews

Note 9.4 impairment test for cash-generating unit containing goodwill:
key assumptions underlying recoverability

Note 26 measurement of defined benefit obligations: key actuarial assumptions

Note 28.1.2 recoverability assessment on trade and other receivables

2.4.1 IMPAIRMENT REVIEWS

The determination of the recoverable amount involves significant management judgement. In most cases this involves an assessment as to whether the carrying value of assets can be supported by the present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters, as noted on the next page.

2 BASIS OF PREPARATION (Continued)

2.4 USE OF ESTIMATES AND JUDGEMENTS (Continued)

2.4.1 IMPAIRMENT REVIEWS (Continued)

With respect to goodwill, IFRS require management to undertake a test for impairment at least annually and at each reporting period if there is an indication that the asset may be impaired. The Group currently undertakes an annual impairment test covering goodwill and also reviews other certain financial and non-financial assets at least annually to consider whether a full impairment review is required.

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

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

The selection of assumptions and estimates by management involves significant judgement and small changes in these assumptions could result in the determination of a recoverable amount which is materially different to the results obtained using the variables selected by the Company. This is particularly so in respect to the discount rate and growth rate assumptions used in the cash flow projections. Changes in the assumptions used could significantly affect the Group's impairment evaluation and, hence, results.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities.

3.1 BASIS OF CONSOLIDATION

3.1.1 SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to direct the relevant activities that significantly affect the subsidiary's returns. In assessing control, there should also be exposure, or rights, to variable returns from its involvement with the Group and the ability of the Group to use its powers over the subsidiary to affect the amount of the Group's returns.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 BASIS OF CONSOLIDATION (Continued)

3.1.1 SUBSIDIARIES (Continued)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

3.1.2 TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

3.2 FOREIGN CURRENCY

3.2.1 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2.2 FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 FOREIGN CURRENCY (Continued)

3.2.2 FOREIGN OPERATIONS (Continued)

Foreign currency differences are recognised in other comprehensive income and presented within equity in the foreign currency translation reserve. However, if the operation is a non-wholly owned subsidiary then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

3.3 FINANCIAL INSTRUMENTS

3.3.1 NON-DERIVATIVE FINANCIAL ASSETS

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans, receivables and available-for-sale financial assets and cash and cash equivalents.

3.3.1.1 LOANS AND RECEIVABLES

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 FINANCIAL INSTRUMENTS (Continued)

3.3.1.1 LOANS AND RECEIVABLES (Continued)

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

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

3.3.1.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value, whenever this is reliably measured, and changes therein, other than impairment losses (see note 3.8.2) and foreign currency differences on available-for-sale equity instruments (see note 3.2.1), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3.3.2 NON-DERIVATIVE FINANCIAL LIABILITIES

The Group initially recognises all financial liabilities, except for debt securities issued and subordinated liabilities, on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans, borrowings and trade and other payables.

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 FINANCIAL INSTRUMENTS (Continued)

3.3.3 DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING HEDGE ACCOUNTING

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

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

Derivatives are recognised initially at fair value; attributable transactions are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

3.3.3.1 CASH FLOW HEDGES

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

3.3.4 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

3.4 PROPERTY, PLANT AND EQUIPMENT

3.4.1 RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When items of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.4 PROPERTY, PLANT AND EQUIPMENT** (Continued)**3.4.1 RECOGNITION AND MEASUREMENT** (Continued)

Borrowing costs related to the acquisition and construction of qualifying assets are capitalised as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

3.4.2 SUBSEQUENT COSTS

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.4.3 DEPRECIATION

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 INTANGIBLE ASSETS

3.5.1 RE-ACQUIRED RIGHTS

When as part of a business combination, the Group re-acquires a right that it had previously granted to the acquiree to use one or more of its recognised or unrecognised assets, an intangible asset is recognised separately from goodwill. The value of the re-acquired right is measured on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value. A settlement gain or loss is recognised by the Group when the terms of the contract giving rise to a re-acquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items.

3.5.2 GOODWILL

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in profit or loss.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

3.5.3 INTERNALLY GENERATED COMPUTER SOFTWARE DEVELOPMENT

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

3.5.4 SOFTWARE RIGHTS

Software rights that are identifiable or arise from contractual or other legal rights are recognised as intangible assets if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Software rights are initially measured at cost. Subsequent to initial recognition, software rights are recognised at cost less any accumulated amortisation and any accumulated impairment losses.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.5 INTANGIBLE ASSETS** (Continued)**3.5.5 SUBSEQUENT EXPENDITURE**

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

3.5.6 AMORTISATION

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected patterns of consumption of the future economic benefits embodied in the asset.

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

• internally generated computer software development	15 years
• software rights	15 years
• other computer software	4 – 15 years

The amortisation method, useful life and residual value are reviewed at each financial year-end and adjusted if appropriate.

3.6 LEASED ASSETS

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leased assets from operating leases are not recognised in the Group's statement of financial position.

3.7 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are shown in the statement of financial position of the Company at cost less any impairment losses.

Loans advanced by the Company to its subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future, are treated as an extension to the Company's net investment in those subsidiaries and included as part of the carrying amount of investments in subsidiaries.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 IMPAIRMENT

3.8.1 INVESTMENTS IN SUBSIDIARIES

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

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

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

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

3.8.2 NON-DERIVATIVE FINANCIAL ASSETS

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised which causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.8 IMPAIRMENT** (Continued)**3.8.2 NON-DERIVATIVE FINANCIAL ASSETS** (Continued)

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in cumulative impairment losses attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3.8.3 NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its CGU ("cash-generating unit") exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.8 IMPAIRMENT** (Continued)**3.8.3 NON-FINANCIAL ASSETS** (Continued)

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of CGU) on a pro rata basis.

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

3.9 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group contributes towards the respective State pension defined contribution plan in accordance with local legislation, and to which, it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

3.10 SHARE-BASED PAYMENT TRANSACTIONS

The grant-date fair value of share-based payment awards granted to employees and is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related services and non-market performance conditions at the vesting date.

3.11 EMPLOYEE BENEFITS

Non-Competition post-employment benefits due to employees holding senior management positions are payable upon cessation for whatever reason based on either a fixed amount 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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11 EMPLOYEE BENEFITS** (Continued)

The liability recognised in the statement of financial position represents the present value of the expected future payments required to settle the obligation at the end of the reporting period. The present value of a defined benefit obligation is determined by discounting the estimated future cash outflows to be paid on termination using market yields. Such yields are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the estimated termination date. The 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. Such re-measurements are reflected immediately in retained earnings.

3.12 PROVISIONS

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

3.13 WARRANTIES

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

3.14 REVENUE**3.14.1 LICENCES**

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 REVENUE (Continued)

3.14.1 LICENCES (Continued)

For subscription license arrangements, also referred to as 'Comprehensive Packages', where the Company sells to customers the rights to BankWORKS® modules including also unspecified products as well as unspecified upgrades and enhancements during a specified term, the licence revenue is recognised rateably over the term of the arrangement. The persuasive evidence of these arrangements is in the form of written agreements (see also accounting policy 3.14.4).

3.14.2 MAINTENANCE

Maintenance consists of upgrades, enhancements, corrections and on-going support for BankWORKS®, as well as updates mandated by international card organisations. Maintenance is agreed to in the form of agreements and billed quarterly or annually in advance. Revenue from maintenance is recognised on a pro-rata basis with reference to the period to which it relates.

3.14.3 SERVICES

Professional services are provided to assist customers with the initial implementation of BankWORKS® and include other services requested by customers. Such services may include system implementation and integration, customisations, configurations, certification with international card organisations, project management, change requests, remote and on-site support, and user training.

Revenue from technical services which support the provision of processing services is recognised in profit or loss as it accrues. Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured and the rendering of services has been performed.

Revenue from services rendered is recognised in proportion to the stage of completion of the agreed services at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

3.14.4 COMPREHENSIVE PACKAGES

Comprehensive package agreements are contracted for a fixed term and grant to customers the right to use BankWORKS® modules, including unspecified modules that may be made available, initial implementation services, as well as unspecified upgrades and enhancements during the term of the agreement.

Revenue from comprehensive package agreements is recognised rateably over the term of the agreement unless revenue arising from separately identifiable deliverables can be measured reliably to reflect the substance of the transactions. Where separable deliverables can be identified, revenue is recognised upon satisfaction of the criteria for recognition of these deliverables and presented in accordance with the respective categories as described in accounting policies 3.14.1 to 3.14.3.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.16 FINANCE INCOME AND COSTS

Finance income comprises interest income on bank balances, loans and receivables, movements in provisions for non-operating exchange gains, finance income arising on measuring payables at amortised cost using the effective interest rate method and gains on hedging instruments recognised in the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

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

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

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

3.17 INCOME TAX

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 INCOME TAX (Continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.18 EARNINGS PER SHARE

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.19 SEGMENT REPORTING

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

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

4.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. According to the new standard, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)**4.1 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)**

IFRS 15 supersedes IAS 11, Construction Contracts and IAS 18, Revenue as well as related interpretations. As opposed to IAS 18 that specifically address revenue from (i) sale of goods, (ii) rendering of services and (iii) interest, royalties and dividends, IFRS 15 contains a single model that will apply to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

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

Revenue is recognized when, or as, the customer obtains control of the goods or services. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity's performance and the customer's payment.

