



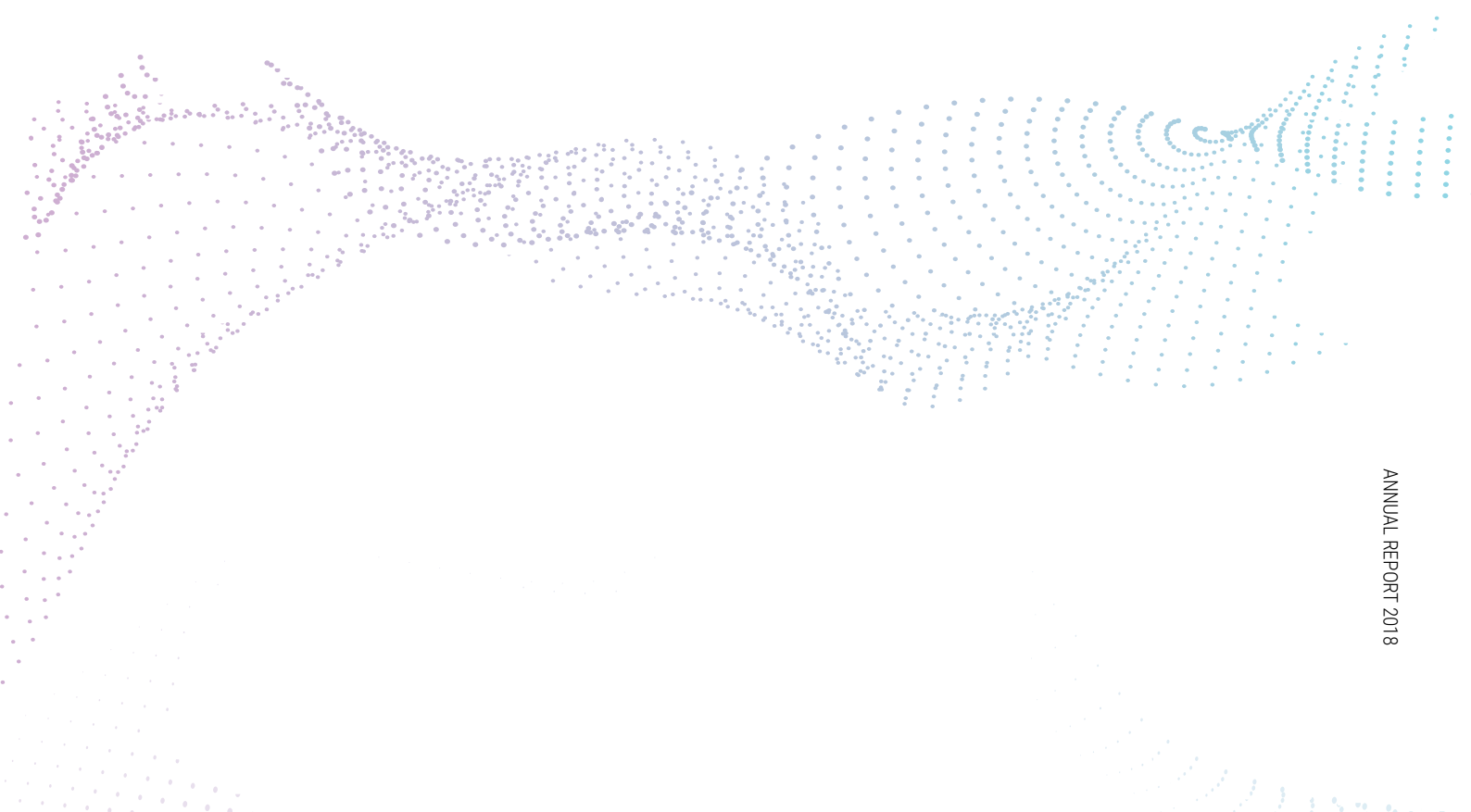
# Building a Strong Foundation

Annual Report 2018

[www.pelatro.com](http://www.pelatro.com)

**PELATRO**  
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# WE OPERATE FROM...



# COMPANY INFORMATION

## Auditor

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## Registrars

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United Kingdom

## Share Capital

The Ordinary Share capital of Pelatro Plc is admitted to trading on AIM, a market operated by London Stock Exchange Group plc. The shares are quoted under the trading ticker PTR0.

The ISIN number is GB00BYX-H8F66 and the SEDOL number is BYXH8F6.

## Website

<http://www.pelatro.com/investors/>

## Shareholder enquiries:

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\* lines are open from 8.30am to 5.30pm Monday to Friday

# FOUR YEAR TRACK RECORD

| Year to/as at 31 December  |        | 2018    | 2017  | 2016  | 2015  |
|--|--------|---------|-------|-------|-------|
| Revenue  | \$'000 | 6,123   | 3,146 | 1,205 | 353   |
| Revenue growth   | %      | 95%     | 161%  | 241%  | n/a   |
| EBITDA (before exceptional costs)                                  | \$'000 | 3,750   | 2,004 | 498   | 77    |
| EBITDA margin  | %      | 61%     | 64%   | 41%   | 22%   |
| Operating profit<br>(before exceptional costs)                     | \$'000 | 2,861   | 1,801 | 360   | 30    |
| Operating margin   | %      | 47%     | 57%   | 30%   | 8%    |
| Statutory Profit before tax  | \$'000 | 2,513   | 1,096 | 360   | 30    |
| Adjusted earnings per share<br>(basic and diluted)                 | ¢      | 10.1¢   | 8.9¢  | 2.0¢  | 0.2¢  |
| Statutory earnings per share<br>(basic and diluted) <sup>1</sup>   | ¢      | 8.0¢    | 4.8¢  | 2.0¢  | 0.2¢  |
| Net cash flow from operating<br>activities (pre exceptional items) | \$'000 | 1,173   | 751   | 447   | 56    |
| Net cash used in investing activities                              | \$'000 | (9,092) | (744) | (401) | (149) |
| Net cash from financing activities                                 | \$'000 | 6,814   | 4,707 | 54    | 214   |
| Net cash at year end   | \$'000 | 1,823   | 3,086 | 196   | 119   |

1: from continuing operations

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# CHAIRMAN SPEAKS



*Visibility over some \$5.3m of revenue and a \$15m pipeline, gives us every confidence as we look forward to the rest of the year.*

**Richard Day, Chairman**

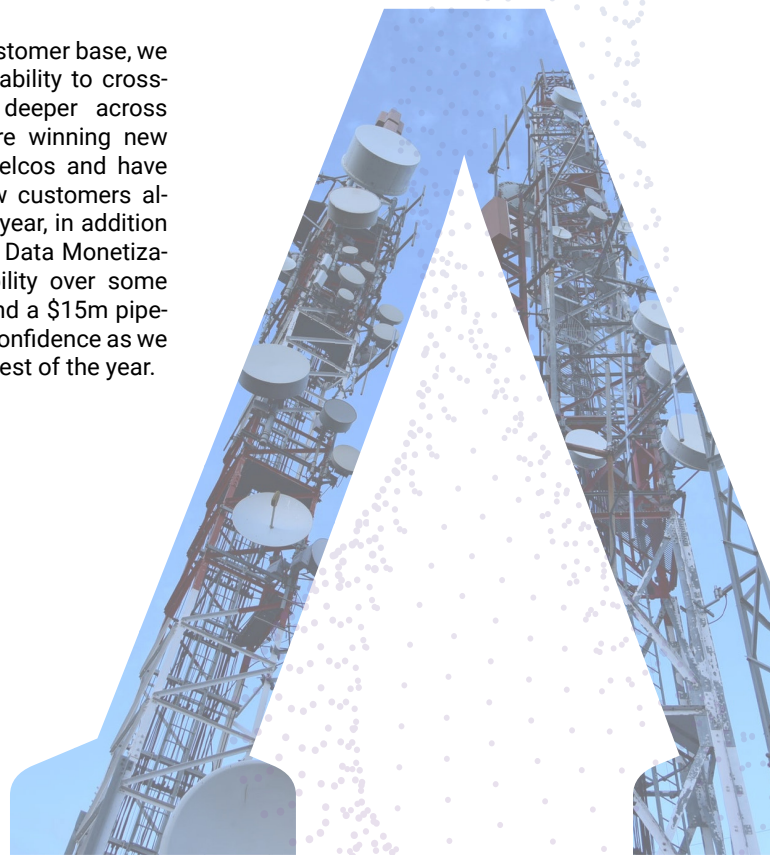
This first full year as an AIM-quoted public company has been one of progress and significant achievement for Pelatro, at both the operational and strategic levels. Growth in our revenues from \$3.1m to \$6.1m was in line with our expectations and was underpinned by a combination of increased business with existing customers as well as the addition of new revenue lines as we expanded our customer base, which has grown from 7 to 16 to date. We also broadened our geographic reach, breaking into the European market with our first contract win in the region with Primetel of Cyprus in October 2018.

In July 2018 we announced our acquisition of certain assets from Danateq, with its customers and real-time self-learning analytics platform and complementary campaign management solutions. The acquisition was funded with a further equity placing which was strongly supported by our shareholders, raising approximately £6m. We are grateful for their support. I am pleased to say that the Danateq business is living up to our expectations and the staff joining our enlarged group have been a tremendous fit.

All our staff are an important part of the Pelatro story and I was pleased that we were able to set up our initial employee share ownership plan earlier this year which is widely spread across our employee base. As well as our people at Pelatro, we want to say thank you as well to all our stakeholders in Pelatro – our shareholders, customers, suppliers, advisers and others who have all contributed to our growth this year.

With our growing customer base, we have an increasing ability to cross-sell our products deeper across our network. We are winning new business with the telcos and have announced two new customers already in the current year, in addition to the launch of our Data Monetization Platform. Visibility over some \$5.3m of revenue and a \$15m pipeline, gives us every confidence as we look forward to the rest of the year.

**Richard Day**  
Chairman



# MANAGING DIRECTOR'S LETTER TO THE SHAREHOLDERS

*Dear Shareholder,*

---

Your company has completed one full year as a quoted entity and it has turned out to be a foundation building year for us. Our objective is to build the best in our industry and the first step in the building of any edifice is building the foundation. That is exactly what we did in 2018. Let me elaborate what we achieved in those twelve months.

## The Past Year

We forged ahead in three areas during the year – products, customers and inorganic growth – as the first step towards leadership in our chosen space. The result is a platform that can cater to the expanding needs of telcos, doubling of customer relationships and a well thought out, strategic acquisition.



**Subash Menon**  
Managing Director, CEO & Co-Founder

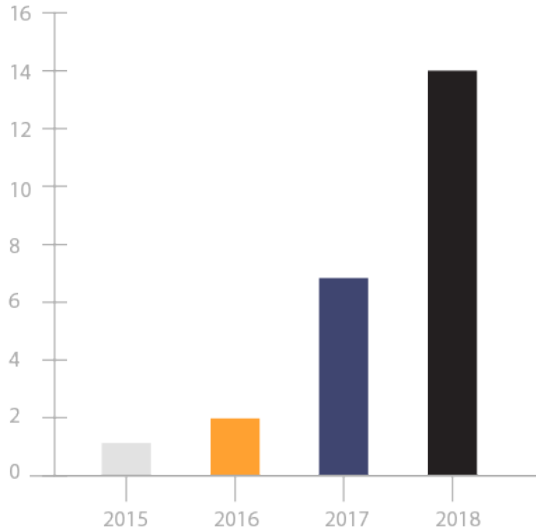
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## Products

Pelatro started out with one product and that continued to be the case well into 2018. While retaining that product as the mainstay of the company, we have built out a large suite in line with our vision for the industry. The suite, called Multichannel Marketing Hub, encompasses Contextual Marketing Solution, Loyalty Management Solution, Gamification, Data Monetization Platform and Intelligent Notification Manager. While the first four solutions help in deepening the engagement between the telco and its subscribers through various means like contextual campaigns, loyalty programs, games etc. for both telco and non-telco products, the last product assists the telco to support this extensive engagement exercise by providing a robust communication platform. The products function in tandem as a well integrated platform addressing the twin objectives of revenue enhancement and churn reduction. Your company is pioneering this approach by offering related products on a common platform for the first time. Needless to say, this pioneering endeavour will propel Pelatro towards leadership.

### Customers

Pelatro's customer base has been growing by leaps and bounds. It now includes several prestigious names in the telco industry like Telenor, Axiata, Tele2, SingTel, Cable & Wireless etc. The graph given below shows the progression with the base doubling in 2018. This growth has enabled us to reduce customer concentration and to gain credibility and stature.



A notable aspect of the addition of new customers is the presence within specific telco groups. Pelatro strategically enters a large telco group by winning a contract from one of the OpCos. For example, we won the contract from Robi of Bangladesh, an Axiata Group company, by offering a Proof of Concept engagement to establish the differentiation and efficacy of our mViva Contextual Marketing Solution. This extremely successful engagement was followed by contracts from other Axiata Group OpCos like Dialog, Celcom, Smart and Ncell. A similar strategy has worked out well with the Telenor Group resulting in our presence in Telenor OpCos in Bangladesh, Myanmar and Bulgaria with more in the pipeline.

Another arrow in our quiver is the ability to leverage multiple products in our portfolio. As explained earlier, all the products from Pelatro work in harmony to deliver the same objectives from different angles. This has enabled us to sell more than one product to each customer thereby strengthening our relationship with customers which leads to a virtuous cycle of growth. For example, the Global Framework Agreement with Telenor currently includes two product – Contextual Marketing Solution and Loyalty Management Solution – after having started with one. We now have the possibility to sell both the products to Telenor OpCos. While the current average is 1.2 products per customer, it is our stated aim to constantly increase this penetration which will bring rich dividends to the company. Needless to say, a follow-on sale has a higher probability as compared to the initial sale. Further, when multiple products from Pelatro are used by any telco, the overall gain realised by them will be higher due to the benefits that they experience from the inter play of the products.

The exponential growth in the number of customers is evidence of the fact that the customer acquisition and growth strategy employed by Pelatro is working quite effectively. We will continue on the same path thereby ensuring a steady and commendable progress on this front.



### Inorganic Growth

For all software companies, inorganic growth is a key element. At Pelatro, we view this as an opportunity to expand our global footprint and to strengthen the product offering. In keeping with this philosophy, we continuously scan the space for appropriate opportunities. In 2018, we identified a company that had certain assets which turned out to be an excellent fit on both fronts – customers and products. We acquired these assets from Danateq, based out of Singapore, in August/September 2018 and completed the integration soon thereafter. This acquisition catapulted the company to a higher orbit due to variety of factors detailed herein.

Global Framework Agreement with the Telenor Group for Contextual Marketing Solution and a large contract with Globe, Philippines were the key assets on the customer front. While the former brought entry into a large global group with operations in 11 countries, and the potential to sell to all of them, the latter brought us a very valuable recurring revenue stream. We are in the process of expanding and deepening our relationship with the Telenor Group.

“  
**Another arrow in our quiver is the ability to leverage multiple products in our portfolio.**  
 ”



As part of that activity, we have been successful in getting another product – Loyalty Management Solution – included in the Global Framework Agreement and also sold that product to Grameenphone, the Telenor OpCo in Bangladesh. We now have the opportunity to gradually sell both Contextual Marketing Solution and Loyalty Management Solution across the Telenor operation. Efforts are on to include a third product also in the Global Framework Agreement. With regard to Globe, we have been able to step up the revenue and to engage in dialogue to expand the product portfolio that is being used by Globe. We are confident of receiving significant revenue from these relationships with Telenor and Globe in the coming years. The engagement with Telenor helped us enter Central & Eastern Europe and could also potentially take us into Western Europe in the foreseeable future.

The acquisition also brought us two additional products – Loyalty Management Solution and Intelligent Notification Manager – and helped us to strengthen our Multichannel Marketing Hub. This has now enabled us to sell multiple products from the platform thereby leveraging existing relationships through cross selling. Further, the presence of multiple products forming a platform has substantially increased our credibility resulting in a positive thrust to our endeavour to grow quickly. In addition to this obvious benefit, we are now able to enter telcos through multiple opportunities by leveraging different products as against the earlier situation of having to rely on a single product to enter with.

Needless to say, the acquisition is expected to be accretive in this current year. Thus, we have been able to identify, acquire and integrate these assets resulting in huge benefits across various elements. Your company will continue to seek out such highly beneficial opportunities in the future.

### Cash Collection

At the end of the financial year, trade receivables stood at \$4.1m (2017: \$1.8 million) i.e. 251 days. The increase relates largely to the weighting of revenues in the second half of the year, with over 60% of the total revenue billed in the last quarter (of the \$4.1m, \$1.8m represented revenue which had been accounted for in the last quarter of 2018) as certain contracts are bespoke and under extended settlement terms and others (notably change requests) are typically billed on a cumulative basis. Approximately \$1.8m has been collected since the year end and to date, resulting in debtor days of 153.

Cash collection has been a key strategic focus for management this year - cash generated by operations, as adjusted for exceptional items, amounted to just under \$1.2m (2017: \$750,000), largely as a result of the improving timing of collection of trade receivables (operating cash outflow of \$52,000 in the first half comparing to adjusted operating cash inflow of approximately \$1.2m in the second); this improvement is expected to continue as the Group becomes more established and also with an increasing proportion of repeat or monthly contracts

in the revenue mix (e.g. from revenue share or managed services).

### Vision

Building an organisation calls for vision. Articulation of this vision, acceptance of the same by all stakeholders and flawless execution results in leadership. Pelatro has always been a visionary in its chosen space. Our vision is resonating well with the telco industry which has led to their enthusiasm for our products. The telcos have comprehended that Pelatro could play the role of a valuable partner in their quest for digitization of their business, increase in revenue and reduction in churn. Over the past few years, we have been executing in line with this vision and have now built a strong foundation to grow on.

Our vision encompasses the entire area of customer engagement and monetization of deep customer relationship. The most important asset that any telco has is the continuing relationship with its subscribers and the data that is generated as a result of this relationship. Pelatro's solutions help the telcos to ensure continuous and deep engagement with customers to ensure a high level of satisfaction leading to higher revenue and lower churn. This multichannel and multifaceted engagement generates a significant amount of data related to consumption behaviour of these subscribers covering a wide gamut of areas like voice, data, broadband, music, video, messaging, browsing etc. This data is collected by the platform from Pelatro and is then analysed to come up with actionable insights. Thus, the solutions from Pelatro hold a wealth of data and insights that are valuable for various B2C business entities like banks, insurance companies, retail, brands etc. Our vision is to build an ecosystem of all these players who will benefit from this vast understanding of hundreds of millions of subscribers. The telcos can monetize this by providing access to the B2C business entities mentioned earlier, who will gain by being able to engage with the subscribers of the telco in a contextual, relevant and real time manner. This engagement will be in the form of campaigning and mobile advertisement. This means that, with the help of Pelatro, the telcos can earn a material share of the burgeoning mobile advertisement market.

Pelatro's products cover about 370 million subscribers now, including a penetration level of about 70% of the population of 4 countries. Consequently, Pelatro's platform facilitates partnership with B2C companies in those countries and Pelatro's telco customers based on the ability of these telcos to provide mobile advertising and campaigning to 70% of the population in these countries to their B2C partners. Thus, Pelatro is building an ecosystem of its telco customers and a variety of B2C players in each country. As this gets built and achieves a critical mass in a large number of countries in the foreseeable future, Pelatro will become an indispensable partner to the telcos leading to Pelatro's revenue growing at a fast pace on the back of increasing revenue for the telcos and sharing of that revenue with Pelatro. In short, Pelatro envisions an ecosystem that generates significant revenue for the telcos through mobile advertising and

campaigning and sharing of the same by Pelatro.

I thank every one of our stakeholders for the support extended during the last year while the company was building a strong foundation. Let us work towards enhanced growth by leveraging the foundation that we have built.

**Subash Menon**

Managing Director, CEO & Co-Founder

25 March 2019



# TELECOM OPERATORS - THE NEW PARADIGM

All consumer related businesses are undergoing a paradigm shift and telecom is no exception. The phase of revenue growth through new subscriber addition is gone and the new paradigm is about revenue growth by maximizing opportunities from existing customer base. This change calls for a difference in business practices from what telecom operators were used to and that also means a new approach to systems, processes etc. Pelatro, through its mViva suite of solutions, empowers telcos to manage and navigate this change.

So, what exactly is the new paradigm all about? One phrase: customer centricity. This is about keeping the customer at the centre for all your processes and systems. While telcos had adopted this as a philosophy to shape their customer attitude in the last decade or so, systems are yet to be fully incorporate this approach.

