

Corporate Governance Statement of Compliance

Pursuant to the Malta Financial Services Authority Capital Market Rules 5.94 and 5.97, RS2 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 2022, 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 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 in 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 CEO 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.

Corporate Governance Statement of Compliance (continued)

The Chairman is also responsible for communicating with shareholders. During 2022, the position of Chairman was occupied by Mr. Mario Schembri.

The delegation of specific responsibilities to appropriate Committees, namely the Audit Committee and the Remuneration Committee is taken care of by the Board. On the other hand, the CEO takes care of the day-to-day running of the Company's business. During 2022, this 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 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 (CEO) and six (6) non-executive independent directors. In determining the independence or otherwise of its Directors, the Board has considered, amongst others, the Principles relating to independence contained in the Code, the Company's own practice as well as general good practice.

In accordance with Code Provision 3.2 of the Code, the Board has taken the view that the business relationship existing between the Company and two of its directors, Mr. Mario Schembri and Dr. Robert Tufigno, is not significant and thus does not undermine the said Directors' ability to consider appropriately the issues which are brought before the Board. Apart from possessing valuable experience, the Board feels that the Directors in question are able to exercise independent judgement and are free from any relationship which can hinder their objectivity. Furthermore, with respect to the non-executive directors Mr. Mario Schembri, Dr. Robert Tufigno and Mr. Franco Azzopardi, despite their longevity of service, the Board retains that there are no relevant factors that impair their objectivity or that could influence or exert bias in their judgement and hence they are determined to be independent.

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 Capital Market 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 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.

Corporate Governance Statement of Compliance (continued)

When a Director is unable to agree with a decision of the Board, because a proposed course of action is not deemed to be consonant with his statutory or fiduciary duties and responsibilities, and all reasonable steps have been taken to resolve the issue, the Director can either opt to formally note his reasons for objection to any decision of the Board, or alternatively if the decision is of such material importance, then resignation may be the better alternative. When a Director feels that resignation may be a better alternative to submission, which objectively is of material importance to the shareholders, then an appropriate announcement will be made.

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 Malta Financial Services Authority, are modelled on the provisions of the Capital Market 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 external auditors, monitoring the audit of the annual and consolidated accounts, making recommendations to the Board on their appointment and monitoring their independence, especially with respect to non-audit services. In addition, the Audit Committee is responsible for considering whether a financial internal audit function is required and makes recommendations accordingly to the Board. In the event that the Committee determines the necessity of an internal audit function, it shall recommend the role, functions and remit and how the establishment of such function shall add value to the Company. The Committee shall constantly monitor and assess the role and effectiveness of the internal audit function. Moreover, the Audit Committee shall review the Company's arrangements related to whistle blowing, also ensuring that such arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Mr. Franco Azzopardi, an independent non-executive director appointed by the Board, acts and serves as Chairman, whilst Dr. Robert Tufigno and Prof. Raša Karapandža, both independent non-executive directors, act as members. No changes in the composition of the committee took place during the year ended 31 December 2022. The Company Secretary, Dr. Ivan Gatt, acts as secretary to the Committee.

Corporate Governance Statement of Compliance (continued)

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

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

Meetings 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.

When the audit committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on actions needed to address the issue or improvements to be made. The Board shall satisfy itself that any issues raised by the audit committee and the external Auditor and communicated to the Board, have been adequately addressed.

Corporate Governance Statement of Compliance (continued)

Principle Six: Information and professional development

The CEO is appointed by the Board and enjoys the full confidence of the Board. The CEO, 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 CEO 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 always act in the best interest of the Company and its shareholders as a whole, irrespective of whoever appointed them to the Board.

Corporate Governance Statement of Compliance (continued)

Principle Seven: Evaluation of the Board

During the year under review, the Board undertook an evaluation of its own performance. The Board appointed a sub-committee, comprised of Dr. Robert Tufigno and Mr. Franco Azzopardi to carry out the performance evaluation of the Board and its Committees. The evaluation exercise was conducted through a Board effectiveness questionnaire. The results were communicated to the Chairman and then discussed at Board level and there were no material changes in the Company's governance structures and organisation to report.

Principle Eight: Committees

The Remuneration Committee is dealt with under a separate section in the Annual Report entitled "Remuneration Report" which can be found on pages 48 to 51. This section also includes a "Remuneration Statement" which deals with the remuneration of Directors and senior management.

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

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

The Board also considers the Annual Report to be an effective document which, in addition to statutory disclosures, contains detailed information about the Company and its performance.

At the time of the AGM or whenever there are any significant events affecting the Company, meetings are held with institutional investors, financial intermediaries and stockbrokers. The Board recognises the importance of providing the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed decisions. Periodic Company announcements are issued in accordance with the Capital Market 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 Capital Market Rules and which applies to all directors and key employees of the Company.

Corporate Governance Statement of Compliance (continued)

The Board believes that shareholders should have an opportunity to send communications to the Board. Any communication from a shareholder, to the Board generally or to a particular director, should be in writing, signed, contain the number of shares held in the sender's name and should be delivered to the attention of the Company Secretary at the principal offices of the Company.

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

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

Principle Eleven: Conflicts of Interest

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

The Board has approved an Internal Code of Dealing that details the obligations of the directors, as well as those of senior management and other individuals having access to sensitive information, on dealings in the equity of the Company within the parameters of the law and the Principles. Each Director has declared his interest in the share capital of the Company distinguishing between beneficial and non-beneficial interest.

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

When a Director has a continuing material interest that conflicts with the interests of the Company, he is required to take effective steps to eliminate the grounds for conflict. In the event that such steps do not eliminate the grounds for conflict, then the Director should consider resigning.

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 arts.

Corporate Governance Statement of Compliance (continued)

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

Part 2: Non Compliance with the Code

Principle Four: The Responsibilities of the Board

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

Principle Eight B: Nomination Committee

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

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

Principle Nine (Code provision 9.3): Relations with shareholders and 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.

Corporate Governance Statement of Compliance (continued)

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

Pursuant to Capital Market Rule 5.97

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

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

Management is responsible for the identification and evaluation of key risks applicable to the different areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed. An internal audit function has been set up to ensure that appropriate controls are in place and to review how such key risks are mitigated.

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

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

Rule 5.97.6 – General Meetings

Pursuant to the Company's statutory obligations in terms of the Companies Act and the MFSA Capital Market Rules, the Annual Report and financial statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set their remuneration, and other special business, are proposed and approved at the Company's AGM. The Board of Directors is responsible for developing the agenda for the AGM and sending it to the shareholders.

The AGM is conducted in accordance with Articles of the Company and has the powers therein defined. The shareholders' rights can be exercised in accordance with the Articles of the Company.

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

Corporate Governance Statement of Compliance (continued)

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Capital Market Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Company and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Company at least forty six (46) days before the date set for the relative general meeting.

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