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

This standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

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

4.2 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 (2014) replaces IAS 39 Financial Instruments: Recognition and Measurement and supersedes the previously published versions of IFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). IFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. IFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)

4.2 IFRS 9 FINANCIAL INSTRUMENTS (Continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. IFRS 9 is to be applied retrospectively but comparatives are not required to be restated. If an entity elects to early apply IFRS 9 it must apply all of the requirements at the same time.

The Group is currently looking at the impact of adopting IFRS 9 on the Consolidated Financial Statements and will determine the adoption date as well as the transition method.

4.3 IFRS 16 LEASES

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

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

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

5 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. When measuring the fair value of an asset or liability, the Group uses observable market data whenever sufficient data is available.

5 DETERMINATION OF FAIR VALUES (Continued)

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuations techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

5.1 INTANGIBLE ASSETS

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

5.2 INVESTMENTS IN EQUITY AND DEBT SECURITIES

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

5.3 TRADE AND OTHER RECEIVABLES

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is also determined for disclosure purposes.

5.4 NON-DERIVATIVE FINANCIAL LIABILITIES

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

5.5 DERIVATIVE FINANCIAL INSTRUMENTS

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

5 DETERMINATION OF FAIR VALUES (Continued)

5.6 SHARE-BASED PAYMENT TRANSACTIONS

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

6 FINANCIAL RISK MANAGEMENT

6.1 OVERVIEW

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

6.2 RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

6.3 CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash held with financial institutions.

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 CREDIT RISK (Continued)

6.3.1 TRADE AND OTHER RECEIVABLES

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate have less of an influence on credit risk.

58% of the Group's revenue is attributable to sales transactions with two major customers (2015: 64% attributable to sales transactions with two major customers) as per note 7.4. The Group's revenue is mainly generated through sales transactions concluded with customers situated in Europe (2015: Europe).

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

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures.

6.3.2 CASH AT BANK

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

6.4 LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations, which are associated with its financial liabilities that are settled by delivering cash or another financial asset, as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its cash flow requirements on a regular basis and ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

6.5 MARKET RISK

Market risk is the risk that changes in market prices, namely foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

6 FINANCIAL RISK MANAGEMENT (Continued)

6.5 MARKET RISK (Continued)

6.5.1 CURRENCY RISK

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the Euro (€). The currencies in which these transactions are primarily denominated is the USD and GBP.

The Group relies on natural hedges between inflows and outflows in currencies other than the Euro, and does not otherwise hedge against exchange gains or losses which may arise on the realisation of amounts receivable and settlement of amounts payable in foreign currencies.

6.5.2 INTEREST RATE RISK

The Group's borrowings are subject to an interest rate that varies according to revisions made to the Bank's Lending Base Rate. The Group has entered into an interest rate swap for the purpose of hedging the risk of changes in cash flows related to interest payments on one of its facilities.

6.6 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

7 OPERATING SEGMENTS

The Group has two reportable segments, as described below, which represent the Group's business units. The business units offer different services and are managed separately because they require different operating and marketing strategies. For each of the business units, the Group's Board of Directors reviews internal management reports on a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- **Licensing** – Licensing of the Group's BankWORKS® software to banks and service providers, including maintenance and enhanced services thereto.
- **Processing** – Processing of payment transactions utilising the Group's BankWORKS® software.

7 OPERATING SEGMENTS (Continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

7.1 INFORMATION ABOUT REPORTABLE SEGMENTS

	Licensing		Processing		Total	
	2016 €	2015 Restated* €	2016 €	2015 Restated* €	2016 €	2015 Restated* €
External revenues	15,267,519	17,939,759	1,903,772	1,497,855	17,171,291	19,437,614
Inter-segment revenues	361,504	66,090	-	41,600	361,504	107,690
Segment revenues	15,629,023	18,005,849	1,903,772	1,539,455	17,532,795	19,545,304
Finance income	243,493	174,573	159	749	243,652	175,322
Finance expense	(142,607)	(210,680)	(63,744)	(97,212)	(206,351)	(307,892)
Depreciation and amortisation	(1,120,335)	(1,522,441)	(312,106)	(310,815)	(1,432,441)	(1,833,256)
Movement in provision for impairment loss on receivables	(364,787)	1,169,280	-	-	(364,787)	1,169,280
Reportable segment profit/(loss) before income tax	1,540,932	6,613,341	(806,697)	(339,080)	734,235	6,274,261
Income tax (expense)/credit	(531,905)	(1,702,221)	104,222	95,114	(427,683)	(1,607,107)
Reportable segment assets	37,149,929	39,728,332	5,329,521	5,131,944	42,479,450	44,860,276
Capital expenditure	520,267	1,471,363	110,178	123,061	630,445	1,594,424
Reportable segment liabilities	9,740,202	11,263,056	3,673,050	5,322,807	13,413,252	16,585,863

* Refer to Note 27

7 OPERATING SEGMENTS (Continued)**7.2 RECONCILIATIONS OF REPORTABLE SEGMENT PROFIT OR LOSS,
ASSETS AND LIABILITIES, AND OTHER MATERIAL ITEMS**

	2016 €	2015 Restated* €
External Revenues		
Total revenue for reportable segments	17,532,795	19,545,304
Elimination of inter-segment transactions	(361,504)	(107,690)
Consolidated revenue	<u>17,171,291</u>	<u>19,437,614</u>
Finance income		
Total finance income for reportable segments	243,652	175,322
Elimination of inter-segment transactions	(52,619)	(90,972)
Consolidated finance income	<u>191,033</u>	<u>84,350</u>
Finance expense		
Total finance expense for reportable segments	206,351	307,892
Elimination of inter-segment transactions	(52,533)	(96,497)
Consolidated finance expense	<u>153,818</u>	<u>211,395</u>
Depreciation and amortisation		
Total depreciation and amortisation for reportable segments	1,432,441	1,833,256
Elimination of inter-segment transactions	(146,667)	(146,667)
Consolidated depreciation and amortisation	<u>1,285,774</u>	<u>1,686,589</u>
Reportable segment profit before income tax		
Total reportable segment profit before income tax for reportable segments	734,235	6,274,261
Elimination of inter-segment transactions	146,581	152,193
Consolidated reportable segment profit before income tax	<u>880,816</u>	<u>6,426,454</u>
Assets		
Total assets for reportable segments	42,479,450	44,860,276
Elimination of inter-segment balances	(10,599,407)	(9,669,802)
Consolidated total assets	<u>31,880,043</u>	<u>35,190,474</u>
Liabilities		
Total liabilities for reportable segments	13,413,252	16,585,863
Elimination of inter-segment balances	(3,398,541)	(5,325,078)
Consolidated total liabilities	<u>10,014,711</u>	<u>11,260,785</u>

* Refer to Note 27

7 OPERATING SEGMENTS (Continued)**7.3 GEOGRAPHICAL INFORMATION**

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

	Revenues €	Non-current assets €
31 December 2016		
Malta	581,764	14,148,221
UK and Ireland	10,714,953	-
Other countries	5,874,574	1,701,704
	<u>17,171,291</u>	<u>15,849,925</u>
31 December 2015		
Malta	459,064	14,520,581
UK and Ireland	12,780,346	-
Other countries	6,198,204	1,440,574
	<u>19,437,614</u>	<u>15,961,155</u>

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

7.4 MAJOR CUSTOMERS

For the year ended 31 December 2016, revenues from two (2015: two) major customers of the licensing segment amounted to €4,344,633 and €5,616,808 (2015: €4,711,690 and €7,622,485) of the Group's total revenues.

8 PROPERTY, PLANT AND EQUIPMENT**8.1 THE GROUP**

Cost	Land and buildings €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Balance at 1 January 2015	6,601,434	3,362,247	180,750	10,144,431
Additions	1,074,332	520,092	-	1,594,424
Effects of movement in exchange rates	-	11,838	-	11,838
Balance at 31 December 2015	7,675,766	3,894,177	180,750	11,750,693
Balance at 1 January 2016	7,675,766	3,894,177	180,750	11,750,693
Additions	155,551	449,271	25,623	630,445
Disposals	-	-	(29,891)	(29,891)
Effects of movement in exchange rates	-	3,735	-	3,735
Balance at 31 December 2016	7,831,317	4,347,183	176,482	12,354,982
Depreciation				
Balance at 1 January 2015	140,251	1,852,749	70,008	2,063,008
Depreciation for the year	95,734	485,240	36,153	617,127
Effects of movement in exchange rates	-	11,314	-	11,314
Balance at 31 December 2015	235,985	2,349,303	106,161	2,691,449
Balance at 1 January 2016	235,985	2,349,303	106,161	2,691,449
Depreciation for the year	98,826	523,204	31,488	653,518
Released on disposals	-	-	(28,895)	(28,895)
Effects of movement in exchange rates	9	4,084	4	4,097
Balance at 31 December 2016	334,820	2,876,591	108,758	3,320,169
Carrying amounts				
At 1 January 2015	6,461,183	1,509,498	110,742	8,081,423
At 31 December 2015	7,439,781	1,544,874	74,589	9,059,244
At 31 December 2016	7,496,497	1,470,592	67,724	9,034,813