Telcos are very well positioned to make the best use of this global phenomenon as a telecom operator is an entity that has very regular touch points with its customers, in fact many times a day. They also gather a lot of very relevant information about the activities of the customer.

For instance, a telco knows when a customer of a particular profile is near a Starbucks outlet or when a customer is using mobile data or accessing a streaming video site etc. Thus, a telco has immediate and timely awareness of the context of the customer. If the information gathered by the telecom operator is combined or enriched with data

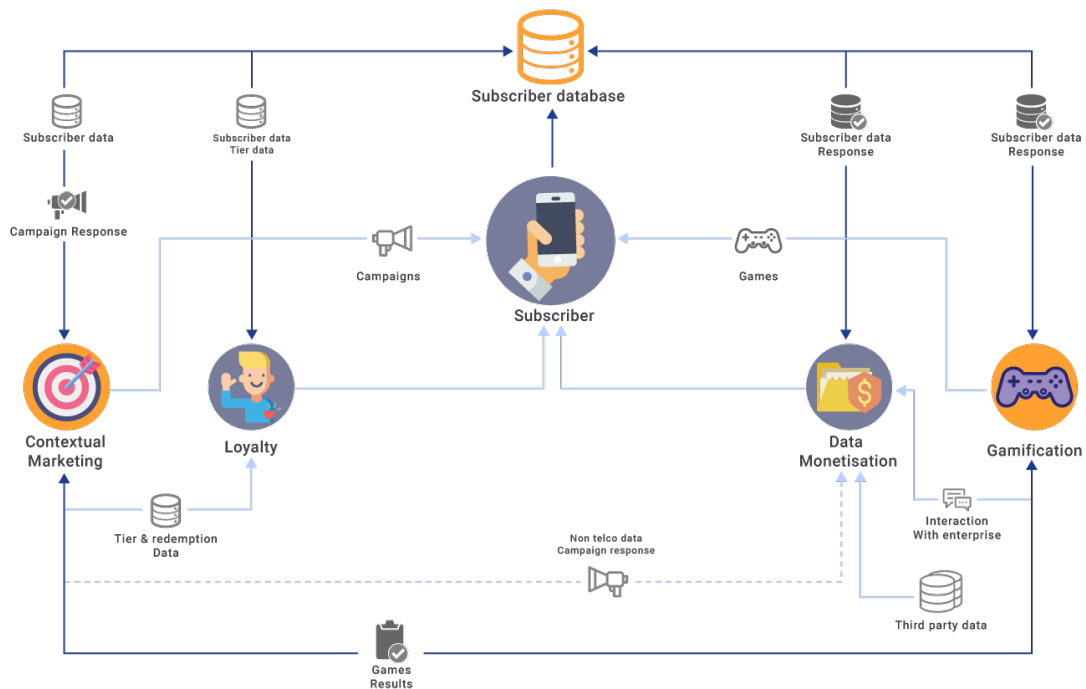
from other sources such as banks or retail outlets, there is a suddenly a mine of customer contextual data that can be capitalized on, for mutual benefit, through value based exchange. The customer gains because they can now get very relevant offers that they want to pursue and the enterprise (telcos, banks etc.) has opportunity for much deeper engagement with the customer.



Mobile: Centre of the B2C World

Telcos are best positioned to take advantage of this because their frequent and on-going relationship with the customer. With the support of the mViva suite of solutions, there are four immediate opportunities for the telcos to monetize their customer base and data:

- **Contextual Marketing:** Capture and utilize on the context of the customer with relevant, targeted offers and messages
- **Loyalty:** Enhance customer engagement and longevity through loyalty programs
- **Data Monetisation:** Enable partners to utilize telco data for targeted advertising
- **Gamification:** Enrich interaction with customers through gamification of processes and objectives



Empowering telcos through mViva suite

This unique vision from Pelatro, as captured in the figure above is enabling telcos to take advantage of the shift in landscape through its mViva suite. It may be noted that most other providers are only providing bits and pieces and not a holistic solution as envisaged above. Pelatro is able to put together such a suite because of its commitment and vision of empowering the customer. Indeed, business velocity is a key requirement in these times and mViva differentiates itself from the competition based on:

- Optimised data analytics engine.
- Tightly integrated AI-ML applications.
- Patent pending application of big data technology.
- Deep understanding of the telecom domain.
- Intuitive and rich user interface.
- Comprehensive coverage of functionality.

### Sudeesh Yezhuvath

Chief Operating Officer & Co-founder



## LEVERAGING TECHNOLOGY

Telcom operators generate enormous volume of structured, semi-structured and unstructured data at an ever increasing pace. This includes call records, subscriber location, recharge logs, purchase transactions and a whole lot of QoS metrics from signalling systems and network probes. This manifests into a classical use case for Big Data Analytics. Big Data refers to extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions. mViva leverages tried and tested Hadoop MR framework on HBase Big Tables with various proprietary optimizations to aggregate billions of records from hundreds of sources and stores them as Hypercubes rolled up to desired level of granularity.

Pelatro has developed a state-of-the-art co-location based Hummingbird Store and Map-Reduce framework to handle time sensitive, wide sweep, mViva specific workloads very efficiently using the right mix of IO, CPU and Memory resources. Two way bridges connect Hummingbird MR and Hadoop MR interfaces allowing jobs to seamlessly use resources from either of the frameworks in the most optimal manner. Pelatro leverages on several Big Data backed

custom libraries to achieve highly optimized runtimes for business sensitive processes. Real Time Insights are realized using our patent pending Vector Search implementation on Big Data. mViva relies on high performance, Dynamic Viewport Synthesis, Hakken library for seamless multidimensional slicing and dicing in real time.

The world is getting more and more connected by every passing day. Each individual is influenced unknowingly by many events and actions within their connected communities. Social Network Analysis helps detect such deeply hidden influence patterns and helps Business Analysts ride on this invaluable information when designing campaigns and offers.

Efficient processing of large graphs is challenging. Graph algorithms often exhibit poor locality of memory access, very little work per vertex, and a changing degree of parallelism over the course of execution. Distribution over many machines exacerbates the locality issue, and increases the probability that a machine will fail during computation. Vertex Centric Model is an approach to graph processing that helps address the above concerns efficiently by using iterative algorithms.

mViva leverages on VCM backed Page Rank implementation to assess influences and cascade of influences in a Telcom Social Network. It also runs Community Detection algorithms to identify business relevant communities that help Marketing Analysts design offers and target subscribers at a higher cohesive plane

Additionally, mViva uses VCM based implementations of Collaborative Filtering Algorithms in the likes of SVD (Singular Value Decomposition), ALS (Alternating Least Squares), SGD (Stochastic Gradient Descent), PMF (Probabilistic Matrix Factorization) etc. to help design and deliver smart campaigns with intelligent offer recommendation.

In the field of Contextual Marketing, it is extremely critical to act up on a subscribers data before we lose context. Technological advanced and adoption of high speed Networks has resulted in enormous amounts of real time data that renders itself to analysis of behavioural patterns on the fly. Stream processing analyses and performs actions on real-time data though the use of continuous queries. Streaming Analytics connects to external data sources, enabling applications to integrate certain data into the

application flow and it is an evolution of Complex Event Processing (CEP). Pelatro is powered by high performance ZMQ backed Streaming Analysis library with smart memory management algorithms aimed at achieving very high levels of operational efficiency when processing workloads at rates of over a million events per second. High performance aggregation allows data to be profiled on the fly thus enabling Business Analysts and marketers to reach out to the subscribers in real time using the right offers before losing context.

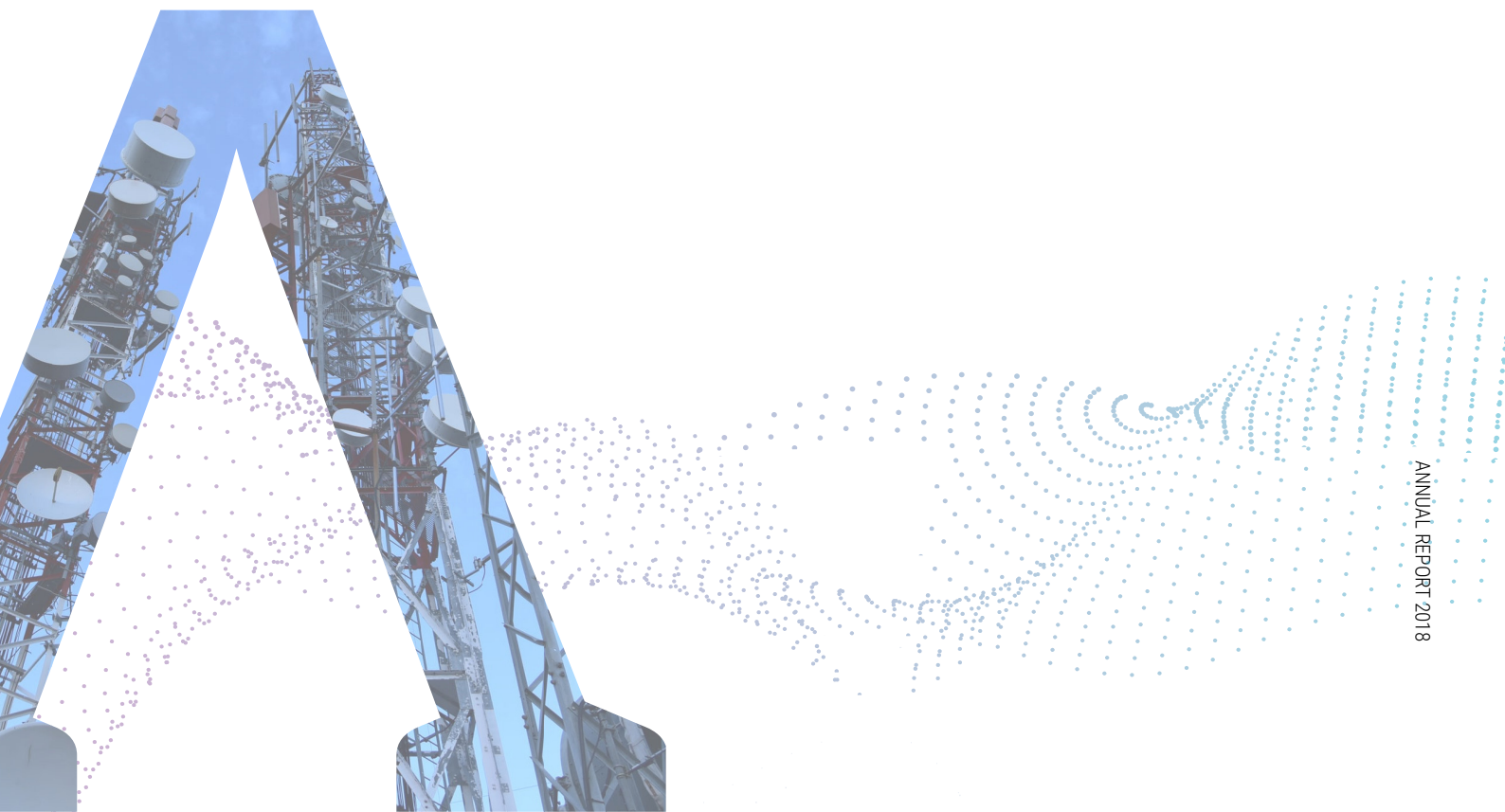
We are in an era of data explosion where amount of minable data is increasing at an unprecedented rate and research says the trend shall continue northwards with the advent of newer technologies like 5G and RCS. This creates a situation where smartness and innovation in approaches to solving large problems at scale are inevitable for existence. Brute force algorithms and techniques cannot be shielded by even the best of hardware. Dynamic Programming is a method for solving a complex problem by breaking it down into a collection of simpler subproblems, solving each of those subproblems just once, and storing their solutions using a memory-based data structure. Dynamic Programming helps us solve problems that work in exponential complexity, otherwise, in polynomial times. mViva leverages on Dynamic Programming based Algorithms to efficiently handle data synthesis and data processing in many of its high impact Data Visualization components such as Sankey Charts and Pivotal Analysis.

Distributed Processing is modern day mantra towards solving complex data analysis problems and this lays considerable emphasis on need for efficient, high speed, low latency communication between various processing components. The concept of "Messaging Enabled Network" has evolved from an attempt to integrate AMQP with high-performance messaging use cases, such as those encountered in stock trading businesses, telecom and high volume social media traffic analysis.

mViva leverages on high performance asynchronous messaging provided by Zero MQ (ZMQ) with optimal usage of various patterns like Request-Reply, Publish-Subscribe, Push-Pull, Exclusive-Pair. Pelatro has built a custom protocol called GLUE for seamless replication of application data over distributed network components with optional support for cascaded streaming which serves as backbone for mViva In-Memory Constructs.

**Arun Kumar Krishna**

Head - Engineering



# BUILDING HUMAN CAPITAL

“Human Capital – The Potential of an individual – is going to be the most important long term investment a company can make for its people and company’s growth”

At Pelatro, we are committed to the above mentioned thought process.

Following are some of the benefits of investing in human capital. As per Gallup, Millennials want to work for a business that invests in their human capital.

1. Increase Employee Satisfaction
2. Improve Retention Rates
3. Develop Employee Engagement
4. Develop Client Engagement
5. Improve ROI
6. Improved Organizational Communication
7. Better Recruitment Greater Company

Pelatro has realized the importance of Developing Human Capital. For a product company the longevity of experience with the product is an important differentiating factor.

At Pelatro, we build human capital through the following interventions:

1. Onboarding and training
2. Assessment and Development Centre
3. Cross-functional tasks
4. Recruitment
5. Fun activities

## Onboarding and training:

On joining a new hire is assigned a mentor (Can be peer or senior). It is the job of the mentor to ensure that all training is given and mentor often discusses and quizzes the new member on various aspects of work that the person will be assigned to. For the initial few weeks (4-8 weeks), the defined learning process is practiced. Often the new joiner is asked to present his understanding of different topics to his/her team. The new joiner is initiated into the tasks after completion of training and after undergoing Product Fitment Test (varies based on roles). The mentoring concept and presentations improve Organizational communication.

Training is given through a one on one interaction between new member and existing members on different topics as defined for the role. This is followed by a practical session.

Values Understanding through Outbound camp – Pelatro engages with an Outbound learning institute called Pegasus, which organizes an outbound camp. Activities are planned in this camp to highlight Pelatro Values. This helps in bonding at a personal level and bonding with the ethos of the organization.

Onboarding and training develops employee engagement, improves ROI and improves Organizational communication.

## Assessment and Development Centre:

This is a concept that we have co-developed with Pegasus Institute of learning. A set of core competencies are defined by Pelatro which we would like to see in our middle and senior level leadership team. Tasks are defined in a non-threatening environment in the outbound model. This assessment is carried out with a dedicated observer for a person. In addition, there are psychometric tools which are used to assess the current state of the Pelatro member.

The observed results from Outbound and the results of the psychometric tools are co-related. Based on the correlation development needs are chalked out. The suitable interventions for the development needs are identified and Pelatro members undergo the intervention for development defined for him. Based on this a career planning is done for each of the employees.

Assessment and Development center increases employee satisfaction, improves retention rates and develops employee engagement.



**Human Capital - The Potential of an individual - is going to be the most important long term investment a company can make for its people and company's growth.**

### Cross-Functional tasks:

The Pelatro team members are exposed to different tasks which are not over and above their core skills. This is done in a controlled and limited way. These tasks could be related to End to End implementation at a customer end, training a customer or to provide L1/L2 support a customer. This ensures that employees have an end to end view of the product, understand the customer needs and incorporate the same when he/she comes back to their core skills role.

Cross functional intervention improve employee and client engagement, improves ROI and increases employee satisfaction.

### Recruitment:

Pelatro hires experienced resources and also fresh graduates in Engineering. In the recruitment cycle, a brief about the company, its field of working and what one can gain by working in Pelatro is given. During the interview, Pelatro not only looks for an understanding of the concepts but also the application of the concepts. During the interview process, clues and hints are given to the candidates for the candidate to reach the correct answer. This ensures that we give sufficient challenge for anyone to enter Pelatro. In addition potential employees are also asked to solve puzzles Often we have got the feedback from potential employees, who have multiple offer, that one thing they liked about the whole process was the engagement of Interviewer in making them reach the answers. They get a feeling that there is sufficient interest in the senior members of the organization to help new members in realizing their potential.

### Fun and Games activities:

These are activities that Pelatro Club, headed by an HR representative holds from time to time. There is cross-team participation and all members of Pelatro participate. This builds connect and engagement across different roles in the organization.

Human Capital is the measure of the economic value that an employee provides, through their knowledge, skills, and abilities. At Pelatro, we are very conscious of this fact and dedicated to ensure that Pelatro Team member gets the skills and opportunities which is a Win-Win situation for the employee and the organization.

### Anuradha

#### Chief Mentor





# KEY PERFORMANCE INDICATORS

For the year ended 31 December 2018

## Introduction

The Directors consider that revenue, adjusted EBITDA (Earnings Before Interest, Depreciation and Amortisation) (see Note 9 for adjustments) and profit before tax, and the related margins as a percentage of revenue, are key performance indicators ("KPIs") in measuring Group financial performance and will continue to be so as the profile of the Group changes as a result of future licences and other commercial agreements are concluded. The performance of the Group in this latter area is set out in detail in the Financial Review.

In addition, the Directors believe that further important KPIs are the Group's cash flows, including operating cash flow and expenditure on investing activities (principally on capitalised development costs). Net cash inflows from operating activities for FY2018 were \$864,000 (2017: \$45,000), reflecting increased profitability and improved working capital. Capitalised expenditure on development costs was \$1,604,000 (2017: \$752,000) reflecting the increased activity of the Group. Further details of cash flows in 2018 are set out in the Group Statement of Cash Flows.

## Non-financial performance indicators

In a small business with a high proportion of well qualified and experienced staff the rate of staff turnover is seen as an important KPI: in 2018 we recruited 30 new members of staff and 11 left the business (2017: 25 joined and 7 left, treating PSPL, the Group's software development centre, as having been part of the group for the whole of the year). In addition, 33 new members of staff joined as a result of the Danateq Acquisition, a further 3 were recruited subsequently, and 4 have left.

In addition, the Group monitors certain non-financial performance indicators at an operational level, including the number of new customers in the year, Requests for Proposal received, movement of sales pipeline and Change Requests. However, none of these are currently considered to be individually appropriate as a measure of overall strategy execution success. All KPIs are reviewed annually and this includes consideration of appropriate non-financial KPIs.

As the business develops the Board will consider adding, as appropriate, further KPIs to monitor progress against a broader range of objectives.

# PRINCIPAL RISKS AND UNCERTAINTIES

For the year ended 31 December 2018

## Introduction

Our aim is to recognise and address the key risks and uncertainties facing the Group at all levels of our business.

There are a number of risk factors that could adversely affect the Group's execution of its strategic plan and, more generally, the Group's operations, business model, financial results, future performance, solvency, or the value or liquidity of its equity. The Board is committed to addressing these risks by implementing systems for effective risk management and internal control.

The Board has performed an assessment of the principal risks and uncertainties that could threaten Pelatro's business, business model, strategies, financial results, future performance, solvency or liquidity. The items listed below represent the known principal risks and uncertainties but does not list all known or potential risks and uncertainties exhaustively. Where possible, mitigation steps are taken to safeguard against materialised risks.

| Principal Risk | Mitigation | Movement |
|----------------|------------|----------|
|----------------|------------|----------|

### Technology

The industry in which Pelatro operates is in the process of continual change reflecting technical developments as industry and government standards and practices change and emerge

The markets in which Pelatro operates are competitive and rapidly evolving. The Group's existing products may become less competitive or even obsolete as competitors introduce new products and customer behaviour changes.

New products and features are assessed against their target markets and in response to customer feedback prior to development. As Pelatro engages with more customers with an increased product portfolio, a broader spread of feedback is obtained enabling the business to engage with customers more quickly and effectively.



### Building sales

Central to our strategic growth plan is winning new mViva contracts. Failure to do so would directly impact our achievement of overall objectives or lengthen the period taken to achieve them. Specifically, failure to win new mViva contracts early enough in a financial year would jeopardise our ability to deliver the implementations and recognise the associated revenues in that financial year. Sales cycles are often very lengthy and may sometimes be delayed or restructured late in the process.

We have strengthened our sales and marketing operations in order to build greater pipeline visibility and grow revenues faster. In addition to existing efforts in South and South-East Asia and Africa, and the US, we are concentrating our new sales investment in Central Asia and Eastern Europe where we see significant opportunity for new business and rapid growth. We continue to develop and extend the mViva offering as a Multi Channel Marketing Hub to extend market reach.



### Misdirected product, operational or strategic investments

We are continually investing in product development and operational requirements to support mViva-led growth. Failure to achieve meaningful returns on investments would hinder the Group's strategic growth plan and potentially jeopardise the Group's position in the market and its prospects

Strong communication lines between relevant stakeholders are ensured through regular formal meetings and monthly reporting. The Board reviews and challenges all strategic investments



### Competition and technology

The international software industry is subject to rapid and substantial technological change. There can be no assurance that developments by others will not render the Group's developments obsolete or uncompetitive

The Group employs highly qualified software engineers and senior management who monitor and are aware of developments in technology that might affect its research capability and product evolution



### IP, data and cyber risks

A significant IP loss, third party IP challenge, data loss, security breach or cyber-attack could significantly threaten Pelatro's ability to do business, particularly in the short term, and could result in significant financial loss.

We implement robust processes across IP and IT systems, which are overseen by the Head of Engineering.



### Reputational risk

Maintaining a strong reputation is vital to the Group's success as a business. A loss of confidence in the Group's ability to undertake new client opportunities may be caused by an adverse impact to the Group's reputation which may, in turn significantly affect our financial performance and growth prospects.

Significant impact to the Group's reputation could be caused by an incident involving major harm to one of our people or customers, inadequate financial control processes or failure to comply with regulatory requirements. Impact of this type would potentially result in financial penalties, losses of key contracts, an inability to win new business and challenges in retaining key staff and recruiting new staff.

Strong corporate governance and dedicated senior management remain the key elements of effective reputational management. Senior management provide a model of best practice and guidance to ensure the Group's values and expected behaviours are clear and understood by everyone. As our business continues to grow and develop, we will remain strongly focused on protecting the strength of the Group's reputation through effective governance, leadership, and through cultivating open and transparent relationships with all stakeholders.



### Product and service delivery failures

Issues or failures with our software products or services could lead to failed implementations, project delays, cost overruns, data loss, security issues, customer dissatisfaction, early termination, service level breaches and contractual claims, all of which could adversely impact the Group's revenues, earnings and reputation.

The risks of servicing large telcos are significant but generally stable and well understood, and Pelatro has not suffered any material product or service failures since inception. Risks are generally greater with new clients, but formal RFP processes are routinely carried out by telcos, which provides clarity as to requirements and expectations.

Pelatro mitigates inherent product and service risks through robust quality assurance and project governance processes. Product releases are unit tested prior to delivery and subjected to further customer testing prior to first use. Customer testing and acceptance sign-offs are required prior to go-live.



### Attracting and Retaining Skilled People

Attracting and retaining the best skilled people at all levels of the business is critical. This is particularly the case in ensuring we have access to a diverse range of views and experience and in attracting specific expertise at both managerial and operational levels where the market may be highly competitive. Failure to attract new talent, or to develop and retain the Group's existing employees, could impact the Group's ability to achieve the Group's strategic growth objectives. As we continue to grow and diversify into new areas, this risk will continue to be a focus for the Board.

Our business model has created a pipeline of opportunities for staff at every level of the business. This will continue to be the case as the Group develops. The Group's focus on competency at all levels of the business continues to ensure that we develop the Group's people and enable them to successfully manage the changing profile of the Group's business. Incentive programmes are also in place to ensure that key individuals are retained.



### Economic, international trade and market conditions

The Group is generally exposed to economic, trade and market risk factors, such as global or localised economic downturn, changing international trade relationships, foreign exchange fluctuations, consolidation or insolvency of existing or prospective customers or competitor products, all of which could significantly threaten Pelatro's performance and prospects. Pelatro's current focus on emerging markets customers may increase such risks.

Mitigation against the short-term impact of such risks is provided through an increasing spread of geographies and customers. Pelatro monitors political developments and will seek to mitigate emerging risks where possible. Pelatro's high margin revenues provide a level of protection against volatile economic or market conditions and our policy of ongoing product development helps us to maintain our competitive advantage.



# FROM THE DESK OF THE FINANCE DIRECTOR - FINANCIAL REVIEW

For the year ended 31 December 2018

## Introduction

Our full year results highlight the rapid growth the Group has experienced in 2018, and reflect a broader product offering of both software and services. Revenue increased by 95 per cent. to \$6.1m, including some \$3.1m repeat revenue (including gain share, change requests and managed services, as well as PCS). Repeat revenues such as this are a key strategic focus and they have grown strongly because of both the continuing emphasis on growing sales of service contracts (including PCS) and the acquisition of the Danateq Assets during the year which brought significant levels of repeat revenue. We expect this growth to continue as our products achieve wider adoption throughout the telecommunications industry – 2019 has already started positively with significant customer wins, notably Vinaphone of Vietnam and Ooredoo in the Maldives (part of the large Ooredoo Group of Qatar).

## KEY PERFORMANCE INDICATORS

|  | 2018    | 2017    | Growth |
|--|---------|---------|--------|
| Revenue  | \$6.12m | \$3.15m | 95%    |
| Repeat revenue   | \$3.10m | \$0.62m | 411%   |
| Repeat revenue as percentage of total                            | 51%     | 20%     |        |
| Adjusted EBITDA (see note 9)                                     | \$3.75m | \$2.00m | 88%    |
| Adjusted EBITDA margin <sup>1</sup>                              | 61%     | 69%     |        |
| Profit before tax (pre exceptional items)                        | \$3.1m  | \$1.8m  | 73%    |
| Cash generated from operating activities (pre exceptional items) | \$1.2m  | \$0.75m | 56%    |
| Contracted Customers (at year end)                               | 14      | 7       | 100%   |

<sup>1</sup> 2017 Margin Adjusted For \$255,000 of Hardware Sales at Nil Net Profit

# Income Statement

## Revenue

2018 continued the trends seen in the prior year, with total revenues rising around 95% to \$6.12m (2017: \$3.15m), and more than doubling when adjusted for the \$255,000 sale of hardware in the 2017 figures. Of this \$6.1m, approximately \$2.5m arose from sales of licenses and the associated implementation (2017: \$2.3m) and some \$3.1m arose from repeat revenue, notably from gain share contracts and in particular change requests (2017: \$0.6m). The geographic spread of income has also increased, with some 14 customers across as many countries; likewise, the concentration of revenue has significantly decreased, with now two customers each accounting for more than 10% of the revenue compared to 6 in 2017.

As detailed further in Note 5, the Group implemented IFRS 15 Revenue from Contracts with Customers ("IFRS 15") with effect from 1 January 2018. The principal changes resulting from its application were: (1)

recognition of revenue from the sale of a license and its implementation as two separate performance obligations, without reference to contractual invoicing milestones; and (2) recognition of revenue from post-contract support ("PCS") over the term for which support is provided (typically 5 years) rather than the period over which customers usually pay (usually 4 years). In addition, certain contracts which have terms which allow for instalment payments or similar over an extended period are now treated as contracts with a "Significant Financing Component"; accordingly, the Group recognises effective interest income on the amounts deemed to be credit extended to the customer.

The implementation of IFRS 15 has not affected the revenue recognition of income from change requests, revenue gain share contracts (except where there is also a fixed monthly payment), managed services or the resale of hardware.

In summary, the effect of IFRS 15 has been to accelerate approximately \$271,000 of income (relating to PCS and contracts where fixed amounts are payable over time) which otherwise would have been recognised in later periods, and to defer approximately \$167,000 of income (principally relating to license fees) which otherwise would have been recognised in this financial year (offset by some \$23,000 of revenue which has been recognised as interest).

As all the Group's revenue is in US Dollars, there is no impact on revenue arising from foreign exchange movements.

## Cost of sales

Cost of sales of \$555,000 (2017: \$799,000) represents the direct labour costs of providing software support and maintenance, professional services and consultancy, as well as sales commissions payable, expensed customer integration and software maintenance costs. As the Group diversifies its revenue streams into (for example) managed services and PCS, an increasing proportion of costs will be allocated to cost of sales reflecting the direct costs of service and support for the relevant contracts.

Prior to its acquisition in December 2017, amounts invoiced to the Group by the then third-party owned software development centre PSPL and which were not eligible for capitalisation were accounted for as cost of sales; these costs reflected that company's underlying administrative costs as well as costs directly relating to technical and related services. Following its acquisition, the Group cost of sales excludes administrative expenses in PSPL which are included instead in the relevant category; hence the prior year figure is not directly comparable. Such expenses were approximately

\$200,000 in 2017, the majority of which related to travel. The 2017 figure also includes \$274,000 relating to the cost of hardware which was sold on to a customer.

## Overheads and exceptional costs

Pre-exceptional overheads (excluding depreciation and amortisation) increased to \$1.8m (2017: \$0.34m) as a result of staff costs (which were previously included in cost of sales) and directors' remuneration as well as additional costs relating to maintenance of the Company's admission to the AIM market (the Group's admission to AIM was in December 2017). Reflecting the global reach of the Group, more than double the number of customers and a similar increase in staff needing to travel to service them, travel and other marketing costs were also a significant contributor to this increase. The Group will continue to invest in staff to ensure a level of service which befits the standard of the software products; likewise, with the number of opportunities available worldwide, marketing and travel will continue to be an important component of Group expenditure.

As well as exposure to Pounds Sterling on costs arising in the UK, the Group is exposed also to foreign exchange movements in the Indian Rupee due to the software development and support activities carried out by its Indian subsidiary, PSPL. The Group has a small exposure to the Philippines peso and the Russian rouble because of its activities in those countries. Overhead costs also include the net effect of realised foreign exchange movements which resulted in a gain in the year of \$70,000 (2017: \$15,000), arising principally from the weakness of Sterling and the Indian Rupee.

As a result of the acquisition of

the Danateq Assets and the placing of ordinary share capital to fund it, the Group incurred a number of exceptional costs during the year amounting to approximately \$310,000, being principally legal and other fees (2017: \$701,000 relating to the Company's IPO). Costs relating directly to the placing were taken directly to share premium.

### Profitability

Adjusted EBITDA (earnings before interest, tax, depreciation, amortisation and exceptional items) increased by 88% in the year to \$3.75m (2017: \$2.00m) reflecting in part increasing levels of repeat revenue. Profit before tax, exceptional items and amortisation of acquisition-related intangibles was \$3.1m (2017: \$1.8m). On a similar basis adjusted earnings per share ("EPS") were 10.1¢ (2017: 8.9¢), and reported EPS were 8.0¢ (2017: 4.8¢). Reported profit before tax was \$2.6m (2017: \$1.1m).

### Taxation

The increase in the income tax for the year reflects the increased profitability of the Group and in particular the increased size of the PSPL subsidiary which is taxed at higher rates than the rest of the Group entities. The effective rate of 13% (which is lower than the statutory rates of 19% in the UK, 18% in Singapore and 31% in India, being the jurisdictions of the majority of the Group's activities, is principally a result of certain items in the calculation of statutory profit before tax not being factors in the relevant local income tax calculation (e.g. capitalisation of developments costs and the associated amortisation).

# Statement of Financial Position

## Goodwill and other intangible assets

### Goodwill

The goodwill in the Group balance sheet arises from the acquisitions of PSPL in December 2017 and the Danateq Acquisition in August 2018. As PSPL was initially loss-making and then minimally profitable, and had been funded largely by related party and third-party debt, it had significant negative net assets at the time of acquisition, thus leading to the goodwill acquired. Goodwill also arose from the Danateq Acquisition as further explained below.

### Customer relationships and acquired software for resale

As noted in more detail in Note 26, the assets acquired pursuant to the Danateq Acquisition comprised principally customer relationships and enterprise software for resale to third parties. The consideration payable for the acquisition comprised an initial payment and two payments which are contingent on certain revenue targets being met. As at the effective date of the acquisition, the Directors calculated the expected value of the contingent consideration payable as approximately \$8.4m, which has been allocated approximately \$6.9m to customer relationships and \$1.3m to software, with the residual balance being ascribed to goodwill. The customer relationships acquired are being amortised over 10 years, and the software acquired (in common with the Group's existing capitalised development costs) over 4 years. Net of accumulated amortisation for the 5 months from the effective date of acquisition, the net book value of the intangible assets thus acquired was approximately \$7.7m at the year end, which the Directors consider to be in line with their fair value.

### Development costs

During the year the Group has continued to invest substantially in the development of its proprietary software through its software development centres in Bangalore and, since the Danateq Acquisition, Nizhny Novgorod. Over the year the Group capitalised relevant costs of around \$1.6m (2017: \$752,000) out of a total of underlying costs of approximately \$2.7m, of which the majority were incurred in Bangalore. This investment reflects the continuing expansion of the development team (around 70% of Group staff in the year) and underpins the planned further improvements to and diversification of products and hence further growth in revenues. As noted above, as part of the Danateq Acquisition, the Group also acquired development costs (relating to the development work on the acquired software products which had been carried out in Nizhny Novgorod) which were valued at approximately \$1.3m on acquisition. Amortisation on the standalone and acquired costs increased to \$0.6m

(2017: \$201,000) accordingly, and net of such amortisation, this capitalisation resulted in an intangible asset in the statement of financial position of approximately \$3.2m (2017: \$908,000).

### Property, plant and equipment

During the year the Group acquired motor vehicles for the benefit of two Directors at a cost of \$270,000. Furthermore, due to expansion of the Group's activities, an additional lease over a property in Bangalore was taken on; the property so acquired required substantial renovation at the expense of the Group (which requirement was reflected in the terms of the lease), and the associated costs of \$49,000 have been capitalised as leasehold improvements. Additional investments were made in computer and office equipment amounting to \$67,000. Depreciation in the year amounted to \$47,000 (2017: \$1,000, reflecting the acquisition of PSPL in December that year) and the aggregate net book value of property, plant and equipment rose from \$30,000 to \$362,000.

### Trade and other receivables

At 31 December 2018 trade receivables stood at \$4.1m (2017: \$1.8 million). The increase relates largely to the weighting of revenues in the second half of the year, with over 60% of the total revenue accounted for in the last quarter, as well as certain contracts being on bespoke or extended settlement terms and others (notably change requests) typically being billed on a cumulative basis. Approximately \$1.8m has been collected since the year end and to date, of which \$202,000 relates to the \$502,000 debtor over 121 days referred to in Note 19 and the balance relates to one other customer.

As part of its reported debtor balances, the Group may at any one time have amounts outstanding representing Unbilled Revenue ("UBR"). This may arise, for example, where Pelatro undertakes work for customers in accordance with contract terms, but the "Go Live" date (which may represent the initial invoicing date) is expected much later in the term of the contract. As is standard practice in the telecoms industry, contractual revenue milestones (and now completion of a performance obligation for the purposes of recognition of revenue for IFRS 15) are typically reached much earlier than invoicing milestones and credit terms of 90 days start following the invoice. Also certain contracts may be structured such that a fixed amount is payable over an extended term, and hence at any one time there will be a debtor balance outstanding which is not invoiced under the contract terms.



The trade receivables balance at the year end is analysed as follows:

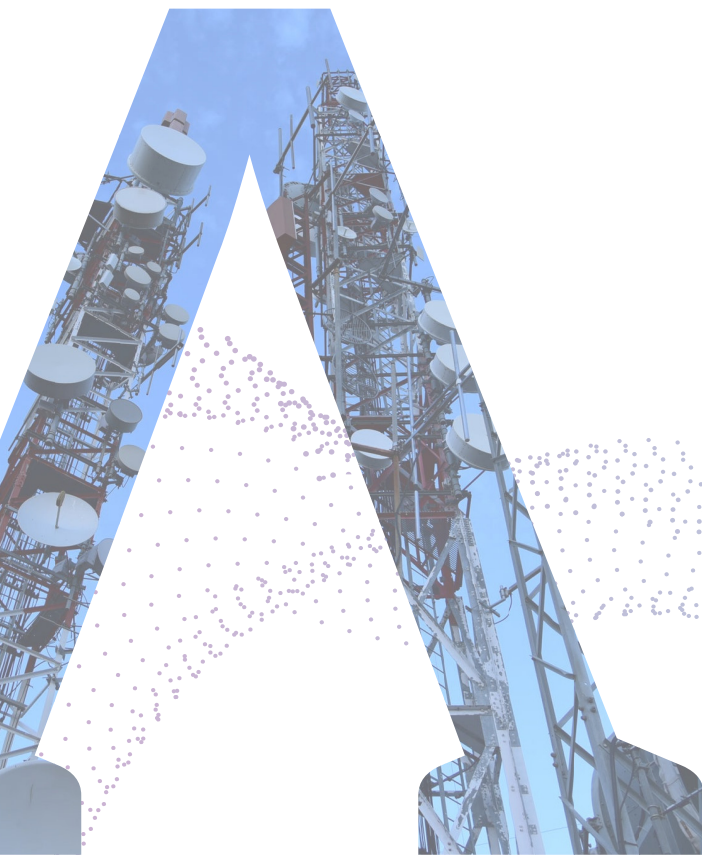
|                                 | 2018                  | 2018                            | 2018          | 2017                  | 2017                            | 2017          |
|---------------------------------|-----------------------|---------------------------------|---------------|-----------------------|---------------------------------|---------------|
|                                 | \$'000<br>Receivables | \$'000<br>Associated<br>revenue | "Debtor days" | \$'000<br>Receivables | \$'000<br>Associated<br>revenue | "Debtor days" |
| Gross trade receivables         | 4,138                 | 6,019                           | 251           | 1,778                 | 3,146                           | 206           |
| Trade receivables excluding UBR | 1,813                 | 3,694                           | 179           | 1,721                 | 3,089                           | 203           |

Trade receivables above exclude contract assets and the associated revenue is the relevant contractual revenue excluding any adjustment for IFRS 15. Given the wide variety and bespoke nature of the Group's contracts, figures shown for debtor days are illustrative only. Further commentary on trade receivables is given below in the section regarding cash flow and financing.

#### Trade and other payables

At the year end trade payables stood at \$118,000 (2017: \$53,000). Other payables of \$463,000 (2017: \$320,000) comprise an accrued tax liability of \$271,000 and sundry creditors and accruals. The Group has tax liabilities principally with UK, Singaporean and Indian tax authorities in relation to trading in 2018. Costs relating to the IPO in 2017 and the Placing in 2018 are not tax deductible, whether taken to share premium or through the profit and loss account, and hence have a concomitant effect on the effective tax rate.

A further \$28,000 (2017: \$101,000) was owed to Directors largely as a result of travel and other expenses incurred by them on behalf of Group companies for which reimbursement was outstanding at the year end.



# Statement of Cash Flows

## Cash flow and financing

Cash collection has been a key strategic focus this year - cash generated by operations, as adjusted for exceptional items, amounted to just under \$1.2m (2017: \$750,000), largely as a result of the improving timing of collection of trade receivables (operating cash outflow of \$52,000 in the first half comparing to adjusted operating cash inflow of approximately \$1.2m in the second); this improvement is expected to continue as the Group becomes more established and also with an increasing proportion of repeat or monthly contracts in the revenue mix (e.g. from revenue share or managed services).

During the year the Group used some of the funds raised from the Group's IPO in 2017 to repay founders' loans which were acquired as a result of the acquisition of PSPL (\$436,000). In addition, PSPL's overdraft of c.\$316,000 was repaid. Two term loans totalling approximately \$246,000 were taken out to part fund purchases of vehicles for the use of directors.

The acquisition of the business and certain assets of Danateq (further detailed in Note 26) was broadly cash neutral: an initial cash consideration paid of \$7.0 million was funded via a placing of 8.2 million new ordinary shares at a price of 73p raising approximately \$7.9 million before expenses; direct expenses relating to the placing amounted to \$319,000 and expenses relating to the acquisition were around \$310,000.

As a result of the above, the Group had closing gross cash of \$2.2m (2017: \$4.1m) and net cash of \$1.8m (2017: \$3.1m).

## Contingent liabilities

As explained in further detail in Note 26, the Group acquired certain assets from the Danateq Group in August 2018, including enterprise software and customer relationships, both formal (i.e. via a framework agreement) and informal. Potential deferred consideration of up to \$5m may be payable in respect of this acquisition, contingent on certain revenue hurdles being met. Such consideration would be payable in two tranches: up to \$3m in August 2019 (the "2019 contingent payment") and up to \$2m in August 2020. These hurdles relate to specific projects in a closely defined pipeline of actual or target contracts and are each further structured in two bands: the 2019 payment is \$2m cash if a hurdle of \$2.25m total revenue is cleared, and \$3m (in total, i.e. an additional \$1m) if a hurdle of \$4.5m total revenue is cleared.