8 PROPERTY, PLANT AND EQUIPMENT (Continued)**8.2 THE COMPANY**

Cost	Land and buildings €	Equipment, furniture and fittings €	Motor vehicles €	Total €
Balance at 1 January 2015	6,601,435	2,726,366	180,750	9,508,551
Additions	1,074,332	397,031	–	1,471,363
Balance at 31 December 2015	7,675,767	3,123,397	180,750	10,979,914
Balance at 1 January 2016	7,675,767	3,123,397	180,750	10,979,914
Additions	129,029	233,018	–	362,047
Disposals	–	–	(29,891)	(29,891)
Balance at 31 December 2016	7,804,796	3,356,415	150,859	11,312,070
Depreciation				
Balance at 1 January 2015	140,252	1,482,202	70,008	1,692,462
Depreciation for the year	95,734	321,092	36,153	452,979
Balance at 31 December 2015	235,986	1,803,294	106,161	2,145,441
Balance at 1 January 2016	235,986	1,803,294	106,161	2,145,441
Depreciation for the year	97,264	353,752	30,851	481,867
Released on disposals	–	–	(28,895)	(28,895)
Balance at 31 December 2016	333,250	2,157,046	108,117	2,598,413
Carrying amounts				
At 1 January 2015	6,461,183	1,244,164	110,742	7,816,089
At 31 December 2015	7,439,781	1,320,103	74,589	8,834,473
At 31 December 2016	7,471,546	1,199,369	42,742	8,713,657

8.3 No borrowing costs were capitalised during the year ended 31 December 2016. Borrowing costs capitalised in 2015 amounted to €3,549.

9 INTANGIBLE ASSETS**9.1 THE GROUP**

Cost	Goodwill €	Internally generated computer software €	Software rights €	Other computer software €	Total €
Balance at 1 January 2015	613,505	12,473,989	3,000,000	678,276	16,765,770
Additions	-	860,844	-	-	860,844
Effects of movement in exchange rates	70,665	-	-	78,130	148,795
Balance at 31 December 2015	684,170	13,334,833	3,000,000	756,406	17,775,409
Balance at 1 January 2016	684,170	13,334,833	3,000,000	756,406	17,775,409
Additions	-	498,177	-	-	498,177
Effects of movement in exchange rates	22,457	-	-	24,823	47,280
Balance at 31 December 2016	706,627	13,833,010	3,000,000	781,229	18,320,866
Amortisation					
Balance at 1 January 2015	-	9,179,036	625,000	-	9,804,036
Charge for the year	-	869,462	200,000	-	1,069,462
Balance at 31 December 2015	-	10,048,498	825,000	-	10,873,498
Balance at 1 January 2016	-	10,048,498	825,000	-	10,873,498
Charge for the year	-	432,256	200,000	-	632,256
Balance at 31 December 2016	-	10,480,754	1,025,000	-	11,505,754
Carrying amounts					
At 1 January 2015	613,505	3,294,953	2,375,000	678,276	6,961,734
At 31 December 2015	684,170	3,286,335	2,175,000	756,406	6,901,911
At 31 December 2016	706,627	3,352,256	1,975,000	781,229	6,815,112

9 INTANGIBLE ASSETS (Continued)**9.2 THE COMPANY**

Cost	Internally generated computer software €	Software rights €	Total €
Balance at 1 January 2015	12,473,989	3,000,000	15,473,989
Additions	860,844	–	860,844
Balance at 31 December 2015	13,334,833	3,000,000	16,334,833
Balance at 1 January 2016	13,334,833	3,000,000	16,334,833
Additions	498,177	–	498,177
Balance at 31 December 2016	13,833,010	3,000,000	16,833,010
Amortisation			
Balance at 1 January 2015	9,179,036	625,000	9,804,036
Amortisation for the year	869,462	200,000	1,069,462
Balance at 31 December 2015	10,048,498	825,000	10,873,498
Balance at 1 January 2016	10,048,498	825,000	10,873,498
Amortisation for the year	432,256	200,000	632,256
Balance at 31 December 2016	10,480,754	1,025,000	11,505,754
Carrying amounts			
At 1 January 2015	3,294,953	2,375,000	5,669,953
At 31 December 2015	3,286,335	2,175,000	5,461,335
At 31 December 2016	3,352,256	1,975,000	5,327,256

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

9 INTANGIBLE ASSETS (Continued)**9.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL**

Goodwill arises 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. On 13 May 2016 the Company registered for a change in name from Transworks LLC to RS2 Software LLC. For the purposes of impairment testing of goodwill arising on the acquisition of Transworks LLC, the recoverable amount of the related cash generating unit containing goodwill was based on its value in use and was determined by discounting the projected future cash flows to be generated from RS2 Software LLC. For this purpose management prepared projections for an explicit five year period 2017 – 2021 (2015: five year period 2016 – 2020) and applied growth rates for subsequent years.

The key assumptions used in the calculation of the value in use of RS2 Software LLC are the projected level of operations, EBITDA margins and the discount rate used.

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

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

The underlying assumptions are consistent with prior years, with changes in estimates being disclosed hereafter.

Various factors such as newness to the market and implementation delays from potential clients' end have slowed the pace of the Group's implementation plan leading the Group to revise its revenue forecasted projections to realistically reflect current market indicators. Notwithstanding this, the Group is persistent in its efforts to penetrate the US market, and aims to achieve the revised projections through more intensive marketing, investment in new technology, by building sales teams, creating distribution channels and by providing solutions that are currently not available within the US. To this end, the Group has already recruited an Office Manager and a Manager of Operations in 2016 with a CEO in the US planned to join in the second quarter of 2017. Furthermore, a very important milestone in the United States was achieved when the Group secured a sponsorship with a US bank. The sponsorship is essential for the Group to carry out its managed services business.

Cash flows beyond 2021 have been extrapolated using a terminal growth rate of 0.12% (2015: 1.5%). The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumption that a market participant would make. The post-tax discount rate applied to the projected cash flows is of 17.9% (2015: 25.0%). Pre-tax discount rate is 24.2% (2015: 33.8%).

9 INTANGIBLE ASSETS (Continued)**9.4 IMPAIRMENT TESTING FOR CASH-GENERATING UNIT CONTAINING GOODWILL**

(Continued)

This rate reflects the current market assessments of the time value of money and management's assessment of the risks specific to the projected cash flows. At a post-tax discount rate of 18.7%, the carrying amount would exceed the recoverable amount.

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

The recoverable amount of RS2 Software LLC was determined to be higher than its carrying amount. The carrying amount comprises the cost of the investment, loans and advances to the Company at 31 December 2016 which stood at €2.7m. The selection of assumptions and estimates by management involves significant judgment and small changes in these assumptions could result in the determination of a recoverable amount which is materially different to the results obtained using the variables selected by the Group and may lead to an impairment loss being recognised. This is particularly so in respect to the discount rate, timing of cash flows and projected level of operations used in the cash flow projections.

The estimated recoverable amount of RS2 Software LLC exceeds its carrying amount by approximately €0.3m. Since acquiring the additional shares in the Company, the Group has intensified its expansion plans for the United States. The Company is making use of business development advisors in the US to assist it in penetrating the market and currently holds positive prospects for new business. Management's projections and the estimate of the recoverable amount of RS2 Software LLC may be impacted by the development of current initiatives. A reasonably possible change in management's assumptions could cause the carrying amount of the Group's investment in the subsidiary including goodwill to materially exceed the recoverable amount. The business plan is based on the management's expectation of the penetration of the US market. Should the annual net cash inflows deteriorate by more than 5% of that projected for each year from 2017 to 2021, then the carrying amount would exceed the recoverable amount, irrespective of whether such changes emanate from changes in revenue growth rates or changes in EBITDA growth rates.

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

9.6 The Group's internally generated computer software comprises the continuous development and innovation of enterprise transaction processing software under the trade name of BankWORKS® by highly qualified and experienced team of professional employees. Expenditure on the development of computer software is capitalised including the cost of direct labour and an appropriate proportion of overheads. Capitalised expenditure on computer software is stated at cost less accumulated amortisation and any impairment losses.

10 INVESTMENTS IN SUBSIDIARIES**10.1**

	THE COMPANY	
	2016	2015
	€	€
Balance at 1 January	2,730,104	1,148,774
Acquisitions	112,103	1,499,580
Loans to subsidiaries	2,840,727	-
Discount unwind on accrued income receivable from subsidiary	54,328	81,750
Balance at 31 December	5,737,262	2,730,104

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

10.3

	Place of business	Ownership interest fully paid-up		Nature of business
		2016	2015	
		%	%	
RS2 Smart Processing Ltd.	RS2 Buildings, Fort Road, Mosta MST1859 Malta	99.99	99.99	Transaction processing services with the use of BankWORKS®
RS2 Software LLC (formerly Transworks LLC)	Twelfth floor, Suite No. 1285, South Ulster, Denver, Colorado USA	64.20	64.20	Transaction processing services with the use of BankWORKS®
RS2 Software LAC LTDA	Rua Manoel de Nóbrega Município de São Paulo Estado de São Paulo Brazil	99.00	99.00	Provision of support and other related services to the Company and its clients
RS2 Software APAC Inc.	Unit 1501 AccraLaw Tower 2nd Avenue Corner 30th Street Bonifacio Global City Barangay Fort Bonifacio Taguig City 1634, Metro Manila Philippines	99.99	-	Provision of support and other related services to the Company and its clients

10.4 On 12 June 2009, the Company acquired control of RS2 Software LLC, a transaction processing company in the United States of America, by acquiring 26% of the shares and voting interests in the company. On 24 September 2014, the Company acquired a further 38.2% shareholding in RS2 Software LLC.