Since the acquisition, the Group has been successful in utilising the software acquired as well as the customer relationships (for example as evidenced by the contract win for the Loyalty Management Solution with Grameenphone) and expects to continue to win such business in 2019 and beyond, but predominantly outside the defined pipeline. Accordingly, it is unlikely that the higher hurdle level for the 2019 contingent payment will be met and thus the \$3m payment will not be due. There is a greater possibility that the lower hurdle will be cleared, with the consequential \$2m payment falling due; however, the hurdle is absolute such that any shortfall, no matter how small, will mean that no payment is due. In any event the Group is confident that it has adequate resources to make any such payment that falls due.

## Summary

Throughout the year the Group has demonstrated its ability to win contracts across its product range from large telcos across the globe, and particularly those in wider groups which enables Pelatro to open up multiple routes to market within such groups. Our increased product range, including our recently announced Data Monetisation Platform, enables us to target both existing customers with new products and new customers, and with wide geographic footprint and a substantially enlarged customer base of now 16 telcos, we expect a significantly increasing volume of change requests which, combined with a greater proportion of managed services and other repeat income, gives us a solid foundation for the year ahead.

## Nic Hellyer

Finance Director

25 March 2019

# Conclusion

For the year ended 31 December 2018

The Strategic Report was approved by the Board of Directors on 25 March 2019.

On behalf of the Board

**Subash Menon**

25 March 2019

**Nic Hellyer**

25 March 2019

# BOARD OF DIRECTORS

## Executive Directors



### Subash Menon

Managing Director,  
CEO & Co-Founder

Subash co-founded the Group in April 2013. Prior to Pelatro, Subash was the CEO and founder of Subex Limited ("Subex"), a company he transformed from a systems integrator in telecoms hardware to a global leader in Telco software for business optimisation. Subash also guided Subex through a successful IPO in India (NSE and BSE) in 1999 and through seven acquisitions in the UK, US and Canada, driving revenues to in excess of US\$100m, prior to leaving Subex in 2012.



### Sudeesh Yezhuvath

Chief Operating Office & Co-Founder

Sudeesh co-founded the Group with Subash in 2013. Sudeesh joined Subash at Subex in 1993, where he worked as a Sales Engineer. There, he progressed to a board Director and Chief Operating Officer. Sudeesh left Subex in 2012, by which time it had grown to be a global leader with over 200 telco operators, across more than 70 countries.



### Nic Hellyer

Finance Director

Nic is a Chartered Accountant who brings extensive board level experience from his 25 years in investment banking. Nic spent the majority of his banking career at UBS and HSBC, advising on a wide range of transactions including public takeovers, private M&A, IPOs and other equity fund raisings. Nic is also a non-executive director of two public companies, one quoted on AIM and the other on the Swedish Nasdaq First North market.

## Non-Executive Directors



**Richard Day** (i)(ii)(iii)

Chairman

Richard is a qualified solicitor with more than 25 years of corporate finance experience. Richard co-founded Arden Partners in 2002 and was instrumental in their admission to AIM in 2006. Richard is currently a non-executive director of EGS Energy Limited and sits on the board of their special purpose vehicle Eden Geothermal Limited which has been formed to develop and operate their deep geothermal site in Cornwall. He is also Chairman of Alchemac Limited, a boulders and aggregates quarrying business in Southern India.

(i) Member of Audit Committee

(ii) Member of Remuneration Committee

(iii) Member of Nomination Committee



**Pieter Christiaan Verkade** (i)(ii)(iii)

Pieter has been the Chief Commercial Officer for Unitel in Angola since August 2017 and is Chairman and Co-Founder of Viva Africa, an African content aggregator and producer for music and video, a role he has held since February 2016. He also serves as a non-executive director on the board of Discover Digital International. Prior to this, Pieter spent sixteen years working in numerous board level roles for various companies within the telecommunications industry. These included Telenor International, Orange and MTN, at which he worked across both Europe and Africa.

# CORPORATE GOVERNANCE REVIEW

For the year ended 31 December 2018

## Statement of Compliance With The 2018 QCA Corporate Governance Code

### Chairman's Introduction

High standards of corporate governance are a key priority for the Board of Pelatro and, in line with the London Stock Exchange's changes to the AIM Rules requiring all AIM-quoted companies to adopt and comply with a recognised corporate governance code, the Board has adopted the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code") as the basis of the Group's governance framework. It is the responsibility of the Board to ensure that the Group is managed for the long-term benefit of all shareholders and stakeholders, with effective and efficient decision-making. Corporate governance is an important aspect of this, reducing risk and adding value to the Group's business.

The Directors acknowledge the importance of the ten principles set out in the QCA Code and this section sets out the Group's current approach to complying with those principles.

### Richard Day

Non-Executive Chairman

## QCA PRINCIPLES

# Section 1: Deliver Growth

### Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Our strategy is discussed further in the Managing Director's statement on pages 07 to 10. As evidenced by continuing progress in winning contracts from new customers as well as new business from existing customers, Pelatro has an increasing reputation in the MultiChannel Marketing software space. To deliver this growth and hence promote long-term value for shareholders, the Board has established a clear three-pronged strategy and business model and has identified the following key areas of operation to focus on improving on the Group's performance:

- Sales strategy, which encompasses all critical areas progressively to open up new vistas and enable the Group to address larger market opportunities while positioning it as a key player in its chosen space.
- Diversification strategy to offer complementary services.
- Acquisition-led growth strategy where and when appropriate to expand the business model.

A fuller explanation of how the strategy and business model are executed is contained in both the Company's Admission Document dated 13th December 2017 and Placing Circular dated 30th July 2018. Both documents are available to download in full on the Group website.

### Principle 2: Seek to understand and meet shareholder needs and expectations.

#### Introduction

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences, hosting capital markets days and our regular reporting.

#### Institutional shareholders

The Directors actively seek to build a relationship with institutional shareholders. Shareholder relations are managed by the Chief Executive Officer and Finance Director who make presentations to institutional shareholders and analysts each year immediately following the release of the full-year and half-year results. The Non-executive

Chairman and Non-executive Director are also available to meet investors, whenever required.

#### Private shareholders

Shareholders are encouraged to attend the annual general meeting ("AGM") at which the Group's activities and results are considered, and questions answered by the Directors. The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other Directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

Private shareholder events are also regularly attended by the CEO and Finance Director, as well as the Chairman.

#### The Board

At every Board meeting, the Chief Executive Officer and the Finance Director provide a summary of the content of any engagement they have had with investors to ensure that major shareholders' views are communicated to the Board as a whole. The Board is also provided with brokers' and analysts' reports when published. This process enables the Chairman and the other Non-executive Director to be kept informed of major shareholders' opinions on strategy and governance, and for them to understand any issues or concerns.

The Non-executive Directors are available to discuss any matter stakeholders might wish to raise, and the Chairman attends meetings with investors and analysts as required.

Investors may also make contact requests through the Company's Nominated Adviser, finnCap Group plc.

### Principle 3: Take into account wider stakeholder and social responsibilities and their implications for longer-term success

Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments. The Board is regularly updated on wider stakeholder engagement feedback to stay abreast of stakeholder insights into the issues that matter most to them and our business, and to enable the Board to understand and consider these issues in decision-making.

## Employees

Aside from our shareholders, suppliers and customers, our employees are one of our most important stakeholder groups and the Board therefore closely monitors and reviews the performance and satisfaction of our employees through regular dialogue and a regular appraisal programme as well as other feedback it receives to ensure alignment of interests.

A new Employee Share Option scheme has recently been established, with options being made available to some 70 employees, being over half of the work force. The Group is still a young, dynamic business and is small enough to ensure that each employee is able to meet with management at any time to discuss business-related issues.

The Group believes that having empowered and responsible employees who display sound judgment and awareness of the consequences of their decisions or actions, and who act in an ethical and responsible way, is key to the success of the business.

## Corporate Social Responsibility

The Group recognises the increasing importance of corporate social responsibility and endeavours to take it into account when operating its business in the interests of its stakeholders, including its investors, employees, customers, suppliers, business partners and the communities where it conducts its activities.

The operation of a profitable business is a priority and that means investing for growth as well as providing returns to its shareholders. To achieve this, the Group recognises that it needs to operate in a sustainable manner and therefore has adopted core principles to its business operations which provide a framework for both managing risk and maintaining its position as a good “corporate citizen”, and also facilitate the setting of goals to achieve continuous improvement.

The Group aims to conduct its business with integrity, respecting the different cultures and the dignity and rights of individuals in the countries where it operates. The Group supports the UN Universal Declaration of Human Rights and recognises the obligation to promote universal respect for and observance of human rights and fundamental freedoms for all, without distinction as to race, religion, gender, language or disability.

## Customers

The Group encourages feedback from its customers through engagement with individual customers through a project. Despite the number of customers having more than doubled in the past year, the overall number of customers means that there is regular interface with customers and their needs are appreciated. During the

year the Group hired a senior person to fulfil the new role of Head of Customer Engagement to ensure a high level of customer satisfaction. The team holds periodic meetings with every customer to understand and resolve their “pain points” while collecting valuable feedback on all aspects of business such as product features, quality of delivery, support and so on.

## Health and Safety

The Directors are committed to ensuring the highest standards of health and safety, both for employees and for the communities within which the Group operates. The Group seeks to exceed legal requirements aimed at providing a healthy and secure working environment to all employees and understands that successful health and safety management involves integrating sound principles and practice into its day-to-day management arrangements and requires the collaborative effort of all employees. All employees are positively encouraged to be involved in consultation and communication on health and safety matters that affect their work.

## Environment

The Directors are committed to minimising the impact of the Group’s operations on the environment. The Group recognises that its business activities have an influence on the local, regional and global environment and accepts that it has a duty to carry these out in an environmentally responsible manner. It is the Group’s policy to endeavour to meet relevant legal requirements and codes of practice on environmental issues so as to ensure that any adverse effects on the environment are minimised. It strives to provide and maintain safe and healthy working conditions, and to keep its entire staff informed of its environmental policy whilst encouraging them to consider environmental issues as an everyday part of their role.

### **Principle 4: Embed effective risk management, considering both opportunities for threats, throughout the organisation**

The Board has overall responsibility for the Group’s internal control systems and for monitoring their effectiveness. The Board, with the assistance of the Audit Committee, maintains a system of internal controls to safeguard shareholders’ investment and the Group’s assets, and has established a continuous process for identifying, evaluating and managing the significant risks the Group faces.

The Board currently takes the view that an internal audit function is not considered necessary or practical due to the size of the Group and the close day to day control exercised by the executive directors. However, the Board will continue to monitor the need for an internal audit function.



Further details of the principal risks faced by the Group, together with their potential impact and the mitigation measures in place, are set out in "Principal risks and uncertainties" on pages 18 to 20 in this Annual Report. The Board believe these risks to be currently the most significant with the potential to impact the Group's strategy, financial and operational performance and ultimately, its reputation.

The Board considers risk to the business on an ongoing basis and the Group formally reviews and documents the principal risks at least annually. Both the Board and senior management are responsible for reviewing and evaluating risk and the executive Directors meet on a regular basis to review ongoing trading performance, discuss budgets and forecasts and any new risks associated with ongoing trading, the outcome of which is reported to the Board.

## Section 2: Maintain a Dynamic Management Framework

### Principle 5: Maintain the Board as a well-functioning balanced team led by the Chair.

The Chairman, Richard Day, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role, setting its agenda and ensuring that the Directors receive accurate, timely and clear information. The Chairman also ensures effective communication with shareholders and facilitates the effective contribution of the other Non-executive Director. The Company is satisfied that the current Board is sufficiently resourced to discharge its governance obligations on behalf of all stakeholders.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board and Committee meetings. All Directors have access to the advice and services of the Finance Director and Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The Board is responsible to the shareholders and sets the Group's strategy for achieving long-term success. It is ultimately responsible for the management, governance, controls, risk management, direction and performance of the Group.

### Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board currently comprises three executive and two non-executive Directors with an appropriate balance of sector, financial and public market skills and experience. The skills and experience of the Board are set out in their biographical details on pages 28 and 29. The experience and knowledge of each of the Directors gives them the ability constructively to challenge the strategy and to scrutinise performance. The Board also has access to external advisers where necessary.

Executive and non-executive Directors are subject to re-election intervals as prescribed in the Company's Articles of Association. At each Annual General Meeting one-third of the Directors, who are subject to retirement by rotation shall retire from office. They can then offer themselves for re-election. The executive directors are employed under service contracts requiring 12 months' notice (by either party) in the case of Subash Menon and Sudeesh Yezhuvath, and three months' notice in the case of Nic Hellyer. The non-executive director and the Chairman receive payments under appointment letters which are terminable on three months' notice.

The Board encourages the ownership of shares in the Company by executive and non-executive Directors alike and in normal circumstances does not expect Directors to undertake dealings of a short-term nature. The Board considers ownership of Company shares by non-executive Directors as a positive alignment of their interest with shareholders. The Board will periodically review the shareholdings of the non-executive Directors and will seek guidance from its advisers if, at any time, it is concerned that the shareholding of any non-executive Director may, or could appear to, conflict with their duties as an independent non-executive Director of the Company or their independence itself. Directors' emoluments, including Directors' interest in shares and options over the Company's share capital, are set out on pages 42, 43, 66 and 67.

The Board meets at least 6 times a year. It has established an Audit Committee, Nominations Committee and a Remuneration Committee. Throughout their period in office the Directors are continually updated on the Group's business, the industry and competitive environment in which it operates, corporate social responsibility matters and other changes affecting the Group by written briefings and meetings with the executive Directors. They are reminded by the Company Secretary of these duties and are also updated on changes to the legal and governance requirements of the Group, and upon themselves as Directors, on an ongoing and timely basis.

The Company has adopted a code for directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and which is in accordance with Rule 21 of the AIM Rules and the Market Abuse Regulations.

**Principle 7: Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The Board is committed to formal annual Board evaluations: in 2018 this has been conducted by way of a questionnaire and Chairman interviews. The performance of the Board, its Committees and that of the individual Directors is monitored by the Chairman on an ongoing basis. The Chairman is assessed by the rest of the directors through the other non-executive Director.

The Nomination Committee is responsible for succession planning of the executive leadership team and makes recommendations to the Board for the re-appointment of any non-executive Directors if and when necessary. Succession planning is reviewed on an ongoing basis alongside the capability of the senior management and Directors. Pieter Verkade is the Chairman of the Nominations Committee.

**Principle 8: Promote a corporate culture that is based on ethical values and behaviours**

The Group adopts a policy of equal opportunities in the recruitment and engagement of staff as well as during the course of their employment. It endeavours to promote the best use of its human resources on the basis of individual skills and experience matched against those required for the work to be performed.

The Group recognises the importance of investing in its employees and, as such, the Group provides opportunities for training and personal development and encourages the involvement of employees in the planning and direction of their work. These values are applied regardless of age, race, religion, gender, sexual orientation or disability.

The Group recognises that commercial success depends on the full commitment of all its employees and commits to respecting their human rights, to provide them with favourable working conditions that are free from unnecessary risk and to maintain fair and competitive terms and conditions of service at all times.

**Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

The Chairman, Richard Day, is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role, setting its agenda and ensuring that the Directors receive accurate, timely and clear information. The Chairman also ensures effective communication with shareholders and facilitates the effective contribution of the other non-executive Director. Subash Menon, as Chief Executive Officer, is responsible for the operational

management of the Group and the implementation of Board strategy and policy. By dividing responsibilities in this way, no one individual has unfettered powers of decision-making.

There is a formal schedule of matters reserved for decision by the Board in place which enables the Board to provide leadership and ensure effectiveness. Such matters include business strategy and management, financial reporting (including the approval of the annual budget), Group policies, corporate governance matters, major capital expenditure projects, material acquisitions and divestments and the establishment and monitoring of internal controls.

The appropriateness of the Board's composition and corporate governance structures are reviewed through the ongoing Board evaluation process and on an ad hoc basis by the Chairman together with the other Directors, and these will evolve in parallel with the Group's objectives, strategy and business model as the Group develops.

**Board committees**

The Board has established Audit, Nomination and Remuneration Committees.

The Audit Committee has Richard Day as Chairman and has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Group is properly measured and reported on, and for reviewing reports from the Group's auditors relating to the Group's accounting and internal controls, in all cases having due regard to the interests of shareholders. The Audit Committee meets at least twice a year. Pieter Verkade is the other member of the Audit Committee. A report on the duties of the Audit Committee and how it discharges its responsibilities is provided in pages 36 to 38.

The Remuneration Committee has Richard Day as Chairman, and reviews the performance of the Executive Directors, and determines their terms and conditions of service, including their remuneration and the grant of options, having due regard to the interests of shareholders. The Remuneration Committee meets at least twice a year. Pieter Verkade is the other member of the Remuneration Committee. Details of the activities and responsibilities of the Remuneration Committee are set out on page 39.

The Nomination Committee has Pieter Verkade as Chairman, and identifies and nominates, for the approval of the Board, candidates to fill board vacancies as and when they arise. The Nomination Committee meets as necessary and has not met in the financial year 2018 as there have been no board vacancies. Richard Day is the other member of the Nomination Committee.

The terms of reference of each Committee can be downloaded from [www.pelatiro.com](http://www.pelatiro.com).

## Section 3: Build Trust

### Principle 10: Communicate how the Group is governed and is performing

The Board maintains a healthy dialogue with all of its stakeholders. Throughout the course of the financial year the Board communicates with shareholders frequently and directly.

# Audit Committee Report

For the year ended 31 December 2018

## Dear Shareholder,

As Chairman of Pelatro's Audit Committee, I present the Audit Committee Report for the year ended 31 December 2018, which has been prepared by the Committee and approved by the Board.

The Committee is responsible for reviewing and reporting to the Board on financial reporting, internal control and risk management, and for reviewing the performance, independence and effectiveness of the external auditors in carrying out the statutory audit. The Committee advises the Board on the statement by the Directors that the Annual Report when read as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

During the year, the Committee's primary activity involved meeting with the external auditors, considering material issues and areas of judgement, and reviewing and approving the interim and year end results and accounts.

In addition, the Committee reviewed the audit and tax services provided by Crowe U.K. LLP ("Crowe"), the Group's external auditors. The Committee concluded that Crowe are delivering the necessary audit scrutiny and that the tax services provided did not pose a threat to their objectivity and independence. Accordingly, the Committee recommended to the Board that Crowe be re-appointed for the next financial year.

In the coming year, in addition to the Committee's ongoing duties, the Committee will:

- consider significant issues and areas of judgement with the potential to have a material impact on the financial statements, including impairments of the Company's investments and technologies;
- consider the impact on the Group of the introduction of IFRS 16 Leases; and
- keep the need for an internal audit function under review, having regard to the Company's strategy and resources

## Richard Day

Chairman of the Audit Committee

25 March 2019

## Audit Committee and Attendance

The Audit Committee comprises Richard Day and Pieter Verkade. The Board considers that Richard Day has sufficient relevant financial experience to chair the Audit Committee given that he has worked for more than 25 years in corporate finance, first at Cazenove & Co (now JP Morgan Cazenove) and then at institutional stockbrokers Arden Partners plc, where he was Head of Corporate Finance for most of his time there. He is a qualified solicitor and was chief financial officer from 2015 to 2018 at iEnergizer Limited which is quoted on the AIM Market of the London Stock Exchange. The Committee is required by its terms of reference to meet at least twice a year. During the year, the Committee met twice. In addition, Nic Hellyer, Finance Director, attended both Committee meetings by invitation.

## Objectives and responsibilities

The Committee is responsible for monitoring the integrity of the Group's financial statements, including its Annual and Interim Reports, preliminary results announcements and any other formal announcements relating to its financial performance prior to release. The Committee's main responsibilities can be summarised as follows:

- to review the Company's internal financial controls and risk management systems;
- to monitor the integrity of the financial statements and any formal announcements relating to the Group's financial performance, reviewing significant judgements contained in them;
- to make recommendations to the Board in relation to the appointment of the external auditors and to recommend to the Board the approval of the remuneration and terms of engagement of the external auditors;
- to review and monitor the external auditors' independence and objectivity, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors; and
- to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to steps to be taken

The terms of reference are reviewed annually and are available on the Company's website at [pelatro.com/investors](http://pelatro.com/investors).

## Significant issues considered during the year

During the year, the Committee:

- reviewed and approve the annual audit plan and met with the external auditors to receive their findings and report on the annual audit;
- considered significant issues and areas of judgement with the potential to have a material impact on the financial statements, including impairments of the Group's investments and technologies;
- considered the integrity of the published financial information and whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Group's position and performance, business model and strategy; and
- reviewed and approved the interim and year end results and accounts

The significant accounting areas and judgements considered by the Committee were:

## Revenue recognition

The Committee considered the appraisal of the impact of adopting IFRS 15 prepared by management and related disclosures in the interim and these full year financial statements.

## Recoverability of debtors

The Committee continued to review the track record of receipts from slow-paying debtors and sought regular updates from management as to the status of trade receivables. In light of this, the Committee reviewed and accepted management proposals that no impairment of trade receivables was required and was satisfied that the trade receivables balance was fairly stated.

## Valuation of intangible assets

The Committee reviewed the basis of capitalisation and considered the intangible value attributed to its intangible software development costs. The Committee also considered the intra-group transfer of intangible assets to bring intellectual property together with the internal resources able to develop, maintain and support such assets. The Committee was satisfied that the resultant net book values were appropriately prepared on a reasonable basis.

## Going concern

The Committee reviewed the cash flow forecasts for the Group and discussed the key assumptions and risks relevant to their achievement. The Committee was satisfied that the basis for adopting the going concern basis in preparing the Group and Company financial statements, set out in note 3, was reasonable.

### Risk review process

The Audit Committee is responsible for reviewing the financial risks and the internal controls relating thereto but the Board as a whole has responsibility for reviewing the overall business risks and risk management framework. The Group's principal risks and uncertainties are set out in the Strategic Report together with mitigating actions and the internal controls and risk management procedures are summarised in the Corporate Governance Report.

### External Auditor

The Committee reviewed the effectiveness of the audit process in respect of the year ended 31 December 2017. In doing so, the Committee considered the reports produced by Crowe, met the audit engagement partner and discussed the audit with the Finance Director. The Committee continues to be satisfied that the external auditors are delivering the necessary scrutiny and robust challenge in their work. Accordingly, the Committee recommended to the Board that it is appropriate to re-appoint Crowe as the Group's external auditors for the next financial year.

### External audit and non-audit services

During the year, Crowe provided tax advisory services. An analysis of the audit and non-audit fees is provided in note 10 to the financial statements. The Audit Committee considered the independence and objectivity of Crowe in carrying out both tax and audit services.

# Remuneration Committee Report

For the year ended 31 December 2018

## Dear Shareholder,

As Chairman of Pelatro's Remuneration Committee, I present the Remuneration Committee Report for the year ended 31 December 2018, which has been prepared by the Committee and approved by the Board.

The Remuneration Committee is responsible for determining the remuneration policy for the Executive Directors, and for overseeing the Company's long-term incentive plans. The Board as a whole is responsible for determining non-executive Directors' remuneration.

As an AIM company, the Directors' Remuneration Report Regulations do not apply to Pelatro and so the report that follows is disclosed voluntarily and has not been subject to audit.

The Committee will continue to monitor market trends and developments in order to assess those relevant for the Group's future remuneration policy.

## Remuneration Decisions for 2018

During the year, the basic remuneration for non-executive Chairman Richard Day was increased from £40,000 to £50,000 per annum and non-executive Director Pieter Verkade from £24,000 to £30,000 per annum. Each of the Executive Directors Subash Menon, Sudeesh Yezhuvath and Nic Hellyer were provided with the use of a car (the latter with effect from January 2019). In the case of Subash Menon and Sudeesh Yezhuvath, because of the unavailability of lease plans in the Indian market, the decision was taken for the Group to purchase the cars outright. These purchases were funded by corresponding term loans such that the upfront cash outlay to the Group was minimised; the cars are intended to be owned for a minimum of 5 years and hence the annual cost to the Group will be approximately \$30,000 per director.

## Remuneration Policy For 2019 And Future Years

Pelatro has changed considerably since admission to AIM, with the acquisition of the Danateq Assets in August 2018, an approximate doubling of revenues and increase in number of customers from 7 to 16. Future salary awards and increases will be set in line with relevant market levels and to retain and attract high quality executives with regard to this growth and the aspirations of the business.

A new long-term incentive plan has recently been set up, with awards made to 70 of our employees, being over 50% of our team. An award of options over 50,000 shares in the Company was awarded to Nic Hellyer under this plan.

## Richard Day

Chairman of the Remuneration Committee

25 March 2019

# KEY MANAGERIAL PERSONNEL



**Subash Menon**



**Sudeesh Yezhuvath**



**Nic Hellyer**



**Arun Kumar Krishna**



**Anuradha**



**Vishwanath B V**



# DIRECTOR'S REPORT

For the year ended 31 December 2018

The Directors present their annual report on the affairs of the Group, together with the consolidated financial statements and independent auditor's report, for the year ended 31 December 2018.

## Principal activities

The Pelatro Group was founded in March 2013 by Subash Menon and Sudeesh Yezhuvath with the objective of offering specialised, enterprise class software solutions for customer engagement principally to telcos who face a series of challenges including market maturity, saturation and customer churn.

Pelatro provides its mViva platform for use by customers in B2C applications and is well positioned in the Multichannel Marketing Hub space (MMH) - this is technology that orchestrates a customer's communications and offers to customer segments across multiple channels to include websites, social media, apps, SMS, USSD and others.

Further information on the Group's activities, its prospects and likely future developments is given in the sections titled "Strategic Report" and "Financial Statements".

## Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements for each financial year in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are further responsible for ensuring that the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom.

## Website publication

The maintenance and integrity of the Pelatro Plc web site, which includes compliance with AIM Rule 26, is the responsibility of the Directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

### Financial instruments and liquidity risks

Information about the use of financial instruments by the Company and its subsidiaries and the Group's financial risk management policies are given in note 25 of the financial statements.

### Directors and their interests

The Directors who served during the year are as shown below:



**R. Day**

Chairman



**S. Menon**

Managing Director, CEO & Co-Founder



**N. Hellyer**

Finance Director



**S. Yezhuvath**

Chief Operating Officer & Co-Founder



**P. Verkade**

Non-Executive Director

In accordance with the Company's articles Richard Day and Subash Menon will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-election.

The Directors at 31 December 2018 and their beneficial interests in the share capital of the Company were as follows:

| Name of Director        | Number of Ordinary Shares of 2.5p each | Options over Ordinary shares |
|-------------------------|--|------------------------------|
| S. Menon <sup>1</sup>   | 9,684,244                              | -                            |
| S. Yezhuvath            | 3,309,309                              | -                            |
| N. Hellyer <sup>2</sup> | 80,000                                 | 17,000                       |
| R. Day                  | 19,457                                 | -                            |
| P. Verkade              | -                                      | -                            |

<sup>1</sup>held by his sons Varun Menon - 4,842,122 Ordinary Shares and Kiran Menon - 4,842,122 Ordinary Shares

<sup>2</sup>40,000 Ordinary shares held by his wife, Dr Fawzia Ali

Nic Hellyer was granted options over a further 50,000 Ordinary shares (subject to certain vesting conditions) on 15 January 2018; otherwise no changes took place in the beneficial interests of the Directors between 31 December 2018 and 25 March 2019.

The market price of the Ordinary Shares at 31 December 2018 was 71.0p and the range during the year was 65.5p to 92.0p.

### Substantial shareholdings

As at 25 March 2019, the Company had received notification of the following significant interests in the ordinary share capital of the Company:

| Name of Holder                  | Number of Ordinary Shares | Percentage of issued share capital |
|---------------------------------|---------------------------|------------------------------------|
| Chelverton Asset Management     | 2,054,794                 | 6.3%                               |
| Rathbones Investment Management | 1,746,956                 | 5.8%                               |
| Herald Investment Management    | 1,561,986                 | 4.8%                               |
| Artemis Fund Management         | 1,542,465                 | 4.7%                               |
| Hargreave Hale                  | 1,027,397                 | 3.2%                               |
| Maven Capital Partners          | 1,005,479                 | 3.1%                               |

### Corporate governance

The Company has formalised the following matters by Board resolution:

- A formal schedule of Board responsibilities;
- The procedure for Directors to take independent professional advice if necessary, at the Company's expense;
- The procedure for the nomination and appointment of non-executive Directors, for specified periods and without automatic re-appointment; and
- Establishment of and written terms of reference for an audit, nominations and remuneration committees

### Internal control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control to provide its members with reasonable assurance regarding the reliability of financial information used within the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of accurate financial

information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year are described under the following headings:

- Control environment - particularly the definition of the organisation structure and the appropriate delegation of responsibility to operational management.
- Identification and evaluation of business risks and control objectives - particularly through a formal process of consideration and documentation of risks and controls which is periodically undertaken by the Board.
- Main control procedures, which include the setting of annual and longer-term budgets and the monthly reporting of performance against them, agreed treasury management and physical security procedures, formal capital expenditure and investment appraisal approval procedures and the definition of authorisation limits (both financial and otherwise).
- Monitoring, particularly through the regular review of performance against budgets and the progress of development and sales undertaken by the Board.

The Board reviews the operation and effectiveness of this framework on a regular basis. The Directors consider that there have been no weaknesses in internal controls that have resulted in any losses, contingencies or uncertainties requiring disclosures in the financial statements.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 06 to 27 and the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements, in particular in the consolidated cash flow statement on page 51, in Note 21 "Loans and borrowings" and Note 25 "Financial instruments".

The financial statements have been prepared on a going concern basis. Overall, the Directors are of the view that the Group has adequate financing to be able to meet its financial obligations for a period of at least 12 months from the date of approval of this annual report and financial statements.

### Events after the balance sheet date

There have been no significant events which have occurred subsequent to the reporting date.

### Liability insurance for Company officers

As permitted by section 233 of the Companies Act 2006, the Company has purchased insurance cover for the Directors against liabilities that might arise in relation to the Group.

By order of the Board

### N. Hellyer

Company Secretary  
49 Queen Victoria Street  
London  
EC4N 4SA  
25 March 2019

### Research and development

Details of the Group's activities on research and development during the year are set out in the Financial Review.

### Auditor

Each of the persons who are Directors of the Company at the date when this report was approved confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined in the Companies Act 2006) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors intend to place a resolution before the Annual General Meeting to appoint Crowe U.K. LLP as auditor for the following year.

# INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2018

## Opinion

We have audited the financial statements of Pelatro Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018, which comprise:

- The Group statement of comprehensive income for the year ended 31 December 2018;
- The Group and Parent Company statements of financial position as at 31 December 2018;
- The Group statement of cash flows for the year then ended;
- The Group and Parent Company statements of changes in equity for the year then ended; and
- The notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosures Framework (UKGAAP).

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the period then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with UKGAAP; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- The Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

## Overview of our audit approach

### Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be \$140,000, based on approximately 5.5% of group profit before tax (2017: \$90,000 based on 8% of normalised group profit before tax).

We use a different level of materiality (“performance materiality”) to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors’ remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of \$3,000. Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

### 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 and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. 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.

This is not a complete list of all risks identified by our audit

| Key audit matter | How the scope of our audit addressed the key audit matter |
|------------------|---|
|------------------|---|

#### Revenue recognition

The Group’s operating revenue arises from mViva products. Customer contracts can contain multiple different performance obligations with different revenue recognition points. Given this the transition to IFRS 15 and the application of the new accounting policies was considered to be a significant audit risk.

### Overview of the scope of our audit

Whilst the Parent Company’s activity and accounting is in the United Kingdom, the main activity of the Group is accounted for from its operating location in India.

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team. For the full scope components in America, Singapore and India where the finance functions were carried out in India work was performed by a local audit team in India under our direction. The local audit team were from a Crowe Global network firm. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. We discussed the risks of material misstatement with the subcontracting auditor.

The primary team led by the Senior Statutory Auditor was ultimately responsible for the scope and direction of the audit process. The primary team interacted regularly with the local team where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

### Capitalisation of development costs

As disclosed in note 17, the Group has capitalised approximately \$1.6 million of development costs relating to the development of the mViva product.

We have focussed on this because research and development represents a significant part of this business and judgement is required in determining the appropriate accounting treatment.

The Directors use judgement to determine whether research and development costs should be expensed or whether they meet the criteria for capitalisation. This criteria includes assessing whether the product being developed is commercially feasible, whether the Group has adequate technical, financial and other required resources to complete the development and whether the costs will be fully recovered through future sale or licensing of the product. The Directors determined that the development costs meet the criteria for capitalisation.

The capitalisation of intangibles is included within note 4 as an area of critical accounting estimate and judgement. The accounting policy for intangibles is outlined in note 3.

We obtained an understanding of the processes and controls over the recognition of research and development expenses.

We have evaluated the appropriateness of the capitalisation of the development expenditure by:

- Discussing with management and obtaining a technical overview of the developments made to the mViva software in the year, we challenged management to ensure that the developments were capital in nature and did not relate to routine software maintenance;
- Testing the allocation of overhead costs to capitalised development costs for mathematical accuracy and reasonableness including challenging whether the overheads were directly attributable to the software development and agreeing underlying data to headcount information; and
- On a sample basis, we tested the amounts allocated to development costs to underlying payroll records and invoices.

### Acquisition accounting

As described in note 26 the Group acquired certain assets from Danateq. We considered the risk that the contingent consideration, customer relations asset and acquired software was inappropriately valued.

We obtained an understanding of the terms of the acquisition and the calculations supporting the recognition of the intangible assets and the contingent consideration. We challenged the key assumptions, including the useful economic life assessment on the customer relations asset, and reviewed supporting evidence to assess the appropriateness of the assumptions.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Directors' report and strategic report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 41, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 and Parent Company'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 the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Matthew Stallabrass (Senior Statutory Auditor)

for and on behalf of

Crowe U.K. LLP

Statutory Auditor

London

25 March 2019



# GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

|  | Note | 2018<br>\$'000<br>(audited) | 2017<br>\$'000<br>(audited) |
|--|------|-----------------------------|-----------------------------|
| <b>Revenue</b>   | 5    | 6,123                       | 3,146                       |
| Cost of sales and provision of services                                    |      | (555)                       | (799)                       |
| <b>Gross profit</b>  |      | 5,568                       | 2,347                       |
| Adjusted administrative expenses   | 6    | (2,421)                     | (546)                       |
| <b>Adjusted operating profit</b>   |      | 3,147                       | 1,801                       |
| Exceptional items  | 9    | (310)                       | (701)                       |
| Amortisation of acquisition-related intangibles                            | 17   | (286)                       | -                           |
| <b>Operating profit</b>  |      | 2,551                       | 1,100                       |
| Finance income   | 7    | 33                          | -                           |
| Finance expense  | 8    | (71)                        | (4)                         |
| <b>Profit before taxation</b>  |      | 2,513                       | 1,096                       |
| Income tax expense   | 13   | (334)                       | (252)                       |
| <b>PROFIT FOR THE YEAR</b>   |      | 2,179                       | 844                         |
| Attributable to:   |      |                             |                             |
| Owners of the Pelatro Group  |      | 2,179                       | 830                         |
| Non-controlling interests  |      | -                           | 14                          |
|  |      | 2,179                       | 844                         |
| <b>Other comprehensive income/(expense):</b>                               |      |                             |                             |
| <b>Items that may be reclassified subsequently to profit or loss:</b>      |      |                             |                             |
| Exchange differences on translation of foreign operations                  |      | 78                          | (2)                         |
| <b>Items that will not be reclassified subsequently to profit or loss:</b> |      |                             |                             |
| Gain on bargain purchase of minority interest                              |      | -                           | 14                          |
| <b>Other comprehensive income, net of tax</b>                              |      | 78                          | 12                          |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                             |      | 2,257                       | 856                         |
| Attributable to:   |      |                             |                             |
| Owners of the Pelatro Group  |      | 2,257                       | 842                         |
| Non-controlling interests  |      | -                           | 14                          |
|  |      | 2,257                       | 856                         |
| <b>Earnings per share</b>  |      |                             |                             |
| Statutory  |      |                             |                             |
| Attributable to the owners of the Pelatro Group (basic and diluted)        | 14   | 8.0¢                        | 4.8¢                        |
| From continuing operations (basic and diluted)                             | 14   | 8.0¢                        | 4.8¢                        |
| Adjusted   |      |                             |                             |
| From continuing operations (basic and diluted)                             | 14   | 10.1¢                       | 8.9¢                        |

The accompanying notes 1 to 30 are an integral part of these financial statements

# GROUP STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

|   | Note | 2018<br>\$'000<br>(audited) | 2017<br>\$'000<br>(audited) |
|---|------|-----------------------------|-----------------------------|
| <b>Assets</b>   |      |                             |                             |
| Non-current assets  |      |                             |                             |
| Intangible assets   | 17   | 10,609                      | 1,324                       |
| Property, plant and equipment   | 18   | 362                         | 30                          |
|   |      | <b>10,971</b>               | <b>1,354</b>                |
| Current assets  |      |                             |                             |
| Trade receivables   | 19   | 4,138                       | 1,778                       |
| Contract assets   | 19   | 384                         | -                           |
| Other assets  |      | 382                         | 217                         |
| Cash and cash equivalents   |      | 2,224                       | 4,126                       |
|   |      | <b>7,128</b>                | <b>6,121</b>                |
| <b>Total assets</b>   |      | <b>18,099</b>               | <b>7,475</b>                |
| <b>Liabilities</b>  |      |                             |                             |
| Non-current liabilities   |      |                             |                             |
| Borrowings  | 21   | 382                         | 266                         |
| Other financial liabilities   | 22   | 1,141                       | -                           |
|   |      | <b>1,523</b>                | <b>266</b>                  |
| Current liabilities   |      |                             |                             |
| Trade and other payables  | 20   | 609                         | 474                         |
| Short term borrowings   | 21   | 69                          | 774                         |
| Contract liabilities  | 20   | 238                         | -                           |
| Other financial liabilities   | 22   | 298                         | -                           |
|   |      | <b>1,214</b>                | <b>1,248</b>                |
| <b>Total liabilities</b>  |      | <b>2,737</b>                | <b>1,514</b>                |
| <b>NET ASSETS</b>   |      | <b>15,362</b>               | <b>5,961</b>                |
| <b>Issued share capital and reserves attributable to owners of the parent</b> |      |                             |                             |
| Share capital   | 23   | 1,065                       | 801                         |
| Share premium   | 23   | 11,603                      | 4,472                       |
| Other reserves  | 23   | (721)                       | (529)                       |
| Retained earnings   |      | 3,415                       | 1,217                       |
| <b>TOTAL EQUITY</b>   |      | <b>15,362</b>               | <b>5,961</b>                |

The financial statements of Pelatro Plc, registered number 10630166, were approved by the board of Directors and authorised for issue on 25 March 2019. They were signed on its behalf by:

**S. Menon (Director)**

**N. Hellyer (Director)**

The accompanying notes 1 to 30 are an integral part of the financial statements.