10 INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

10.7 On 4 April 2016, the Company subscribed to and was allotted 55,745 shares of Php100 each in RS2 Software APAC Inc., a company registered in the Philippines, representing 99.99% of the share capital of this subsidiary.

10.8 During 2015, a Parental Guarantee was entered into between the Company and a supplier which ensures the payments of any monetary obligations owed by one of the subsidiaries. As at the end of 2016, the guarantee amounted to €883,158.

11 OTHER INVESTMENT**11.1****GROUP AND COMPANY**

	2016 €	2015 €
Non-current		
Available-for-sale financial asset	131,785	131,785

11.2 Non-current available-for-sale financial asset comprises an investment in a company incorporated in the United States of America that is engaged in the provision of end-to-end electronic payment platforms. The investment is carried at cost less any impairment losses. Fair value information for this investment has not been attributed because the investment is an investment in an equity instrument that does not have a quoted market price and its fair value cannot be measured reliably. Fair value cannot be measured reliably because the range of reasonable fair values is significant and the probabilities of the various estimates cannot be reasonably measured.

12 TRADE AND OTHER RECEIVABLES**12.1**

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Non-current				
Loans and receivables from subsidiaries	-	-	23,751	2,185,830
Current				
Trade receivables owed by third parties	1,879,777	2,850,520	1,804,112	2,631,526
Other receivables	119,706	157,522	-	175,537
	1,999,483	3,008,042	1,804,112	2,807,063

12.2 As at 31 December 2016, non-current amounts receivable from subsidiaries were reclassified and included as part of equity investment. These are unsecured, interest free and repayable at the discretion of the borrower (refer to note 10.1).

12.3 Trade receivables for the Group and Company are shown net of impairment losses amounting to €165,992 (2015: €183,705).

12.4

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Current				
Loans and receivables from related parties				
Amounts owed by parent company	754,834	744,380	754,834	744,380
Amounts owed by subsidiaries	-	-	636,385	-
Amounts owed by other related parties	163,732	66,042	163,732	66,042
	918,566	810,422	1,554,951	810,422

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

12.6 Amounts due by subsidiaries and other related parties as at 31 December 2016 were unsecured, repayable on demand and did not bear any interest.

12.7 Transactions with related parties are set out in note 33 to these financial statements.

12.8 The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

13 ACCRUED INCOME**13.1**

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Non-current				
Accrued income owed by third parties	-	354,000	-	354,000
Accrued income owed by subsidiary	-	-	1,241,928	1,707,205
	-	354,000	1,241,928	2,061,205
Current				
Accrued income owed by third parties	1,071,201	2,052,050	868,753	1,912,981
Accrued income owed by parent company	120,000	120,000	120,000	120,000
Accrued income owed by subsidiary	-	-	505,746	553,600
Accrued income owed by related parties	4,820,350	5,047,551	4,820,342	5,047,551
	6,011,551	7,219,601	6,314,841	7,634,132

13.2 Accrued income owed by third parties for the Group and Company are shown net of impairment losses amounting to €355,500 (2015: €nil).

13.3 Transactions with related parties are set out in note 33 to these financial statements.

14 CASH AND CASH EQUIVALENTS**14.1**

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Cash at bank	6,335,626	7,189,013	5,526,674	6,629,735
Cash in hand	8,529	4,668	8,465	4,668
	6,344,155	7,193,681	5,535,139	6,634,403

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

15 CAPITAL AND RESERVES**15.1 SHARE CAPITAL**

	GROUP AND COMPANY	
	2016 No.	2015 No.
Ordinary Shares		
On issue at 1 January – fully paid-up	89,999,912	44,999,956
Bonus issue	5,000,000	–
Share split	63,333,275	44,999,956
On issue at 31 December – fully paid-up	158,333,187	89,999,912

At 31 December 2016, the authorised share capital comprised 166,666,667 (2015: 100,000,000) ordinary shares at a nominal value of €0.06 each (2015: €0.10 each). On 23 June 2016, the Company resolved to re-designate the authorised share capital previously consisting of 100,000,000 Ordinary Shares of €0.10 each to 166,666,667 Ordinary Shares of €0.06. Following the share split, the Company's share capital is of €9,499,991 divided into 158,333,187 of €0.06 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company. All shares rank equally with regards to the Company's residual assets.

15.2 SHARE PREMIUM

Share premium amounting to €792,743 (2015: €1,292,743) represents the balance of premium on issue of five million (5,000,000) ordinary shares of a nominal value of €0.20 each at a share price of €0.80 each. The balance of share premium as at 31 December 2016 is shown net of transaction costs of €207,266 directly attributable to the issue of the ordinary shares. During the year ended 31 December 2016, the Company allotted 5,000,000 bonus shares (1 for every 18 held) approved by the Annual General Meeting held on 23 June 2016 at a nominal value of €0.10 each, amounting to €500,000 out of its share premium reserve. During the year ended 31 December 2014, the Company allotted 2,500,000 bonus shares (1 for every 17 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2013, the Company allotted 2,500,000 bonus shares (1 for every 16 held) at a nominal value of €0.20 each, amounting to €500,000 out of its share premium reserve. During 2012, the Company allotted 2,499,956 bonus shares (1 for every 15 held) at a nominal value of €0.20 each, amounting to €499,991 out of its share premium reserve.

15.3 RESERVES**15.3.1 TRANSLATION RESERVE**

The translation reserve of the Group comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. This reserve is non-distributable.

15.3.2 SHARE OPTION RESERVE

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

15 CAPITAL AND RESERVES (Continued)**15.4 DIVIDENDS**

The following dividends were declared and paid by the Company:

	GROUP AND COMPANY	
For the year ended 31 December	2016	2015
	€	€
Dividend, net of income tax	2,501,998	1,999,978
Dividend per ordinary share	0.0278	0.0444

After 31 December 2016, the following dividend was proposed by the directors for 2016.
This dividend has not been provided for and there are no income tax consequences.

	2016
	€
€0.01c per ordinary share	<u>€1,583,332</u>

15.5 AVAILABILITY OF RESERVES FOR DISTRIBUTION

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€	Restated*	€	Restated*
		€		€
Distributable	11,506,618	13,409,110	16,791,843	18,068,040
Non-distributable	1,000,910	1,529,262	891,139	1,413,739
	12,507,528	14,938,372	17,682,982	19,481,779

* Refer to Note 27

16 BANK BORROWINGS**16.1****GROUP AND COMPANY****Non-current liabilities**

Non-current portion of secured bank loan:

Repayable between one and five years

Repayable after five years

At end of year

2016 €	2015 €
1,849,509	2,399,422
10,390	66,359
1,859,899	2,465,781

Current liabilities

Current portion of secured bank loan

993,937	978,850
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16.2 Bank borrowings represent the balances on four banking facilities. The first facility is repayable over a period of 10 years from the first drawdown, is repayable in full by 13 August 2020, and is subject to interest at the rate of 2.5% over the 3-month euribor rate. The second facility is repayable over a period of 5 years from the first drawdown, is repayable in full by 18 March 2019, and is subject to interest at the rate of 3% over the 3-month euribor rate. The third facility is repayable over a period of 5 years from the first drawdown, is repayable in full by 2 July 2020, and is subject to interest at the rate of 3% over the 3-month euribor rate. The fourth facility is repayable over a period of 7 years, is repayable in full by 12 May 2022 and is subject to interest at the rate of 3% over the 3-month euribor rate.

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

16.3 During 2011, the Company entered into an interest rate swap for the purpose of hedging the risk of changes in cash flows related to interest payments on the first facility. The fair value measurement for the interest rate swap has been categorised as a Level 2 fair value based on inputs other than quoted prices but that are observable for the asset.

16.4 The Group's exposure to interest rate risk for financial assets and liabilities are disclosed in note 28.

16.5 The Group's exposure to liquidity risk is disclosed in note 28.

17 DEFERRED TAX ASSETS AND LIABILITIES**17.1 DEFERRED TAX ASSETS AND LIABILITIES ARE ATTRIBUTABLE TO THE FOLLOWING:****The Group**

	Assets		Liabilities		Balance	
	2016 €	2015 €	2016 €	2015 €	2016 €	2015 €
Plant and equipment	70	-	(136,144)	(143,269)	(136,074)	(143,269)
Intangible assets	-	-	(2,126,533)	(2,020,594)	(2,126,533)	(2,020,594)
Impairment loss on receivables	182,522	69,823	-	-	182,522	69,823
Provision for exchange fluctuations	-	-	(15,830)	(299,041)	(15,830)	(299,041)
Unabsorbed losses	376,017	375,915	-	-	376,017	375,915
Unabsorbed capital allowances	961,633	715,161	-	-	961,633	715,161
Tax assets/(liabilities)	1,520,242	1,160,899	(2,278,507)	(2,462,904)	(758,265)	(1,302,005)
Set off of tax	(1,520,242)	(1,160,899)	1,520,242	1,160,899	-	-
Net tax liabilities	-	-	(758,265)	(1,302,005)	(758,265)	(1,302,005)

The Company

	Assets		Liabilities		Balance	
	2016 €	2015 €	2016 €	2015 €	2016 €	2015 €
Plant and equipment	-	-	(136,144)	(143,321)	(136,144)	(143,321)
Intangible assets	-	-	(1,549,033)	(1,584,260)	(1,549,033)	(1,584,260)
Impairment loss on receivables	182,522	69,823	-	-	182,522	69,823
Provision for exchange fluctuations	-	-	(15,830)	(299,041)	(15,830)	(299,041)
Tax assets/(liabilities)	182,522	69,823	(1,701,007)	(2,026,622)	(1,518,485)	(1,956,799)
Set off of tax	(182,522)	(69,823)	182,522	69,823	-	-
Net tax liabilities	-	-	(1,518,485)	(1,956,799)	(1,518,485)	(1,956,799)

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

17 DEFERRED TAX ASSETS AND LIABILITIES (Continued)**17.3 MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR****The Group**

	Balance 1 Jan 2015 €	Recognised in profit or loss €	Balance 1 Jan 2016 €	Recognised in profit or loss €	Balance 31 Dec 2016 €
Plant and equipment	(164,304)	21,035	(143,269)	7,195	(136,074)
Intangible assets	(2,073,969)	53,375	(2,020,594)	(105,939)	(2,126,533)
Impairment loss on receivables	479,071	(409,248)	69,823	112,699	182,522
Provision for exchange fluctuations	(230,165)	(68,876)	(299,041)	283,211	(15,830)
Unabsorbed losses	375,915	-	375,915	102	376,017
Unabsorbed capital allowances	478,786	236,375	715,161	246,472	961,633
	(1,134,666)	(167,339)	(1,302,005)	543,740	(758,265)

The Company

	Balance 1 Jan 2015 €	Recognised in profit or loss €	Balance 1 Jan 2016 €	Recognised in profit or loss €	Balance 31 Dec 2016 €
Plant and equipment	(164,339)	21,018	(143,321)	7,177	(136,144)
Intangible assets	(1,778,801)	194,541	(1,584,260)	35,227	(1,549,033)
Impairment loss on receivables	479,071	(409,248)	69,823	112,699	182,522
Provision for exchange fluctuations	(230,165)	(68,876)	(299,041)	283,211	(15,830)
	(1,694,234)	(262,565)	(1,956,799)	438,314	(1,518,485)

18 TRADE AND OTHER PAYABLES**18.1**

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Trade payables	448,131	701,617	287,350	660,467
Other payables	-	-	42,758	-
Dividends payable	18,604	12,084	18,604	12,084
Other taxes and social securities	362,790	402,137	351,453	402,137
Amounts due to other related parties	20,186	7,080	29,378	7,080
	849,711	1,122,918	729,543	1,081,768

18.2 Transactions with related parties are set out in note 33 to these financial statements.

18.3 The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

19 ACCRUALS AND DEFERRED INCOME**19.1 ACCRUALS**

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Current				
Accrued expenses owed to third parties	828,974	587,456	372,183	546,052

19.2 Deferred income classified as current liabilities for the Group amounting to €1,647,989 (2015: €1,334,103) and Company amounting to €1,643,241 (2015: €1,302,584) consists of customer advances for contracted work and maintenance fees recognised on a pro-rata basis with reference to the period to which they relate.

20 REVENUE

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

20.1 CATEGORY OF ACTIVITY

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Licence fees	3,370,000	3,826,880	3,370,000	3,826,880
Service fees	10,506,310	12,056,708	8,812,169	10,657,138
Maintenance fees	2,007,102	2,281,829	2,150,143	2,249,634
Comprehensive packages	784,000	836,996	784,000	836,996
Re-imbursement of expenses	503,879	435,201	512,711	435,201
	17,171,291	19,437,614	15,629,023	18,005,849

20.2 GEOGRAPHICAL MARKETS

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Europe	16,411,709	18,221,525	14,869,441	16,789,760
Middle East	595,342	592,305	595,342	592,305
Asia	164,240	623,784	164,240	623,784
	17,171,291	19,437,614	15,629,023	18,005,849

21 PROFIT BEFORE INCOME TAX

21.1 The Group's profit before income tax includes total fees charged by the auditors of the Company during 2016 for:

	€
Auditors' remuneration	59,740
Tax advisory services	29,908
Other non-audit services	64,266

The fee payable to the auditor of a subsidiary in relation to audit services for 2016 amounts to €5,800 (2015: €5,000).

21.2 OTHER INCOME

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Realised operating exchange gains	9,807	333,622	-	333,683
Unrealised operating exchange gains	-	251,520	-	251,520
Other income	23,237	37,662	22,578	37,662
Gains from disposal of asset	8,004	-	8,004	-
	41,048	622,804	30,582	622,865

21.3 OTHER EXPENSES

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Realised operating exchange losses	477,350	-	477,350	-
Unrealised operating exchange losses	953,146	-	952,917	-
Movement in provision for impairment loss on trade receivables and accrued income	364,787	(1,169,280)	364,787	(1,169,280)
Bad debts written off	347,423	2,365,523	347,423	2,365,523
Other expenses	3,728	-	-	-
	2,146,434	1,196,243	2,142,477	1,196,243

22 FINANCE INCOME AND COSTS

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Bank interest income	1,840	5,434	1,681	4,685
Interest on loans and receivables	10,453	8,117	45,307	67,572
Non-operating unrealised exchange gain	143,807	-	143,806	-
Discount unwind on trade receivables and accrued income	-	30,237	17,766	61,754
Change in fair value of interest rate swap	34,933	40,562	34,933	40,562
Finance income	191,033	84,350	243,493	174,573
Bank interest expense	(124,491)	(151,997)	(124,466)	(151,997)
Interest on late payment	(18,138)	(4,667)	(17,842)	(3,952)
Non-operating unrealised exchange loss	-	(54,731)	-	(54,731)
Discount unwind on trade receivables and accrued income	(11,189)	-	-	-
Finance costs	(153,818)	(211,395)	(142,308)	(210,680)
Net finance income/(costs)	37,215	(127,045)	101,185	(36,107)

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

23 INCOME TAX EXPENSE**23.1 RECOGNISED IN PROFIT OR LOSS**

		THE GROUP		THE COMPANY	
		2016 €	2015 €	2016 €	2015 €
Current tax expense	Note				
Current tax charge for the year		(966,381)	(1,419,204)	(963,421)	(1,419,204)
Tax withheld in foreign jurisdictions		-	(2,615)	-	(2,615)
Tax payable on interest received from related parties		-	(17,142)	-	(17,142)
Withholding tax on interest received		(276)	(807)	(252)	(695)
Foreign tax charge for the year		(4,766)	-	-	-
		(971,423)	(1,439,768)	(963,673)	(1,439,656)
Deferred tax expense					
Origination and reversal of temporary differences	17.3	543,740	(167,339)	438,314	(262,565)
Income tax expense		(427,683)	(1,607,107)	(525,359)	(1,702,221)

23 INCOME TAX EXPENSE (Continued)**23.2 RECONCILIATION OF EFFECTIVE TAX RATE**

The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Company's country of incorporation, are reconciled as follows:

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Profit before tax	880,816	6,426,454	1,757,513	6,632,589
Income tax using the domestic income tax rate of 35%	(308,286)	(2,249,259)	(615,130)	(2,321,406)
Tax effect of:				
Non-taxable income	34,143	55,507	34,143	55,507
Non-deductible expenses	(334,689)	(42,112)	(116,933)	(11,663)
Different tax rates on bank interest income	368	1,086	336	937
Depreciation charges not deductible by way of capital allowances	(13,854)	38,930	(12,208)	38,930
Investment tax credit given by Business Promotion Act incentives enacted in Malta	143,331	535,474	143,331	535,474
Surrendering of loss from subsidiary	-	-	41,102	-
Elimination of inter-company transaction	51,304	53,267	-	-
Income tax expense	(427,683)	(1,607,107)	(525,359)	(1,702,221)

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

24 EARNINGS PER SHARE

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

Earnings per share of the Group and Company for the year ended 31 December 2016 amounted to €0.004 and €0.008 respectively (2015: €0.030 and €0.031).

The earnings per share was derived by dividing the profit attributable to ordinary shareholders of the Group and the Company by 158,333,187 (2015: 89,999,912), being the equivalent number of ordinary shares in issue and ranking for dividend during the year.

During the year, there was an increase in the number of ordinary shares held through a bonus issue and share-split (see note 15.1). The calculation of earnings per share for the comparative year has been therefore adjusted retrospectively and based on the revised number of shares held at the end of the current year.