# GROUP STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

|   | 2018<br>\$'000<br>(audited) | 2017<br>\$'000<br>(audited) |
|---|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities</b>                             |                             |                             |
| Profit for the year   | 2,179                       | 844                         |
| Adjustments for:  |                             |                             |
| Income tax expense recognised in profit or loss                         | 342                         | 247                         |
| Finance income  | (33)                        | -                           |
| Finance costs   | 71                          | 4                           |
| Depreciation of tangible non-current assets                             | 46                          | 1                           |
| Amortisation of intangible non-current assets                           | 843                         | 202                         |
| Provision for/(recognition of) deferred taxes                           | (8)                         | 5                           |
| Foreign exchange  | (69)                        | 5                           |
| <b>Operating cash flows before movements in working capital</b>         | <b>3,371</b>                | <b>1,308</b>                |
| (Increase)/decrease in trade and other receivables                      | (2,438)                     | (1,698)                     |
| (Increase)/decrease in contract assets                                  | (273)                       | -                           |
| Increase/(decrease) in trade and other payables                         | 57                          | 440                         |
| Increase/(decrease) in contract liabilities                             | 146                         | -                           |
| <b>Cash generated from operating activities</b>                         | <b>863</b>                  | <b>50</b>                   |
| Income tax paid   | (292)                       | (78)                        |
| <b>Net cash generated from operating activities</b>                     | <b>571</b>                  | <b>(28)</b>                 |
| <b>Cash flows from investing activities</b>                             |                             |                             |
| Acquisition of property, plant and equipment                            | (384)                       | (1)                         |
| Development of intangible assets  | (1,604)                     | (752)                       |
| Acquisition of intangible assets  | (69)                        | -                           |
| Cash inflow/(outflow) on acquisition of businesses net of cash acquired | (7,035)                     | 9                           |
| <b>Net cash used in investing activities</b>                            | <b>(9,092)</b>              | <b>(744)</b>                |
| <b>Cash flows from financing activities</b>                             |                             |                             |
| Proceeds from issue of ordinary shares, net of issue costs              | 7,395                       | 4,742                       |
| Amounts advanced by related parties                                     | -                           | 2                           |
| Repayments to related parties   | (436)                       | (9)                         |
| Repayment of loans from members of Pelatro LLC                          | -                           | 17                          |
| Proceeds from borrowings  | 394                         | 2                           |
| Repayment of borrowings   | (513)                       | (47)                        |
| Finance income  | 33                          | -                           |
| Finance costs   | (62)                        | (4)                         |
| Less interest accrued but not paid                                      | 3                           | 4                           |
| <b>Net cash generated by/(used in) financing activities</b>             | <b>6,814</b>                | <b>4,707</b>                |
| <b>Net increase/(decrease) in cash and cash equivalents</b>             | <b>(1,707)</b>              | <b>3,935</b>                |
| Foreign exchange differences  | (195)                       | (5)                         |
| Cash and cash equivalent at beginning of period                         | 4,126                       | 196                         |
| <b>Cash and cash equivalents at end of period</b>                       | <b>2,224</b>                | <b>4,126</b>                |

# GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

|   | Share capital | Share premium | Translation reserve | Merger reserve | Retained profits | Attributable to owners of the Pelatro Group | Non-controlling interests | Total equity |
|---|---------------|---------------|---------------------|----------------|------------------|---|---------------------------|--------------|
|   | \$'000        | \$'000        | \$'000              | \$'000         | \$'000           | \$'000                                      | \$'000                    | \$'000       |
| <b>Pro forma balance at 1 January 2017</b>                                      | 551           | -             | -                   | (531)          | 359              | 379   | -                         | 379          |
| Profit after taxation for the financial year                                    | -             | -             | -                   | -              | 830              | 830   | 14                        | 844          |
| Other comprehensive income:   |               |               |                     |                |                  |   |                           |              |
| Exchange differences  | -             | -             | (2)                 | -              | -                | (2)   | -                         | (2)          |
| Bargain purchase of non-controlling interest in subsidiary                      | -             | -             | -                   | -              | 14               | 14  | -                         | 14           |
| Non-controlling interest lost on acquisition of minority interest in subsidiary | -             | -             | -                   | -              | 14               | 14  | (14)                      | -            |
| Transactions with owners:   |               |               |                     |                |                  |   |                           |              |
| Reserves arising on reconstruction  | (20)          | -             | -                   | 4              | -                | (16)  | -                         | (16)         |
| Shares issued by Pelatro Plc for cash   | 270           | 4,901         | -                   | -              | -                | 5,171                                       | -                         | 5,171        |
| Issue costs   | -             | (429)         | -                   | -              | -                | (429)                                       | -                         | (429)        |
| <b>Balance at 31 December 2017 as previously reported</b>                       | 801           | 4,472         | (2)                 | (527)          | 1,217            | 5,961                                       | -                         | 5,961        |
| Effect of IFRS 15   | -             | -             | -                   | -              | 18               | 18  | -                         | 18           |
| <b>Balance at 31 December 2017 as restated</b>                                  | 801           | 4,472         | (2)                 | (527)          | 1,235            | 5,979                                       | -                         | 5,979        |
| Profit after taxation for the year  | -             | -             | -                   | -              | 2,179            | 2,179                                       | -                         | 2,179        |
| Other comprehensive income:   |               |               |                     |                |                  |   |                           |              |
| Exchange differences  | -             | -             | (191)               | -              | -                | (191)                                       | -                         | (191)        |
| Transactions with owners:   |               |               |                     |                |                  |   |                           |              |
| Shares issued by Pelatro Plc for cash   | 264           | 7,450         | -                   | -              | -                | 7,714                                       | -                         | 7,714        |
| Issue costs   | -             | (319)         | -                   | -              | -                | (319)                                       | -                         | (319)        |
| <b>Balance at 31 December 2018</b>  | 1,065         | 11,603        | (193)               | (527)          | 3,414            | 15,362                                      | -                         | 15,362       |

| Reserve             | Description and purpose  |
|---------------------|--|
| Share capital       | Nominal value of issued shares   |
| Share premium       | Amount subscribed for share capital in excess of nominal value less associated cost  |
| Merger reserve      | Amounts arising on the elimination of the members' capital in Pelatro LLC and its subsidiary on presentation of the Group results under merger accounting principles |
| Translation reserve | The difference arising on the translation of balances denominated in currencies other than US Dollars into the presentational currency of the Group                  |
| Retained earnings   | All other net gains and losses not recognised elsewhere  |

The accompanying notes 1 to 30 are an integral part of these financial statements.

# NOTES TO GROUP FINANCIAL STATEMENTS

## 1. General information

Pelatro Plc (“Pelatro” or the “Company”) is a public limited company incorporated and domiciled in England. The Company’s ordinary shares are traded on the AIM market of the London Stock Exchange. These financial statements are the consolidated financial statements of Pelatro Plc and its subsidiaries (“the Pelatro Group” or the “Group”) and the company financial statements for Pelatro Plc. The financial statements are presented in US dollars as the currency of the primary economic environment in which the Group operates.

Pelatro’s registered office is at 49 Queen Victoria Street, London EC4N 4SA and its principal place of business is at No. 403, 7th A Main, 1st Block, HRBR Layout, Bangalore 560043, India.

## 2. Adoption of new and revised standards

Certain new standards and amendments to existing standards that have been published and are mandatory for the first time for the financial year beginning 1 January 2018 have been adopted and their impact on the Group and Company is explained later in this section. New standards, amendments to standards and interpretations which have been issued but are not yet effective (and in some cases had not been adopted by the EU) for the financial year beginning 1 January 2018 have not been adopted early in preparing these financial statements. The main new accounting standards which are relevant to the Group are set out below:

### *IFRS 9 Financial Instruments*

The Group has adopted IFRS 9 from 1 January 2018, replacing IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 sets out the requirements for assessing the impairment of financial assets, requiring consideration of the likelihood of their default or impairment, firstly by splitting out the high-risk balances and continuing to provide for these separately, and then applying a loss rate to the remaining balance where it is known from experience that the loss rate is not nil.

The Group has three types of financial assets that are subject to IFRS 9’s new expected credit loss model: (1) trade receivables from the sale of software and the provision of services; (2) contract assets arising from sale of software and from the provision of services; and (3) sundry deposits and other similar assets. The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets; however, on application of this revised methodology no provision was required (see Note 19). IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and has not had a significant effect on the Group’s accounting policy.

### *IFRS 15 Revenue Recognition*

IFRS 15 has replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations and has been adopted for the Group’s IFRS financial statements for the period beginning on 1 January 2018. This standard introduces a single, five-step revenue recognition model that is based upon the principle that revenue is recognised at the point that control of goods or services is transferred to the customer. The standard also updates revenue disclosure requirements.

The Directors have considered the effect of the adoption of IFRS 15 on the Group’s activities, and in particular on (i) the revenue recognition of the Group’s on-premise software license contracts, which combine the delivery and implementation of software; and (ii) support and maintenance services (“post contract support” or “PCS”). Under accounting policies applicable to prior years, the Group recognised license income in accordance with contractual milestones agreed with customers, and PCS as invoiced (typically after one year free of payment). Implementation services were typically included in the overall cost of the license or, if specifically agreed, invoiced on completion.

### *Revised accounting policies under IFRS 15*

As part of the review of IFRS 15 accounting policies, the Directors have considered whether contracts under (i) above represent a right and ability to use the software at the point of initial delivery (with license revenue recognisable at that point), and a further delivery of implementation services, irrespective of associated cashflows. The Directors concluded that:

- (a) such license contracts represent an immediate right and ability to benefit from the software (as it is technically possible for the customer to engage a third party to implement the software concerned) and hence that an appropriate amount of the total fee payable should be recognised at that point;
- (b) a further appropriate amount (based on a deemed market rate for such services as if provided on a stand-alone basis) should also be recognised on completion of the implementation; and
- (c) PCS income (under (ii) above) should be recognised ratably over the term of the contract provision.

The Group’s four other revenue categories are: gain share contracts; change requests; consulting/managed services and hardware. Of these, gain share contracts have a performance obligation that is met at points in time

as defined by the contract (typically monthly). Likewise change requests are typically short-term projects which performance obligation is met on delivery of the relevant update in the software to the customer. Revenue from the sale of hardware has a performance obligation that is met at a point in time, being the point in time when hardware is delivered. The performance obligations for the Group's consulting and managed services are typically satisfied over time as the service is provided.

Contracts with any one customer may incorporate more than one of these revenue categories such that revenue which is contractually linked may be recognised separately. Likewise, the standard requires the Group to adjust the promised amount of consideration to reflect the time value of money if the contract has a significant financing component, irrespective of the recognition of license, implementation or service income as the case may be.

#### **Application of IFRS 15**

The Group has applied IFRS 15 using the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. Furthermore, the Group has elected to make use of the following practical expedients:

- Completed contracts under IAS 11 and IAS 18 before the date of transition have not been reassessed
- Contract costs incurred relating to contracts with an amortisation period of less than one year have been expensed as incurred
- As permitted by paragraph 12.1 of IFRS 15 the Group does not disclose information about remaining performance obligations that have original expected durations of one year or less
- As permitted by paragraph C5(d) of IFRS 15 the Group does not disclose the amount of transaction price allocated to the remaining performance obligations nor an explanation of when the Group expects to recognise that revenue

In applying IFRS 15, the Directors have been required to make certain estimates and assumptions in determining the allocation of the contract price between licence, implementation and PCS where the market rate for provision of the software or services is not directly observable. The Directors have used their judgement and experience in applying such estimates and assumptions and consider that the range of possible outcomes from these estimates and assumptions does not give rise to a material difference on the revenue recognised.

Details of the significant changes and the quantitative impact of the changes are set out in Notes 5 and 28.

#### **IFRS 16 Leases (effective for 2019 financial report)**

IFRS 16 (effective for the year ending 31 December 2019), which supersedes IAS 17 Leases and related

interpretations, will require all leases to be recognised on the balance sheet, eliminating the distinction between operating and finance leases. This IFRS will thus require the Group to recognise any operating leases as both an asset and a rental commitment in its consolidated statement of financial position. Pelatro does not intend to apply the standard retrospectively and so any difference between the carrying value of the asset created and the corresponding liability will be applied as an adjustment to opening equity at the date of initial application. Any such adjustment is not expected to be material.

### **3. Significant accounting policies**

#### **Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Under Indian company law, PSPL has a statutory year end of 31 March, however, for the purposes of consolidation, financial statements have been prepared for PSPL as at 31 December 2018 on the same accounting principles as for the rest of the Group.

The Company controls an investee if, and only if, the Company has the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure of rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Other than as disclosed above in respect of those entities which became part of the Group as a result of the Reconstruction, the results of subsidiaries or businesses acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### **Comparative financial information and group reconstruction**

Pelatro Plc was incorporated on 21 February 2017. On 7 September 2017 Pelatro Plc acquired Pelatro LLC

in exchange for the issue of shares in Pelatro Plc. At the same time, the 98% of the share capital in Pelatro Pte Limited ("Pelatro Pte") that was held by Pelatro LLC, as well as the 2% owned by third parties as a minority interest, was purchased by Pelatro Plc.

As a result of this group reconstruction (the "Reconstruction"), the members of Pelatro LLC received shares in the Company in direct proportion to their original membership interest in Pelatro LLC, and Pelatro Plc became the direct owner of 100% of the share capital of Pelatro Pte.

In determining the appropriate accounting treatment for the Reconstruction, the Directors considered IFRS 3 Business Combinations (Revised 2008) ("IFRS 3"). However, they concluded that the Reconstruction fell outside the scope of IFRS 3 as it represented a combination of entities already under common control. In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, in developing an appropriate accounting policy, the Directors considered the pronouncements of other standard setting bodies and specifically looked to accounting principles generally accepted in the United Kingdom for guidance, and in particular the merger accounting provisions of FRS 102 section 19 Business Combinations and Goodwill, which does not conflict with IFRS and reflects the economic substance of the transaction.

Under merger accounting principles, the assets and liabilities of both entities are recorded at book value, not fair value. Intangible assets and contingent liabilities are recognised only to the extent that they were recognised by the legal acquirer in accordance within applicable IFRS, no goodwill is recognised, any expenses of the combination are written off immediately to the income statement and comparative amounts, if applicable, are restated as if the combination had taken place at the beginning of the earliest accounting period presented. Accordingly, although the Reconstruction did not become effective until 7 September 2017, the comparative figures for the financial year 2017 in these

consolidated financial statements have been presented as if the current Group structure had always been in place.

On 12 December 2017 Pelatro Plc acquired the whole of the issued share capital of Pelatro Solutions Private Limited ("PSPL"). This acquisition has been accounted for as a normal business combination under IFRS 3.

### Going concern

These financial statements have been prepared on the going concern basis. The Directors have reviewed the Company's and the Group's going concern position taking account of its current business activities, budgeted performance and the factors likely to affect its future development, set out in the Annual report, and include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to credit and liquidity risks. Following such review, the Directors are of the view that the Group has adequate financing to be able to meet its financial obligations for a period of at least 12 months from the date of approval of the annual report and financial statements.

### Business combinations, goodwill and contingent consideration

#### Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a business (whether as a subsidiary or an asset purchase) comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement; and

- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its fair value on the acquisition date and included as part of the consideration transferred in a business combination.

Acquisition-related costs are expensed as incurred.

#### Goodwill

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired

is recorded as goodwill, which is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the statement of comprehensive income as a bargain purchase

For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.



If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Where settlement of any part of cash consideration is deferred (whether because it is contingent or otherwise), the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### **Contingent consideration**

Contingent consideration is initially measured at fair value at the date of completion of the acquisition and may be classified either as equity or a financial liability. The accounting for changes in the fair value of contingent consideration arising on business combinations that do not qualify as measurement period adjustments depends on how the contingent consideration is classified:

- amounts classified as a financial liability are subsequently remeasured to fair value at subsequent reporting dates and the corresponding gain or loss is recognised in the Statement of Comprehensive Income
- contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity

### **Revenue recognition**

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Each element of revenue (described below) is recognised only when:

- (i) provision of the goods or services has occurred;
- (ii) consideration receivable is fixed or determinable; and
- (iii) collection of the amount due from the customer is reasonably assured

Some contracts include multiple deliverables, such as the sale of hardware as well as software, and usually include installation services. Typically, software installation could be performed by another party. It is therefore accounted for as a separate performance obligation. Where contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on the Group's best estimate of their Standalone Selling Price ("SSP") notwithstanding any absence or contrary allocation of total cost within a contract. Where this is not directly observable, it is estimated based on the best available evidence, for example expected cost plus margin.

### **Software licenses**

Revenue on perpetual licenses for on-premise software is recognised on the later of the grant of the license or delivery of the software as appropriate. Certain contracts provide for revenue which is contractually linked to the incremental revenue derived by that customer from use of the software, the revenue from which is based on a pre-agreed share of the customer's incremental revenue which is calculated, agreed and recognised at the end of each month.

### **Implementation services**

Revenue in respect of implementation of on-premise software is recognised on completion of the implementation.

### **Professional services**

Revenue in respect of professional services is recognised as these services are delivered.

### **Annual support and maintenance (also known as Post-Contract Support or "PCS")**

Revenue is recognised on a time basis over the length of the support period. A contract liability is recognised when contractually stated PCS income is lower than its SSP and an element thereof has thus effectively been included in the license fee as stated in the contract. A contract asset is recognised where PCS income is recognised even though it is not contractually due and payable (for example when the first year of PCS is not paid for).

### **Hardware**

Revenue in respect of sales of third-party hardware is recognised when goods are delivered.

### **Cost of sales and provision of services**

The cost of provision of services includes the direct costs of consultants and employees who provide services, support or maintenance to customers, direct sales commissions paid to third parties. Cost of sales includes the acquisition cost of hardware resold to end customers.

### **Leasing**

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

### **Foreign currencies**

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed

in US Dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period where it approximates the rates on the dates of the underlying transactions. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

### Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Taxation

Any tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for cur-

rent tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are provided in full, with no discounting, for all taxable temporary differences; deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation

authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use.

Depreciation is charged to profit or loss (unless it is included in the carrying amount of another asset) on a straight-line basis to write off the depreciable amount of the assets net of the estimated residual values over their estimated useful lives of between 3 and 5 years.

### Intangible assets

#### Development expenditure

Development expenditure, where it meets certain criteria (given below), is capitalised and amortised on a straight-line basis over its useful life. Asset lives are subject to regular review and an impairment exercise carried out at least once a year. Where no internally-generated intangible asset can be recognised, development expenditure is written-off in the period in which it is incurred.

An asset is recognised only if all of the following conditions are met:

- The product is technically feasible and marketable;
- The Group has adequate resources to complete the development of the product;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Development expenditure is amortised on a straight-line basis over 4 years, such amortisation being charged to profit or loss. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

### **Customer relationships**

Customer relationships acquired are recognised as intangible assets at their fair values (see notes 17 and 26). Customer relationships are amortised on a straight-line basis over 10 years.

### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense through profit and loss.

### **Financial assets**

The Group's financial assets consist of cash, loans, deposits, and receivables and related contract assets. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 as described in the revenue accounting policy above.

The Group always recognises lifetime expected credit losses ("ECL") for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in

credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

### **Trade and other receivables and contract assets**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement between 30 and 90 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The timing of revenue recognition, invoicing and cash collections results in both invoiced accounts receivable and uninvoiced receivables. Invoicing may be implemented (depending on the contract with the end customer) according to usage or upon achievement of contractual milestones. Generally, invoicing occurs subsequent to revenue recognition, resulting in contract assets arising until invoicing.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with an original maturity date of fewer than three months that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### **Financial liabilities and equity instruments**

Equity and debt instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. The Group's financial liabilities include trade and other payables and borrowings which are measured at amortised cost using the effective interest rate method. An equity instrument is any contract which evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group, such as share capital and share premium, are recognised at the proceeds received net of direct issue costs.

### **Borrowings**

Interest-bearing loans are recorded initially at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

### Segmental information

For management purposes, the Group's activities are principally related to the provision of data analytics services to customers, and all other activities performed by the Pelatro Group are solely to support its primary revenue generation activities. All the processes are primarily subject to the same risks and returns and the Directors therefore consider that there are no identifiable business segments that are subject to risks and returns different to the core business. As such, internal reporting provided to the chief operating decision-maker ("CODM"), which has been determined to be the Board of Directors for making decisions about resource allocations and performance assessment relates to the consolidated operating results of the Pelatro Group.

Accordingly, the Directors have determined that there is only one reportable segment under IFRS 8 and the financial information therefore presents entity-wide information. The results and assets for this segment can be determined by reference to the statement of comprehensive income and statement of financial position.

The Pelatro Group primarily serves customers in Africa and Asia, with a developing presence in Europe.

### Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company or the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## 4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets, liabilities, revenues and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates. The key assumptions and critical accounting judgements concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### ***Business combinations and related intangible assets***

Business combinations may result in acquired technology assets and customer relationships being recognised as separable intangible assets at their fair value at the date of acquisition. These are valued using discounted cash flow methodology, taking into account a number of key assumptions such as retention and net income. In applying this methodology, certain key judgements and estimates are required to be made in respect of future cash flows together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The key sources of estimation uncertainty with respect to customer relationships are the future retention rate and the income per customer generated from those customers; the key sources of estimation uncertainty with respect to technology assets are the merits of the software in comparison to other similar products which may be available (and hence the Group's ability to valorise it by onward sale to customers) and its likely useful economic life.

Accounting for acquisition-related contingent consideration is based on estimates of future performance of the acquired business over the contractual earn-out period, as measured against the contractually agreed performance targets. If the future results of these businesses differ from the forecasts used for these calculations, there may be a material change in the value of these deferred liabilities which would be recorded in the consolidated statement of profit and loss.

Management judgement is also required in assessing the useful economic lives of these assets for the purposes of amortisation. Notes 17, 22 and 26 gives further details of the assumptions used.

### **Capitalised development costs**

Development costs are accounted for in accordance with IAS 38 Intangible Assets, and costs that meet the qualifying criteria are capitalised and systematically amortised over the useful economic life of the intangible asset. Determining whether development costs qualify for capitalisation as intangible assets requires judgement, including assessments of the nature of the work underlying the costs carried out by relevant employees, estimates of the technical and commercial viability of the asset created, and its applicable useful economic life. These estimates are continually reviewed and updated based on past experience and reviews of competitor products available in the market.