25 PERSONNEL EXPENSES

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

		THE GROUP		THE COMPANY	
	Note	2016 €	2015 Restated* €	2016 €	2015 Restated* €
Directors' emoluments:					
Fees		120,665	82,695	120,665	82,695
Remuneration		480,889	686,332	360,889	566,332
Non-competition benefits	26	27,250	20,595	21,103	20,595
Indemnity insurance		12,189	12,155	12,189	12,155
Fringe benefits		64,080	52,563	64,080	52,563
Key management personnel emoluments:					
Remuneration		486,178	518,745	334,596	348,094
Non-competition benefits	26	92,078	13,033	87,969	6,976
Fringe benefits		61,145	35,347	56,320	30,801
		1,344,474	1,421,465	1,057,811	1,120,211
Wages and salaries		6,104,926	4,756,373	5,417,515	4,399,755
Social security contributions		425,416	348,453	385,141	333,784
		7,874,816	6,526,291	6,860,467	5,853,750

* Refer to Note 27

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

		THE GROUP		THE COMPANY	
		2016 No.	2015 No.	2016 No.	2015 No.
Operating		173	156	165	150
Management and administration		44	32	39	28
		217	188	204	178

26 EMPLOYEE BENEFITS

26.1 Non-Competition post-employment benefits due to employees holding senior management positions are payable upon cessation based on an agreed fixed amount or the then applicable annual salary. Such benefits are commensurate to the non-compete clauses which bind personnel not to compete with the Company, or its subsidiaries, for periods ranging between one and three years. This liability is recognised in the statement of financial position and represents the present value of the defined benefit obligation as at 31 December 2016 based on the following:

- (i) Discount rate, determined by reference to market yields at the end of the reporting period. This discount rate is used to discount the liability to the net present value
- (ii) The expectation of the respective employees' termination date
- (iii) The expected future salary growth in line with the Group's policies

26 EMPLOYEE BENEFITS (Continued)

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

When estimating the expected years to retirement, the directors considered the current age and the respective tenure of the key management personnel so far. It was concluded that a maximum term of 10 years 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	
	2016 €	2015* €	2016 €	2015* €
Post-employment liabilities				
Present value at 1 January	1,914,139	1,876,515	1,358,420	1,330,848
Recognised in profit or loss:				
Recognised during the year	79,896	-	79,896	-
Discount unwind	39,432	37,624	29,176	27,572
Present value at 31 December	2,033,467	1,914,139	1,467,492	1,358,420

* Refer to Note 27

	THE GROUP		THE COMPANY	
	2016 €	2015* €	2016 €	2015* €
Non-current liabilities				
Employee benefits	1,922,045	1,914,139	1,356,070	1,358,420
Current liabilities				
Employee benefits	111,422	-	111,422	-

* Refer to Note 27

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

- (i) Interest risk, since a decrease in market yield will increase the liability
- (ii) Longevity risk, since the longer the key management person remains in office the higher the liability

26 EMPLOYEE BENEFITS (Continued)

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

	THE GROUP		THE COMPANY	
	2016	2015*	2016	2015*
Discount rates	1.86% - 2.02%	1.86% - 2.05%	2.02%	2.05%
Expected years to termination (weighted average)	8.64 yrs	9.59 yrs	8.3 yrs	9.2 yrs

* Refer to Note 27

Due to the nature of the assumptions, in accordance with the provisions of IAS 19, the Group and the Company did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

The Group and Company are providing sensitivity analysis in connection for the key assumption applied. This analysis is prepared at the end of each reporting period and shows how the liability would be affected by such 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. The present value of the post-employment obligation were calculated using the projected unit credit method at the end of the reporting period.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the net present value of the post-employment benefit obligation decreases by €165,466 (increases by €182,490) at Group level and €114,265 (increases by €126,011) at Company level.
- If the expected years to termination increases (decreases) by two years with all other assumptions held constant, the net present value of the post-employment benefit obligation increases by €61,730 (decreases by €64,441) at Group level and by €49,997 (decreases by €52,339) at Company 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 €159,441 (decreases by €146,296) at Group level and by €104,779 (decreases by €96,012) at Company level.

27 PRIOR YEAR ADJUSTMENT

During 2016, the Group noted that a provision for post-employment benefits payable to key management personnel upon their departure (for whatever reason) had been erroneously treated in the financial statements of the Group and the Company since 2008. The Group had been providing for these employee benefits in the year in which settlement was effected (that is on the said departure), rather than when such obligations were contracted for. As a consequence, the personnel expenses recognised by the Group and the Company since 2008 had been understated and no related net defined benefit liabilities had been carried in the Statements of financial position of the Group and the Company. The error has been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impact on the Group's and Company's financial statements.

27.1 Statements of financial position

THE GROUP			
Impact of prior year adjustment			
1 January 2015	As previously reported €	Adjustments €	As restated €
Total Assets	32,160,382	-	32,160,382
Employee benefits	-	1,876,515	1,876,515
Total Liabilities	9,219,598	1,876,515	11,096,113
Accumulated Profits	12,357,823	(1,876,515)	10,481,308
Total Equity	22,940,784	(1,876,515)	21,064,269
31 December 2015	As previously reported €	Adjustments €	As restated €
Total Assets	35,190,474	-	35,190,474
Employee benefits	-	1,914,139	1,914,139
Total Liabilities	9,346,646	1,914,139	11,260,785
Accumulated Profits	15,323,249	(1,914,139)	13,409,110
Total Equity	25,843,828	(1,914,139)	23,929,689

Statements of financial position

THE COMPANY			
Impact of prior year adjustment			
1 January 2015	As previously reported €	Adjustments €	As restated €
Total Assets	36,455,804	-	36,455,804
Employee benefits	-	1,330,848	1,330,848
Total Liabilities	9,655,326	1,330,848	10,986,174
Accumulated Profits	16,287,701	(1,330,848)	14,956,853
Total Equity	26,800,478	(1,330,848)	25,469,630
31 December 2015	As previously reported €	Adjustments €	As restated €
Total Assets	39,727,557	-	39,727,557
Employee benefits	-	1,358,420	1,358,420
Total Liabilities	9,887,367	1,358,420	11,245,787
Accumulated Profits	19,426,460	(1,358,420)	18,068,040
Total Equity	29,840,190	(1,358,420)	28,481,770

27 PRIOR YEAR ADJUSTMENT (Continued)**27.2 Statements of comprehensive income**

For the year ended 31 December 2015	THE GROUP Impact of prior year adjustment		
	As previously reported €	Adjustments €	As restated €
Cost of sales	(10,049,062)	(34,679)	(10,083,741)
Marketing and Promotional Expenses	(552,551)	(1,688)	(554,239)
Administrative Expenses	(2,532,283)	(1,257)	(2,533,540)
Profit	4,856,971	(37,624)	4,819,347
Total comprehensive income	4,903,022	(37,624)	4,865,398

Statements of comprehensive income

For the year ended 31 December 2015	THE COMPANY Impact of prior year adjustment		
	As previously reported €	Adjustments €	As restated €
Cost of sales	(8,770,299)	(24,627)	(8,794,926)
Marketing and Promotional Expenses	(549,495)	(1,688)	(551,183)
Administrative Expenses	(2,277,253)	(1,257)	(2,278,510)
Profit	4,957,940	(27,572)	4,930,368
Total comprehensive income	4,957,940	(27,572)	4,930,368

27.3 From 2008 an imputed interest element was to go through the Statements of comprehensive income. Total imputed interest amounting to €141,110 in case of the Group and €130,097 in case of the Company was to be accounted for against wages and salaries and against the provision for post-employment benefits between financial years 2008 and 2014. As at 31 December 2016 the balance for the Provision for post-employment benefits totalled to €2,033,467 (Group) and €1,467,492 (Company).

27.4 The change did not have an impact on the Group's operating, investing and financing cash flows.

28 FINANCIAL INSTRUMENTS**28.1 CREDIT RISK****28.1.1 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	
	2016 €	2015 €	2016 €	2015 €
Non-current assets				
Amounts receivable from related parties	-	-	23,751	2,185,830
Accrued income	-	354,000	1,241,928	2,061,205
	-	354,000	1,265,679	4,247,035
Current assets				
Trade and other receivables	1,999,483	3,008,042	1,804,112	2,807,063
Loans and receivables from related parties	918,566	810,422	1,554,951	810,422
Accrued income	6,011,551	7,219,601	6,314,841	7,634,132
Cash at bank	6,335,626	7,189,013	5,526,674	6,629,735
	15,265,226	18,227,078	15,200,578	17,881,352

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

	Carrying Amount			
	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Non-current assets				
Europe	-	354,000	1,241,928	3,196,415
North America	-	-	23,751	1,050,620
	-	354,000	1,265,679	4,247,035
Current assets				
Europe	7,587,590	9,056,338	8,451,895	9,398,655
Middle East	703,431	804,250	723,914	824,082
North America	302,279	315,045	182,279	186,283
Asia	336,300	862,432	315,816	842,597
	8,929,600	11,038,065	9,673,904	11,251,617

28 FINANCIAL INSTRUMENTS (Continued)**28.1 CREDIT RISK** (Continued)**28.1.1 EXPOSURE TO CREDIT RISK** (Continued)

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

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Customers situated in Europe	5,314,309	5,928,017	5,314,309	5,928,017

28.1.2 IMPAIRMENT LOSSES

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

	THE GROUP			
	Gross 2016 €	Impairment 2016 €	Gross 2015 €	Impairment 2015 €
Not past due	522,335	-	1,075,220	-
31 days to 60 days	277,853	-	265,026	-
61 days to 90 days	126,758	-	228,440	-
Over 90 days	2,157,095	165,992	2,433,483	183,705
	3,084,041	165,992	4,002,169	183,705

	THE COMPANY			
	Gross 2016 €	Impairment 2016 €	Gross 2015 €	Impairment 2015 €
Not past due	452,673	-	1,311,678	-
31 days to 60 days	338,333	-	310,273	-
61 days to 90 days	250,730	-	182,965	-
Over 90 days	2,507,070	165,992	4,182,104	183,705
	3,548,806	165,992	5,987,020	183,705

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

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Balance at 1 January	183,705	1,352,985	183,705	1,352,985
Impairment loss	165,992	839,866	165,992	839,866
Amounts written-off	(189,735)	(2,087,121)	(189,735)	(2,087,121)
Effect of exchange rate fluctuations	6,030	77,975	6,030	77,975
Balance at 31 December	165,992	183,705	165,992	183,705

28 FINANCIAL INSTRUMENTS (Continued)**28.1 CREDIT RISK** (Continued)**28.1.2 IMPAIRMENT LOSSES** (Continued)

Loans and receivables are stated net of a specific impairment allowance. Based on historic default rates the Group believes that no further allowance is necessary. Management believes that unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and analysis of credit risk. More specifically, balances totalling €288,572 included in the 'over 90 days' category are receivable from two customers that either are seeking further clarifications or requesting a revised schedule of payments. Management believes that these balances are collectible in full when taking into account negotiations to date and its assessment of the client's credit risk.

28.2 LIQUIDITY RISK

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

31 December 2016	Carrying amount €	Contractual Cash flows €	12 months or less €	1 - 2 years €	2 - 5 years €	More than 5 years €
The Group						
Secured bank loans	2,853,836	(2,978,055)	(1,060,956)	(1,060,956)	(845,711)	(10,432)
Interest rate swap	84,254	(85,530)	(34,649)	(25,707)	(25,174)	-
Accrued expenses	828,974	(828,974)	(828,974)	-	-	-
Trade and other payables	849,711	(849,711)	(849,711)	-	-	-
Post employment benefits	2,033,467	(2,351,954)	(111,422)	-	(270,090)	(1,970,442)
	6,650,242	(7,094,224)	(2,885,712)	(1,086,663)	(1,140,975)	(1,980,874)
The Company						
Secured bank loans	2,853,836	(2,978,055)	(1,060,956)	(1,060,956)	(845,711)	(10,432)
Interest rate swap	84,254	(85,530)	(34,649)	(25,707)	(25,174)	-
Accrued expenses	372,183	(372,183)	(372,183)	-	-	-
Trade and other payables	729,543	(729,543)	(729,543)	-	-	-
Post employment benefits	1,467,492	(1,680,548)	(111,422)	-	(270,090)	(1,299,036)
	5,507,308	(5,845,859)	(2,308,753)	(1,086,663)	(1,140,975)	(1,309,468)

28 FINANCIAL INSTRUMENTS (Continued)**28.2 LIQUIDITY RISK** (Continued)

31 December 2015 (Restated)*	Carrying amount €	Contractual Cash flows €	12 months or less €	1 - 2 years €	2 - 5 years €	More than 5 years €
The Group						
Secured bank loans	3,444,631	(3,621,689)	(1,060,956)	(1,060,956)	(1,432,153)	(67,624)
Interest rate swap	119,187	(131,398)	(44,443)	(35,227)	(51,155)	(573)
Accrued expenses	587,456	(587,456)	(587,456)	-	-	-
Trade and other payables	1,122,918	(1,122,918)	(1,122,918)	-	-	-
Post employment benefits	1,914,139	(2,351,955)	-	(111,422)	(270,090)	(1,970,442)
	7,188,331	(7,815,416)	(2,815,773)	(1,207,605)	(1,753,398)	(2,038,639)
The Company						
Secured bank loans	3,444,631	(3,621,689)	(1,060,956)	(1,060,956)	(1,432,153)	(67,624)
Interest rate swap	119,187	(131,398)	(44,443)	(35,227)	(51,155)	(573)
Accrued expenses	546,052	(546,052)	(546,052)	-	-	-
Trade and other payables	1,081,768	(1,081,768)	(1,081,768)	-	-	-
Post employment benefits	1,358,420	(1,680,548)	-	(111,422)	(270,090)	(1,299,036)
	6,550,058	(7,061,455)	(2,733,219)	(1,207,605)	(1,753,398)	(1,367,233)

* Refer to Note 27

28.3 CURRENCY RISK

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

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

28 FINANCIAL INSTRUMENTS (Continued)**28.3 CURRENCY RISK** (Continued)

	2015			
	USD	JOD	BRL	GBP
The Group				
Trade receivables	1,422,955	-	1,155	-
Accrued Income	611,010	-	-	3,700,579
Cash at bank	532,467	-	3,325	2,672,809
Trade payables	(337,460)	(33,570)	-	(23,382)
Gross statement of financial position exposure	2,228,972	(33,570)	4,480	6,350,006
The Company				
Trade receivables	1,432,530	-	1,155	-
Accrued Income	611,010	-	-	3,700,579
Cash at bank	532,467	-	-	2,672,809
Trade payables	(320,523)	(33,570)	-	(23,382)
Gross statement of financial position exposure	2,255,484	(33,570)	1,155	6,350,006

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
USD 1	0.9034	0.9013	0.9487	0.9185
JOD 1	1.2791	1.2749	1.3444	1.2953
BRL 1	0.2593	0.2702	0.2915	0.2319
PHP 1	0.0190	0.0198	0.0191	0.0196
GBP 1	1.2203	1.3777	1.1680	1.3625

28 FINANCIAL INSTRUMENTS (Continued)**28.3 CURRENCY RISK** (Continued)**SENSITIVITY ANALYSIS**

A 10 percent strengthening of the Euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	THE GROUP		THE COMPANY	
	Equity €	Profit or loss €	Equity €	Profit or loss €
31 December 2016				
USD	(107,671)	(107,671)	(108,465)	(108,465)
BRL	562	562	(2,113)	(2,113)
PHP	(8,493)	(8,493)	-	-
GBP	(779,627)	(779,627)	(779,627)	(779,627)
31 December 2015				
USD	(186,125)	(186,125)	(188,338)	(188,338)
JOD	3,953	3,953	3,953	3,953
BRL	(87)	(87)	(17)	(17)
GBP	(786,529)	(786,529)	(786,529)	(786,529)

A 10 percent weakening of the Euro against the above 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 GROUP		THE COMPANY	
	Equity €	Profit or loss €	Equity €	Profit or loss €
31 December 2016				
USD	131,598	131,598	132,569	132,569
BRL	(518)	(518)	2,753	2,753
PHP	10,381	10,381	-	-
GBP	952,877	952,877	952,877	952,877
31 December 2015				
USD	186,125	186,125	188,338	188,338
JOD	(3,953)	(3,953)	(3,953)	(3,953)
BRL	87	87	17	17
GBP	786,529	786,529	786,529	786,529

28 FINANCIAL INSTRUMENTS (Continued)**28.4 INTEREST RATE RISK****28.4.1 PROFILE**

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

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Fixed rate instruments				
Financial assets	754,834	744,380	754,834	2,768,697
Variable rate instruments				
Financial assets	6,335,626	7,189,013	5,526,674	6,629,735
Financial liabilities	(2,938,090)	(3,563,818)	(2,938,090)	(3,563,818)
	3,397,536	3,625,195	2,588,584	3,065,917

28.4.2 INTEREST RATE RISK

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

28.4.3 CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

A change of 100 basis points in interest rates at the reporting date would increase/ (decrease) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

28 FINANCIAL INSTRUMENTS (Continued)**28.4 INTEREST RATE RISK** (Continued)**28.4.3 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 2016					
Variable rate instruments		56,269	(46,785)	56,269	(46,785)
31 December 2015					
Variable rate instruments		63,523	(63,523)	63,523	(63,523)

		THE COMPANY			
		Profit or loss		Equity	
		100 bp increase €	100 bp decrease €	100 bp increase €	100 bp decrease €
31 December 2016					
Variable rate instruments		48,180	(38,696)	48,180	(38,696)
31 December 2015					
Variable rate instruments		57,931	(57,931)	57,931	(57,931)

28.5 FAIR VALUES**28.5.1 FAIR VALUES VERSUS CARRYING AMOUNTS**

The reported carrying amounts at the respective reporting dates of the Group's and Company's current financial instruments are a reasonable approximation of their fair values in view of their short-term maturities and in the case of the derivative, this was measured at fair value.

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

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

29 SHARE-BASED PAYMENT ARRANGEMENTS**29.1 DESCRIPTION OF SHARE-BASED PAYMENT ARRANGEMENTS**

At 31 December 2016, the Group had the following share-based payment arrangements:

RS2 employee share option scheme (equity-settled)

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

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

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

29.2 OUTSTANDING SHARE OPTIONS

There were 168,865 (2015: 193,741) share options outstanding at 31 December 2016.