### **Impairment reviews**

The Group uses long-term forecasts of cash flow and estimates of future growth both to value acquired intangible assets and goodwill and to assess whether goodwill and intangible assets are impaired, and to determine the useful economic lives of its intangible assets. If the results of operations in a future period are adverse to the estimates used, an impairment may be triggered at that point, or a reduction in useful economic life may be required. The Group assesses the carrying value of goodwill and intangible assets annually, or whenever there is an indication of impairment: identifying indicators of impairment requires judgements to be made as to the prospects and value drivers of the individual assets. Note 17 discloses the assumptions used.

## **5. Revenue and segmental analysis**

The Directors consider that the Group has a single business segment, being the sale of information management software to providers of telecommunication services. The operations of the Group are managed centrally with Group-wide functions covering sales and marketing, development, professional services, customer support and finance and administration.

An analysis of revenue by product or service and by geography is given below.

### **Revenue by type**

The Group has four key revenue models, being (1) contracts based on the sale of perpetual licenses for use of the Group's proprietary enterprise software; (2) contracts for the use of the Group's software on a regular (usually monthly) basis, which may also provide for Group employees to provide related services the customer and/or for the Group to take a share of the revenue gain achieved through use of the software; (3) provision of bespoke modifications to Group software ("change requests"); and (4) provision of maintenance and support of the software. In addition, the Group may provide certain consulting and training services and, if required by the customer, appropriate hardware on which to host the software.

| At 31 December                     | 2018<br>\$'000 | 2017<br>\$'000 |
|------------------------------------|----------------|----------------|
| Repeat software sales and services | 2,288          | 618            |
| Maintenance and support            | 809            | -              |
| <b>Total Repeat Revenues</b>       | <b>3,097</b>   | <b>618</b>     |
| Software – new licenses            | 2,511          | 2,264          |
| Consulting                         | 515            | 9              |
| Resale of hardware                 | -              | 255            |
|                                    | <b>6,123</b>   | <b>3,146</b>   |

As explained further in Note 28, no adjustment has been made to 2017 comparative figures in respect of the change in accounting policy for revenue recognition as a result of the implementation of IFRS 15. In order to aid comparison, 2017 revenue under IFRS 15 for license fees would have been approximately \$2,162,000 and for maintenance and support approximately \$119,000.

### Revenue by geography

The Group recognises revenue in seven geographical regions based on the location of customers, as set out in the following table:

| At 31 December       | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------|----------------|----------------|
| Caribbean            | 357            | 331            |
| Central Asia         | 1,653          | -              |
| Eastern Europe       | 380            | -              |
| North Africa         | 314            | 756            |
| South Asia           | 819            | 1,214          |
| South East Asia      | 2,207          | 690            |
| Sub - Saharan Africa | 393            | 155            |
|                      | <b>6,123</b>   | <b>3,146</b>   |

Management makes no allocation of costs, assets or liabilities between these segments since all trading activities are operated as a single business unit.

An analysis of revenue by status of invoicing is as follows:

| Year to 31 December  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| (i) Revenue invoiced to customers under contractual terms  | 3,694          | 3,089          |
| (ii) Revenue recognised under terms of contract but unbilled at period end ("UBR")   | 2,325          | 57             |
| (iii) Revenue recognised other than (ii) (i.e. on the completion of performance obligations but before any billing milestone is reached) | 271            | -              |
| Less: net revenue deferred under IFRS 15   | (80)           | -              |
| Less: revenue recognised or to be recognised as interest under IFRS 15   | (87)           | -              |
| <b>Total revenue recognised in the year</b>  | <b>6,123</b>   | <b>3,146</b>   |

### Customer concentration

The Group has two customers representing individually over 10% of revenue each and in aggregate approximately 48% of total revenue at \$2,912,000 (2017: six customers representing individually over 10% each and in aggregate approximately 95% of revenue at \$2,991,000). The two customers accounted for revenue of \$1,653,000 and \$1,259,000 respectively (2017: \$756,000, \$628,000, \$586,000, \$350,000, \$340,000 and \$331,000).

### Further impacts of the adoption of IFRS 15

The Group has applied IFRS 15 using the cumulative effect of initially applying the effects of the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the relevant comparative information has not been restated and continues to be reported under IAS 11 and IAS 18.

### License revenue

As explained in Note 2, the Group now recognises revenue from the sale of licenses and the implementation of the software so licensed separately, as the two activities represent distinct performance obligations. However, as implementation to date has always been carried out by Group personnel and is usually viewed by the customer as an integral part of the license purchase, the two activities are reported as one. The effect of this revised revenue recognition policy has had no material effect on prior years or this year, as all contracts were either complete at the year end or the contractual amount due on completion of implementation was broadly similar to the deemed value of the implementation subsequently carried out.

Irrespective of the split between license and implementation recognition, some contracts provide for fixed payments to be made by customers (usually monthly) over a given term (e.g. three or five years). Under IFRS 15, in order to reflect the time value of money, such contracts have been recognised as (i) a capitalisation of the income stream less (ii) an amount relating to the notional interest accruing and to be accrued on the credit deemed to be extended to the customer (on a reducing balance basis).

### Non-current assets

Information about the Group's non-current assets by location of assets are as follows:

| At 31 December | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------|----------------|----------------|
| Singapore      | 2,295          | 908            |
| UK             | 8,300          | 287            |
| India          | 14             | 159            |
|                | <b>10,609</b>  | <b>1,354</b>   |

For the financial year 2018 this figure amounts to (i) \$131,000 less (ii) \$65,000 (net of \$23,000 of contractual revenue recognised instead as interest in 2018).

### PCS

Related to a license sale, the Group typically provides five years of PCS but does not charge for the first year; similarly in certain contracts may provide the PCS at less than a notional market rate. For revenue recognition purposes this is treated as income accruing over the full term of the service provision (whether paid or otherwise) and, as far as is estimable, at a deemed market rate. Accordingly, the financial statements reflect adjustments to income (i) to accelerate the recognition of revenue for initial years for which no contractual payment is due; and (ii) to defer the recognition of revenue in cases where the contractual PCS charge is lower than a market rate (the difference being set against the revenue recognised in respect of the license fee). For the financial year 2018 revenue therefore includes (i) an amount of \$141,000 representing revenue from PCS recognised ahead of its contractually due dates, less (ii) an amount of \$80,000 representing revenue deferred from license income and allocated to PCS.

### Summary

The net effect of such adjustments is (i) a retrospective adjustment of \$18,000 (credit) to reserves to take into account the financial effects of its implementation for periods prior to the current year (i.e. revenue would have been \$18,000 greater than reported); and (ii) a net acceleration of income recognised of \$104,000 plus a further \$23,000 recognised as interest income which would otherwise have been recognised as revenue. Accordingly at 31 December 2018, the Group would have recognised a reduced profit of \$127,000 if it had continued to apply IAS 11 and IAS 18 in 2018.

The total transaction price allocated to partly unsatisfied performance obligations is approximately \$200,000. This will be recognised as revenue over the next 45-60 months. There is no other impact on the Group's consolidated income statement for the year as a result of applying previous revenue accounting standards.

Non-current assets comprise intangible assets, goodwill, deferred tax assets and plant, property and equipment.

## 6. Operating Expenses

Profit for the year has been arrived at after charging:

| Year to 31 December                           | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Staff costs (see note 11)                     | 582            | 14             |
| Amortisation of intangible non-current assets | 843            | 202            |
| Depreciation of tangible non-current assets   | 46             | 1              |
| Auditor's remuneration (see note 10)          | 45             | 124            |
| Operating lease charges - land and buildings  | 45             | 6              |
| Realised foreign exchange (gains)/losses      | (69)           | (15)           |

## 7. Finance Income

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Interest receivable on interest-bearing deposits                               | 10             | -              |
| Notional interest accruing on contracts with a significant financing component | 23             | -              |
| <b>Total finance income</b>  | <b>33</b>      | <b>-</b>       |

## 8. Finance Expense

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Interest and finance charges paid or payable on borrowings                             | 62             | 4              |
| Acquisition-related financing expense - unwinding of discount on financial liabilities | 9              | -              |
| <b>Total finance expense</b>   | <b>71</b>      | <b>4</b>       |



## 9. Non-GAAP profit measures and exceptional items

Reconciliation of operating profit to earnings before interest, taxation, depreciation and amortisation ("EBITDA")

| Year to 31 December                         | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Operating profit                            | 2,551          | 1,100          |
| <b>Adjusted for:</b>                        |                |                |
| Amortisation and depreciation               | 889            | 203            |
| Exceptional items within operating expenses | 310            | 701            |
| <b>Adjusted EBITDA</b>                      | <b>3,750</b>   | <b>2,004</b>   |

Exceptional items in 2018 comprise legal and other costs relating to the Danateq Acquisition. Exceptional items in 2017 comprise financial advisory, legal, accounting and other costs relating to the admission to trading of the Company's shares in December, the associated placing of new Ordinary shares (other than amounts allocated directly to share premium), and the Group reconstruction and acquisition of PSPL carried out to facilitate this. Exceptional items are treated as exceptional by reason of their size or nature and are excluded from the calculation of adjusted EBITDA and adjusted earnings per ordinary share to allow a better understanding of comparable year-on-year trading and thereby an assessment of the underlying trends in the Group's financial performance. These measures also provide consistency with the Group's internal management reporting.

The calculation of adjusted earnings per share is shown in Note 14.

## 10. Auditor's remuneration

| Year to 31 December   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>Charged in the financial year:</b>   |                |                |
| Audit of the financial statements of Pelatro Plc                                  | 42             | -              |
| <i>Amounts receivable by auditor in respect of:</i>                               |                |                |
| Audit of financial statements of subsidiaries pursuant to legislation             | -              | -              |
| Tax compliance  | 3              | 3              |
| Advisory work in respect of IPO   | -              | 119            |
| Other advisory work   | -              | 2              |
|   | 45             | 124            |
| <b>To be charged in respect of audit services relating to the financial year:</b> |                |                |
| Audit of the financial statements of Pelatro Plc                                  | 41             | n/a            |
| Audit of financial statements of subsidiaries pursuant to legislation             | -              | n/a            |
| Tax compliance  | 3              | n/a            |
| Accountancy work  | -              | n/a            |
|   | 44             |                |

## 11. Staff Costs

| Year to 31 December           | 2018<br>\$'000 | 2017<br>\$'000 |
|-------------------------------|----------------|----------------|
| Wages and salaries            | 1,975          | 60             |
| Social security contributions | 40             | 2              |
| Benefits                      | -              | -              |
| Less: amounts capitalised     | (1,433)        | (48)           |
|                               | <b>582</b>     | <b>14</b>      |

The average number of persons employed by the Company during the period was:

| Year to 31 December  | 2018       | 2017      |
|----------------------|------------|-----------|
| Sales                | 2          | 2         |
| Software development | 70         | 36        |
| Support              | 18         | 8         |
| Marketing            | 2          | 1         |
| Administration       | 13         | 11        |
|                      | <b>105</b> | <b>56</b> |

## 12. Director's remuneration and transactions

The Directors' emoluments in the year ended 31 December 2018 were:

|                                | Basic<br>Salary<br>2018<br>\$'000 | Benefits in<br>kind<br>2018<br>\$'000 | Pension<br>2018<br>\$'000 | Total<br>2018<br>\$'000 | Total<br>2017<br>\$'000 |
|--------------------------------|-----------------------------------|---------------------------------------|---------------------------|-------------------------|-------------------------|
| <b>Executive Directors</b>     |                                   |                                       |                           |                         |                         |
| S. Menon                       | 192                               | 31                                    | -                         | 223                     | 78                      |
| S. Yezhuvath                   | 192                               | 18                                    | -                         | 210                     | 78                      |
| N. Hellyer                     | 79                                | -                                     | 1                         | 80                      | 33                      |
| <b>Non-Executive Directors</b> |                                   |                                       |                           |                         |                         |
| R. Day                         | 52                                | -                                     | 1                         | 53                      | 53                      |
| P. Verkade                     | 30                                | -                                     | -                         | 30                      | 7                       |
|                                | <b>545</b>                        | <b>49</b>                             | <b>2</b>                  | <b>596</b>              | <b>248</b>              |

In addition to the above, Pieter Verkade was paid \$30,000 during the year in respect of marketing consultancy services.

The remuneration of the executive Directors is decided by the Remuneration Committee. Save as disclosed above no Director had a material interest in any contract of significance with the Group in either year.

### 13. Taxation

#### Tax on profit on ordinary activities

| Year to 31 December   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <b>Current tax</b>  |                |                |
| UK corporation tax charge/(credit) on profit for the current year | 225            | -              |
| Overseas income tax charge/(credit)                               | 117            | 247            |
| Total current income tax  | 342            | 247            |
| <b>Deferred tax</b>   |                |                |
| (Recognition)/reversal of deferred tax asset                      | (8)            | 5              |
| Total deferred income tax   | (8)            | 5              |
| <b>Total income tax expense recognised in the year</b>            | <b>334</b>     | <b>252</b>     |

Pelatro LLC is a US Limited Liability Company and, for the period from its incorporation to 7 September 2017 was treated as a flow-through entity for both US federal and state income tax purposes. As such, its then members were taxed on their distributable share of the profits of the business, and Pelatro LLC itself was not subject to US federal or state income tax. Hence no provision or liability (including deferred tax) for federal or state income taxes relating to Pelatro LLC is included in the tax charge for those periods and accordingly no tax charge arose in the Group accounts for the period when Pelatro LLC was the sole constituent of the Group. From 8 September 2017 Pelatro LLC elected to be taxed as a C Corporation and hence tax arising at the corporate level within Pelatro LLC is accounted for accordingly in the consolidated tax expense and liability.

#### Reconciliation of the total tax charge

The effective tax rate in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19%. A reconciliation of income tax expense applicable to the profit before taxation at the statutory tax rate to income tax expense at the effective tax rate is as follows:

| Year to 31 December               | 2018<br>\$'000 | 2017<br>\$'000 |
|-----------------------------------|----------------|----------------|
| <b>Profit before taxation</b>     | <b>2,513</b>   | <b>1,108</b>   |
| Tax at the applicable rate of 19% | 477            | 211            |

*Tax effect of amounts which are not deductible (taxable) in calculating taxable income:*

|  |       |       |
|--|-------|-------|
| Effect of tax chargeable to underlying members                     | -     | 4     |
| Expenses not deductible for tax purposes and other permanent items | 279   | 176   |
| Income not taxable and other permanent items                       | (395) | (154) |
| Movement in fair value of contingent consideration not taxable     | 2     | -     |
| Tax exemptions, allowances and rebates                             | (27)  | (29)  |
| Foreign tax credits  | (30)  | 6     |
| Overseas taxation at different rates                               | 36    | (10)  |
| Overseas withholding tax expenses                                  | -     | 48    |
| Derecognition of deferred tax asset                                | (8)   | -     |

|   |            |            |
|---|------------|------------|
| <b>Income tax expense recognised for the current year</b> | <b>334</b> | <b>252</b> |
|---|------------|------------|

The tax effect of exchange differences recorded within the Group Statement of Comprehensive Income is a charge of \$10,000 (2017: nil).

#### Temporary differences associated with Group investments

At 31 December 2018, there was no recognised deferred tax liability (2017: \$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future.

#### Deferred tax

##### Recognised deferred tax

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| <i>At 1 January</i>                                 | (5)            | -              |
| <i>Movement in the period:</i>                      |                |                |
| - acquired on acquisition of subsidiary undertaking | -              | 118            |
| - other timing differences                          | 8              | (5)            |
| <b>At 31 December</b>                               | <b>3</b>       | <b>113</b>     |
| <i>Comprising:</i>                                  |                |                |
| Timing differences                                  | 3              | (7)            |
| Tax losses  | -              | 120            |
|   | <b>3</b>       | <b>113</b>     |

During the period, further evidence was obtained in respect of the deferred tax asset of \$118,000 that was recognised as part of the acquisition of PSPL in December 2017. As this related to the conditions existing at the date of acquisition and was obtained within one year of the acquisition date, IFRS 3 allows for the acquisition accounting to be revised. Consequently, the deferred tax asset has been derecognised and a corresponding increase has been made to goodwill.

### Factors affecting future tax charges

The Finance Act 2017, which was approved on 15 September 2017, will reduce the UK corporation tax rate by 2% from the current 19% to 17% from 1 April 2020.

The Group's recognised and unrecognised deferred tax assets in its Indian subsidiary have been shown at 28%, being the effective rate in that country.

## 14. Earnings

### Reported earnings per share

Basic earnings per share ("EPS") amounts are calculated by dividing net profit or loss for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year (such calculation for 2017 having been adjusted to reflect the issue of ordinary shares by the Company for the acquisition of Pelatro LLC as if these shares had been issued on incorporation of Pelatro LLC). A calculation of diluted earnings per share is not presented as the number of dilutive potential shares outstanding at the end of the reporting period was not material.

The following reflects the earnings and share data used in the basic earnings per share computations:

| Year to 31 December  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Profit attributable to equity holders of the parent:</b>                            |                |                |
| Continuing operations  | 2,179          | 830            |
| Profit attributable to ordinary equity holders of the parent for basic earnings        | 2,179          | 830            |
| Weighted number of ordinary shares in issue  | 27,375,741     | 17,273,968     |
| Basic earnings per share attributable to shareholders                                  | 8.0¢           | 4.8¢           |
| <b>Basic earnings per share for continuing operations attributable to shareholders</b> | <b>8.0¢</b>    | <b>4.8¢</b>    |

### Adjusted earnings per share

Adjusted earnings per share is calculated as follows:

| Year to 31 December   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Profit attributable to ordinary equity holders of the parent for basic earnings | 2,179          | 830            |
| <b>Adjusting items:</b>   |                |                |
| - exceptional items   | 310            | 701            |

|   |              |             |
|---|--------------|-------------|
| - amortisation of acquisition-related intangibles               | 286          | -           |
| Adjusted earnings attributable to owners of the Parent          | 2,775        | 1,531       |
| Weighted number of ordinary shares in issue                     | 27,375,741   | 17,273,968  |
| <b>Adjusted earnings per share attributable to shareholders</b> | <b>10.1¢</b> | <b>8.9¢</b> |

## 15. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends will be proposed for approval at the AGM (2017: none).

## 16. Principal Group investments

The Company has investments in the following subsidiary undertakings, which contribute to the net assets of the Group:

| Principal subsidiary undertakings | Country of incorporation and operation | Registered office                                     | Principal activity                 | Description and proportion of shares held by the Company |
|-----------------------------------|--|---|------------------------------------|--|
| Pelatro LLC                       | USA                                    | 110 Summit Avenue Montvale, NJ 07645, USA             | Sales                              | 100% of members' capital                                 |
| Pelatro Pte Limited               | Singapore                              | One Raffles Place, #10-62, Tower 2, Singapore 048616  | Ownership of intellectual property | 100% ordinary shares                                     |
| Pelatro Solutions Private Limited | India                                  | 403, 7th A Main, HRBR Layout, Bangalore 560043, India | Research, development and support  | 100% ordinary shares                                     |

## 17. Intangible assets

Intangible assets comprise capitalised development costs (in relation to internally generated software and software acquired through business combinations), software acquired from third parties for use in the business, customer relationships and goodwill.

| Financial Year 2018                       | Development costs<br>\$'000 | Third party software<br>\$'000 | Customer relationships<br>\$'000 | Goodwill<br>\$'000 | Total<br>\$'000 |
|---|-----------------------------|--------------------------------|----------------------------------|--------------------|-----------------|
| <b>Cost</b>                               |                             |                                |                                  |                    |                 |
| At 1 January 2018                         | 1,290                       | 32                             | -                                | 287                | <b>1,609</b>    |
| Additions                                 | 1,604                       | 69                             | -                                | -                  | <b>1,673</b>    |
| Fair value adjustment                     | -                           | -                              | -                                | 140                | <b>140</b>      |
| Created as part of a business combination | -                           | -                              | -                                | 318                | <b>318</b>      |

|  |              |           |              |            |                |
|--|--------------|-----------|--------------|------------|----------------|
| Acquired as part of a business combination     | 1,250        | -         | 6,862        | -          | <b>8,112</b>   |
| Foreign exchange                               | -            | (3)       | -            | -          | <b>(3)</b>     |
| At 31 December 2018                            | 4,144        | 98        | 6,862        | 745        | <b>11,849</b>  |
| <b>Amortisation or impairment</b>              |              |           |              |            |                |
| At 1 January 2018                              | (382)        | (16)      | -            | -          | <b>(398)</b>   |
| Acquired as part of a business combination     | -            | -         | -            | -          | -              |
| Charge for the year                            | (553)        | (4)       | (286)        | -          | <b>(843)</b>   |
| Foreign exchange                               | -            | 1         | -            | -          | <b>1</b>       |
| At 31 December 2018                            | (935)        | (19)      | (286)        | -          | <b>(1,240)</b> |
| <b>Net carrying amount At 31 December 2018</b> | <b>3,209</b> | <b>79</b> | <b>6,576</b> | <b>745</b> | <b>10,609</b>  |
| <b>At 1 January 2018</b>                       | <b>908</b>   | <b>16</b> | <b>-</b>     | <b>287</b> | <b>1,211</b>   |

During the year, further evidence was obtained in respect of the eligibility of certain tax losses giving rise to the deferred tax asset of \$118,000 that was recognised as part of the acquisition of PSPL in December 2017, and it is now considered that these tax losses are unavailable for use. As this related to the conditions existing at the date of acquisition and was obtained within one year of the acquisition date, IFRS 3 allows for the acquisition accounting to be revised. Consequently, the deferred tax asset has been derecognised (and a similar adjustment made in respect of an amount of \$22,000 relating to current tax liabilities acquired) and a corresponding increase has been made to goodwill.

| Financial Year 2017                        | Development costs<br>\$'000 | Third party software<br>\$'000 | Customer relationships<br>\$'000 | Goodwill<br>\$'000 | Total<br>\$'000 |
|--|-----------------------------|--------------------------------|----------------------------------|--------------------|-----------------|
| <b>Cost</b>                                |                             |                                |                                  |                    |                 |
| At 1 January 2017                          | 538                         | -                              | -                                | -                  | <b>538</b>      |
| Additions                                  | 752                         | -                              | -                                | -                  | <b>752</b>      |
| Created as part of a business combination  | -                           | -                              | -                                | 287                | <b>287</b>      |
| Acquired as part of a business combination | -                           | 32                             | -                                | -                  | <b>32</b>       |
| At 31 December 2017                        | 1,290                       | 32                             | -                                | 287                | <b>1,609</b>    |
| <b>Amortisation or impairment</b>          |                             |                                |                                  |                    |                 |
| At 1 January 2017                          | (181)                       | -                              | -                                | -                  | <b>(181)</b>    |
| Acquired as part of a business combination | -                           | (15)                           | -                                | -                  | <b>(15)</b>     |
| Charge for the year                        | (201)                       | (1)                            | -                                | -                  | <b>(202)</b>    |
| At 31 December 2017                        | (382)                       | (16)                           | -                                | -                  | <b>(398)</b>    |

|  |            |           |          |            |              |
|--|------------|-----------|----------|------------|--------------|
| <b>Net carrying amount<br/>At 31 December 2017</b> | <b>908</b> | <b>16</b> | <b>-</b> | <b>287</b> | <b>1,211</b> |
| <b>At 1 January 2017</b>                           | <b>357</b> | <b>-</b>  | <b>-</b> | <b>-</b>   | <b>357</b>   |

### Development Costs

Development costs are either internally generated or acquired and are capitalised at cost or fair value on acquisition. Such costs comprise capitalised staff costs (and allocable related direct costs) associated with the development of new products and services which will be saleable to more than one customer.