30 OPERATING LEASES

30.1 During 2016, the Company was a party to an agreement for leased premises at Imgarr Road, Xewkija, Gozo under a deed with the Government of Malta. The lease is for a twenty five-year term, lasting until April 2039 with the option to transfer the Emphyteutical site with prior written consent of the Commissioner of Land.

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Less than one year	25,826	25,826	25,826	25,826
Between one and five years	111,052	108,469	111,052	108,469
More than five years	587,860	616,269	587,860	616,269
	724,738	750,564	724,738	750,564

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

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Operating lease expense	25,826	22,837	25,826	22,837

30 OPERATING LEASES (Continued)

30.2 During 2016, the Group was a party to an agreement with a computer hardware company to obtain a combination of managed hosting services and a private cloud infrastructure. The agreement was for a three-year period commencing in September 2012. This was renewed in September 2015 and will expire in September 2018. The Group had the following non-cancellable payments which include both lease and non-lease elements.

	THE GROUP	
	2016 €	2015 €
Less than one year	504,660	504,660
Between one and five years	378,495	883,155
	883,155	1,387,815

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

	THE GROUP	
	2016 €	2015 €
Operating lease expense	508,090	558,715

30.3 During 2016, the Group was a party to an agreement for leased offices in Denver, USA. The lease is for a five-year term, lasting until March 2021. The Group had the following non-cancellable payments:

	THE GROUP	
	2016 €	2015 €
Less than one year	102,914	98,371
Between one and five years	346,405	408,750
More than five years	-	26,289
	449,319	533,410

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

	THE GROUP	
	2016 €	2015 €
Operating lease expense	96,754	-

30 OPERATING LEASES (Continued)

30.4 During 2016, the Group was a party to an agreement for leased offices in Manila, Philippines. The lease is for a three-year term, lasting until end of June 2019. The Group had the following non-cancellable payments:

	THE GROUP	
	2016 €	2015 €
Less than one year	89,250	-
Between one and five years	141,711	-
	230,961	-

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

	THE GROUP	
	2016 €	2015 €
Operating lease expense	62,999	-

31 CAPITAL COMMITMENTS

The Group is committed to incur capital commitments in 2017 amounting to €13,025 related to the renovation of the leased offices in Manila, Philippines.

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 likelihood of any future warranty claims is deemed to be remote.

33 RELATED PARTIES**33.1 PARENT AND ULTIMATE CONTROLLING PARTY**

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

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 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").

33 RELATED PARTIES (Continued)**33.2 IDENTITY OF RELATED PARTIES** (Continued)

The Company uses the legal services of GTG Advocates in relation to advice given to the Company. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The Company also uses consultancy services by one of the Directors.

Directors of the Company control directly and indirectly 51.98% (2015: 28.03%) of the voting shares of the Company.

33.3 RELATED PARTY TRANSACTIONS

	THE GROUP		THE COMPANY	
	2016 €	2015 €	2016 €	2015 €
Key management personnel				
Dividend paid to	55,141	63,331	55,141	63,331
Parent company				
Interest charged to	10,455	7,294	10,455	7,294
Dividend paid to	1,252,081	1,000,854	1,252,081	1,000,854
Subsidiaries				
Repayment of advances to			28,458	1,873,258
Payments for services provided to			754,823	163,010
Payments for services provided by			124,332	-
Services provided to			1,151,191	787,877
Services provided by			115,141	41,600
Services not yet invoiced provided to			39,709	142,555
Interest charged to			34,854	59,372
Repayment of interest charged to			-	48,977
Payments on behalf of			842,308	28,160
Recharge of salaries to			269,784	117,386
Recharge of overheads to			198,022	-
Recharge of salaries by			86,354	-
Other related parties				
Services provided by	1,457,278	1,104,167	1,393,900	1,086,115
Services provided to	5,074,875	6,359,590	5,074,875	6,359,590
Services not yet invoiced provided to	1,441	1,293,131	1,441	1,293,131
Services not yet invoiced provided by	220,000	-	220,000	-
Payments for services provided by	1,279,680	1,115,344	1,279,680	1,115,344
Payments for services provided to	4,831,488	8,822,063	4,831,488	8,822,063
Loan repayments by	-	31,711	-	31,711
Interest charged to	-	824	-	824
Interest repayments	-	1,200	-	1,200

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

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Independent Auditors' Report

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

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of RS2 Software p.l.c. (the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- (a) give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and
- (b) have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") (and, as regards the financial statements of the Group, article 4 of the Regulation on the application of IFRS as adopted by the EU).

Basis for Opinion

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

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Independent Auditors' Report (Continued)

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Post-employment Benefits to Key Management

[See accounting policy note 3.11 to the financial statements
and notes 26 and 27 for further disclosures]

The Key Audit Matter

Employment contracts with key management provide such personnel compensation under a non-competing clause for an agreed period following cessation of their employment for whatever reason. Since there are no vesting conditions, the related obligation arises when the non-compete clause is contracted. The resulting arrangements in force require the use of estimates and significant judgement in determining compensations payable to the said personnel upon their departure and discounting liabilities to their present value. Prior period financial statements were corrected to reflect the related liabilities retrospectively to the relevant period when the non-compete clause was contracted.

How the Matter was Addressed in our Audit

We inspected all employment contracts of key management to confirm conditions for settlement of compensation. We confirmed with the Group's in-house lawyers that the non-compete clauses are legally binding. We used our actuary to challenge management's assumptions used in valuing the defined benefit obligations, primarily the estimated future salary increases, expected periods to employees' departure and the discount rate. We assessed the data inputs used in the valuation model, including past salary increases. We tested the mathematical accuracy of the model and its sensitivity to changes in assumptions. We also tested the impact of corrections on the prior period financial information presented in the financial statements.

Key Observation

The prior period correction resulted from a reassessment of the accounting implications relating to such arrangements rather than a deficiency in related process level controls.

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Independent Auditors' Report (Continued)

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

Key Audit Matters *(continued)*

Assessment of Carrying Value of CGU, including Goodwill

[See accounting policy note 3.8 to the financial statements
and note 9.4 for further disclosures]

The Key Audit Matter

The Group recognised goodwill amounting to €0.7m arising on the acquisition of RS2 Software LLC in 2009. The cash-generating unit (CGU) to which such goodwill was allocated is tested annually for impairment. The estimation of the recoverable amount of the said CGU is inherently judgemental and is based on the assessed value-in-use. The value-in-use estimate of this CGU was also used to support the Company's total investment in RS2 Software LLC amounting to €2.7m as at 31 December 2016.

How the Matter was Addressed in our Audit

Our audit procedures included a review by our valuation specialists of the value-in-use calculation used to determine the recoverable amount of the CGU to which goodwill was allocated. As part of this review we assessed the reasonableness of significant assumptions by reference to the Group's targeted milestones. This included assessing the appropriateness of the discount rate applied and reviewing Board-approved forecasts, in the light of historical results and forecast assumptions for future levels of business. We tested the mathematical accuracy of the model and its sensitivity to changes in assumptions.

Recoverability of Receivables

[See accounting policy note 3.8.2 to the financial statements
and note 28.1 for further disclosures]

The Key Audit Matter

The Group has significant receivables from customers, including a start-up, operating in financial services and payment industries. Liquidity strains or financial difficulties that may be experienced by certain customers may pose a challenge when assessing recoverability of recognised receivables at each reporting date.

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Independent Auditors' Report (Continued)

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

Key Audit Matters *(continued)*

Recoverability of Receivables *(continued)*

[See accounting policy note 3.8.2 to the financial statements and note 28.1 for further disclosures]

How the Matter was Addressed in our Audit

Our audit procedures included an examination of agreed payment terms in contracts related to significant balances and of management's assessment on recoverability of significant receivables. We also tested the Group's controls over the receivables collection process that supports such assessments. We considered cash received after year-end and evaluated the adequacy of the Group's provisions against trade receivables by reference to the directors' specific knowledge on the customers and customers' commitments to settle amounts at a future date.

Other Information

The directors are responsible for the other information. The other information comprises (i) the Mission Statement & Business Philosophy, (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 the Directors pursuant to Listing Rule 5.68, (ix) informational matters relating to the Board of Directors and Company Secretary, Registered Office and Professional Services and (x) the statement of Directors' Responsibility for the Financial Statements, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report and the Corporate Governance Statement of Compliance, we do not express any form of assurance conclusion thereon.

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

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Independent Auditors' Report (Continued)

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

Responsibilities of Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing 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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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Independent Auditors' Report (Continued)

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

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

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Independent Auditors' Report (Continued)

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

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

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

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

2 Report on Other Legal and Regulatory Requirements

Auditors' Opinion on the Directors' Report

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

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

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Independent Auditors' Report (Continued)

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

Auditors' Opinion on the Directors' Report (Continued)

In accordance with article 179(3) of the Act, we are also required to:

- (a) express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements;
- (b) state whether, in the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements; and
- (c) review the directors' statement in relation to going concern.

In such regards:

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

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

We have nothing to report in respect of the following matters where articles 179(10) and (11) of the Act requires us to report to you if, in our opinion:

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

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Independent Auditors' Report (Continued)

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

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

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

Our responsibility is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles included in the Group's Annual Report.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance provides the disclosures required by Listing Rules 5.94 and 5.97 issued by the Listing Authority of Malta.

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

KPMG

Registered Auditors

18 April 2017

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