These intangible assets have been assessed as having a finite life and are amortised on a straight-line basis over their useful life, which is estimated at four years. The amortisation charge on intangible assets is included in administrative expenses in the consolidated statement of comprehensive income. These assets are tested for impairment when an indicator of impairment arises and annually prior to them being made available for use.

### Software

Software assets represent purchased licences and distribution rights for third party software which are capitalised at cost and amortised on a straight-line basis over the relevant estimated useful life. The estimated useful life of these intangible assets ranges between three and nine years depending on their nature. Amortisation charges in respect of intangible assets are included in administrative expenses.

### Customer relationships

Customer relationships were acquired as part of a business combination (see Note 26). They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based over their estimated useful life of 10 years.

### Goodwill

Goodwill arose on the acquisition of the Danateq Assets and PSPL. It is assessed as having an indefinite life but the Group tests whether goodwill has suffered any impairment on an annual basis. For the 2017 and 2018 reporting periods, the recoverable amount of the cash generating units ("CGUs") was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

### Danateq cash-generating unit

The Danateq CGU comprises the contracts and customer relationships acquired as part of the Danateq Acquisition (further detailed in Note 26), the enterprise software acquired for resale and the related workforce. Given the opportunity to leverage this expertise across Pelatro's existing business and the ability to exploit the Group's thus enlarged customer base, the value of the Danateq Assets was deemed to be greater than the assessed book value of the assets as recognised in the financial statements of Pelatro, thus leading to the recognition of an amount of goodwill.

This goodwill was tested for impairment at 31 December 2018 by comparing the carrying value of the CGU with the recoverable amount. The recoverable amount was determined using a value in use methodology based on discounted cash flow projections. The key assumptions used in the value in use calculations were as follows:

- (i) The operating cash flows for this business for the year to 31 December 2019 are taken from the budget approved by the Board which is closely linked with recent historical performance and current expected levels of activity. The operating cash flow budget is most sensitive to sales of software and services to third parties;
- (ii) Growth has been assumed in operating cash flows for the remainder of the value in use in line with short term pipeline expectations as well as longer-term growth expectations for the software products in the market. Revenue growth after 5 years is forecast at -20% in US Dollars terms to reflect the integration of the products into those of the Group overall;
- (iii) A post-tax discount rate of approximately 10% has been used (being the Weighted Average Cost of Capital in US Dollars); and
- (iv) The use of cash flow projections over longer than a 5-year period is considered appropriate as the Group has an increasing recurring revenue base and the Group continues to invest in the development of the products via this CGU



### **PSPL cash-generating unit**

The PSPL CGU comprises the Group's software development centre in Bangalore which was acquired in December 2017, and whose principal activity is to develop the Group's software and provide administrative support for the rest of the Group. The goodwill relating to this CGU was tested for impairment at 31 December 2018 by comparing the carrying value of the CGU with the recoverable amount. The recoverable amount was determined using a value in use methodology based on discounted cash flow projections. The key assumptions used in the value in use calculations were as follows:

- (i) The operating cash flows for this business for the year to 31 December 2019 are taken from the budget approved by the Board which is closely linked with recent historical performance and current expected levels of activity. The operating cash flow budget is most sensitive to the number of employees, particularly the more highly-skilled developers; revenue for the CGU is all intra-Group and is thus dependent on other Group companies making third-party sales;
- (ii) Growth has been assumed in operating cash flows for the remainder of the value in use such that a consistent post-tax margin is maintained over the calculation period (which is how the business is managed within the Group). Revenue growth after 5 years is forecast at 15% in local currency terms;
- (iii) A post-tax discount rate of approximately 14% has been used (being the Weighted Average Cost of Capital in local currency); and
- (iv) The use of cash flow projections over longer than a 5-year period is considered appropriate as the business is expected to continue to support the Group for the period of the projections, the Group has an increasing recurring revenue base and the Group continues to invest in the development of the products via this CGU

### **Sensitivity to changes in assumptions**

A change in a key assumption in respect to operating cash flows could cause the carrying value of the goodwill to exceed the recoverable amount, resulting in an impairment charge. The Board is confident that the assumptions in respect of operating cash flows remain appropriate. Where the operating cash flows incorporate products or solutions that will be sold in an existing known market, past experience is used as a guide to the level of sales achievable, growth rates and associated margins. Where the operating cash flows relate to products or solutions that will be sold into a new or emerging market, past experience with similar products or solutions is combined with relevant information from external market sources, such as competitor pricing and discussions with potential customers, in arriving at the level of sales achievable, growth rates and associated margins.

### **Conclusion**

The Directors have concluded that, based on the above, recoverable value exceeds the carrying value of the goodwill at 31 December 2018.

## 18. Tangible assets

| Financial Year 2018                                | Leasehold improvements<br>\$'000 | Computer equipment<br>\$'000 | Office equipment<br>\$'000 | Vehicles<br>\$'000 | Total<br>\$'000 |
|--|----------------------------------|------------------------------|----------------------------|--------------------|-----------------|
| <b>Cost</b>  |                                  |                              |                            |                    |                 |
| At 1 January 2018                                  | -                                | 56                           | 4                          | -                  | <b>60</b>       |
| Additions  | 49                               | 44                           | 23                         | 270                | <b>386</b>      |
| Foreign exchange differences                       | -                                | (7)                          | 3                          | (6)                | <b>(10)</b>     |
| At 31 December 2018                                | 49                               | 93                           | 30                         | 264                | <b>436</b>      |
| <b>Depreciation</b>                                |                                  |                              |                            |                    |                 |
| At 1 January 2018                                  | -                                | (29)                         | (1)                        | -                  | <b>(30)</b>     |
| Charge for the year                                | -                                | (20)                         | -                          | (27)               | <b>(47)</b>     |
| Foreign exchange differences                       | -                                | 3                            | (1)                        | 1                  | <b>3</b>        |
| At 31 December 2018                                | -                                | (46)                         | (2)                        | (26)               | <b>(74)</b>     |
| <b>Net carrying amount<br/>At 31 December 2018</b> | <b>49</b>                        | <b>47</b>                    | <b>28</b>                  | <b>238</b>         | <b>362</b>      |
| <b>At 1 January 2018</b>                           | <b>-</b>                         | <b>27</b>                    | <b>3</b>                   | <b>-</b>           | <b>30</b>       |

| Financial Year 2017                        | Leasehold improvements<br>\$'000 | Computer equipment<br>\$'000 | Office equipment<br>\$'000 | Vehicles<br>\$'000 | Total<br>\$'000 |
|--|----------------------------------|------------------------------|----------------------------|--------------------|-----------------|
| <b>Cost</b>                                |                                  |                              |                            |                    |                 |
| At 1 January 2017                          | -                                | -                            | -                          | -                  | -               |
| Additions                                  | -                                | -                            | 1                          | -                  | <b>1</b>        |
| Acquired as part of a business combination | -                                | 56                           | 3                          | -                  | <b>59</b>       |
| Foreign exchange differences               | -                                | -                            | -                          | -                  | -               |
| At 31 December 2017                        | -                                | 56                           | 4                          | -                  | <b>60</b>       |
| <b>Depreciation</b>                        |                                  |                              |                            |                    |                 |
| At 1 January 2017                          | -                                | -                            | -                          | -                  | -               |
| Acquired as part of a business combination | -                                | (28)                         | (1)                        | -                  | <b>(29)</b>     |
| Charge for the year                        | -                                | (1)                          | -                          | -                  | <b>(1)</b>      |
| Foreign exchange differences               | -                                | -                            | -                          | -                  | -               |

|  |   |           |          |   |             |
|--|---|-----------|----------|---|-------------|
| At 31 December 2017                                | - | (29)      | (1)      | - | <b>(30)</b> |
| <b>Net carrying amount<br/>At 31 December 2017</b> | - | <b>27</b> | <b>3</b> | - | <b>30</b>   |
| <b>At 1 January 2017</b>                           | - | -         | -        | - | -           |

The Group entered into a new lease on 1 September 2018 in Bangalore, India over premises which required substantial improvement and modernisation, which costs have been capitalised as leasehold improvements and depreciated over 5-10 years.

## 19. Trade and other receivables and contract assets

The timing of revenue recognition, invoicing and cash collection results in: the recognition of the following assets on the Consolidated Statement of Financial Position:

- (i) invoiced accounts receivable;
- (ii) accounts invoiceable but uninvoiced at the period end (i.e. “unbilled revenue” or UBR) (collectively with (i) “trade receivables”); and
- (iii) as required by IFRS 15, amounts relating to revenue recognised at the date of the statement of financial position but not invoiceable under the terms of the contract (“contract assets”)

Amounts recognised under (iii) “Contract assets” represent assets resulting from balance sheet reclassifications arising from the adoption of IFRS 15. The balance of \$384,000 (which includes amounts arising from balances brought forward from 2017) relates to license and PCS income recognised but not yet invoiceable.

### Aged analysis of trade receivables

| At 31 December    | Carrying amount<br>\$'000 | Neither impaired or past due<br>\$'000 | Past due but not impaired |                       |                              |
|-------------------|---------------------------|--|---------------------------|-----------------------|------------------------------|
|                   |                           |  | 61-90 days<br>\$'000      | 91-120 days<br>\$'000 | More than 121 days<br>\$'000 |
| <b>2018</b>       |                           |  |                           |                       |                              |
| Trade receivables | 4,138                     | 3,636                                  | -                         | -                     | <b>502</b>                   |
| <b>2017</b>       |                           |  |                           |                       |                              |
| Trade receivables | 1,778                     | 1,022                                  | -                         | -                     | <b>756</b>                   |

### Trade terms and impairments

Unless specific agreement has been reached with individual customers, sales invoices are usually due for payment between 60 and 90 days after the date of the invoice. If customers delay making payment, an assessment of the potential loss of customer goodwill arising from the enforcement of contractual payment terms may take place when considering actions to be taken to secure payment. Furthermore, interest is not typically charged on overdue debts although it is provided for in some contracts.

As explained in Note 2, the Group was required to revise its impairment methodology under IFRS 9 for relevant classes of assets. In adopting IFRS 9, the only change made from the previous reporting period was in relation to the impairment of financial assets. The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account current and forecast credit conditions as opposed to relying on

past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach applying a provision matrix to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. The Group has elected to adopt the initial application date of 1 Jan 2018 and therefore has chosen not to restate comparatives. The Directors applied a percentage "probability of default" to the receivables balance related to the underlying credit rating of the customer (many of whom have investment grade credit ratings provided by well-known ratings agencies), which resulted in a hypothetical expected default amount which was not material to the Group's financial statements. Given this, and the fact that the Group has no history of trade receivable write offs, the Directors concluded that no provision is required and therefore no allowance for doubtful debts was recognised in 2018 (2017: nil).

### **Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as deemed necessary based on, inter alia, the nature of the prospect and size of order. The Group does not require collateral in respect of financial assets.

At the reporting date, the largest exposure was represented by the carrying value of trade and other receivables, against which no provision is carried at 31 December 2018 (2017: nil) as detailed above. The largest individual counterparty to a receivable included in trade and other receivables at 31 December 2018 owed the Group \$884,000 (of which some \$747,000 was unbilled revenue) (2017: \$756,000). Based on invoiced receivables, the largest individual counterparty owed the Group \$449,000 (2017: \$756,000). The Group's customers are spread across a broad range of geographies and consequently it is not otherwise exposed to significant concentrations of credit risk on its trade receivables.

## 20. Trade and other payables and contract liabilities

| At 31 December                        | 2018<br>\$'000 | 2017<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Due within a year                     |                |                |
| Trade payables                        | 118            | 53             |
| Other payables                        | 463            | 320            |
| Amounts due to related parties        | 28             | 101            |
| <b>Total trade and other payables</b> | <b>609</b>     | <b>474</b>     |

The average credit period taken for trade purchases is between 30 and 60 days. Most suppliers do not charge interest on trade payables for the first 30 days from the date of the invoice. The Group has risk management policies in place to ensure that all payables are paid within the appropriate credit time frame. The Directors consider that the carrying amount of trade payables approximates to their fair value.

“Other payables” principally comprise provisions for taxation liabilities and other costs.

“Contract liabilities” represent liabilities resulting from balance sheet reclassifications arising from the adoption of IFRS 15. The balance of \$238,000 (which includes amounts arising from balances brought forward from 2017) relates to income invoiced but yet to be recognised as PCS or interest receivable.

## 21. Loans and borrowings

| At 31 December                    | 2018<br>\$'000 | 2017<br>\$'000 |
|-----------------------------------|----------------|----------------|
| Non-current liabilities           |                |                |
| Secured term loans                | 382            | 266            |
|                                   | <b>382</b>     | <b>266</b>     |
| Current liabilities               |                |                |
| Current portion of term loan      | 69             | 30             |
| Unsecured borrowings              | -              | 744            |
|                                   | <b>69</b>      | <b>744</b>     |
| <b>Total loans and borrowings</b> | <b>451</b>     | <b>1,040</b>   |

During 2018, PSPL secured two new loans: in January it entered into a vehicle loan agreement with Kotak Mahindra Prime Ltd to fund a vehicle purchase. The loan amount granted was INR 5.9m (c. \$92,000) with a term of 5 years, secured on the vehicle. In March a term loan of INR 10.0m (c. \$154,000) was secured from Kotak Mahindra Bank for a term of 5 years, also in relation to a vehicle purchase at an interest rate of 9.25%. The loan is repayable in 60 equal monthly instalments. During the year unsecured borrowings (PSPL's overdraft) and directors' loans were repaid in full.

### Reconciliation between opening and closing balances for liabilities resulting in financing cash flows

|                                      | 1 January<br>2018 | Non-cash<br>changes<br>– foreign<br>exchange<br>movements | Interest<br>accruals<br>included in<br>cash flow | Transfer<br>from<br>non-current<br>to current | Cash flows -<br>net (repay-<br>ments) and<br>drawdowns | 31 Decem-<br>ber 2018 |
|--------------------------------------|-------------------|---|--|---|--|-----------------------|
|                                      | \$'000            | \$'000  | \$'000   | \$'000  | \$'000   | \$'000                |
| Non-current liabilities              |                   |   |  |   |  |                       |
| Secured term loans                   | 266               | (26)  | 3  | (69)  | 208  | 382                   |
| Current liabilities                  |                   |   |  |   |  |                       |
| Current portion of secured term loan | 30                | -   | -  | 69  | (30)   | 69                    |
| Unsecured borrowings                 | 316               | (20)  | -  | -   | (296)  | -                     |
| Directors' loans                     | 428               | 1   | -  | -   | (429)  | -                     |
| <b>Total</b>                         | <b>1,040</b>      | <b>(45)</b>   | <b>3</b>   | <b>-</b>                                      | <b>(547)</b>   | <b>451</b>            |

The Directors consider that the carrying amount of borrowings approximates to their fair value.

## 22. Contingent consideration on business combinations

| As at 31 December   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Contingent consideration on the acquisition of Danateq assets |                |                |
| - potentially due within one year                             | 298            | -              |
| - potentially due after one year                              | 1,141          | -              |
|   | <b>1,439</b>   | <b>-</b>       |

Part of the consideration for the Danateq Acquisition in August 2018 was contingent on the achievement of certain revenue targets in the two years following the acquisition. The contingent amounts payable under these arrangements was between \$nil and \$5,000,000. At the date of acquisition, the Directors assessed the fair value of the contingent consideration payable under this arrangement at \$1,430,000, based on a probability-weighted analysis of the likely outturn payments. Other than as a result of the unwinding of the discount attributable to the time value of money, there has been no change in the fair value of the contingent consideration since the acquisition date.

## 23. Share capital and reserves

### Share capital and share premium

| Ordinary shares of 2.5p each (issued and fully paid) | \$'000       | Number            |
|--|--------------|-------------------|
| At 1 January 2017                                    | -            |                   |
| Issued for cash during the year                      | 270          |                   |
| Issued in exchange for shares during the year        | 531          |                   |
| <b>At 31 December 2017</b>                           | <b>801</b>   | <b>24,313,252</b> |
| Issued for cash during the year                      | 264          |                   |
| <b>At 31 December 2018</b>                           | <b>1,065</b> | <b>32,532,431</b> |

The Company was incorporated on 21 February 2017 with 100 Ordinary shares of £1 each in issue. A further 49,900 shares were issued on 31 July. On 7 September these shares were split on the basis of 39 new shares for every old share such that there were then 2,000,000 Ordinary shares of 2.5 pence each in issue. Also on 7 September, 16,211,040 shares of 2.5 pence each were issued in connection with the acquisition of Pelatro LLC.

On 19 December 2017 the Company's shares were admitted to trading on the AIM market of the London Stock Exchange ("Admission"). In conjunction with Admission, the Company made an initial public offering of 6,102,212 new 2.5 pence ordinary shares at a price of 62.5 pence per ordinary share (the "IPO"). On 17 August 2018 the Company issued a further 8,219,179 2.5 pence Ordinary shares at a price of 73.0 pence per share by way of a placing to institutional and other investors to fund the acquisition of the Danateq Assets (the "Placing") (see note 26).

The Company incurred incremental costs totalling \$319,000 in respect of the Placing in 2018 and \$1,129,000 in respect of the IPO in 2017. IAS 32 Financial Instruments: Presentation requires the costs of issuing new shares to be charged against the share premium account. Management has reviewed the incremental costs to identify those solely incurred in issuing new shares, those incurred in connection with the entire share capital, and those not associated with issuing new shares.

All of the costs relating to the Placing in 2018 were deemed to relate directly to the issue of new shares and thus resulted in a debit to share premium of \$319,000. In respect of costs relating to the IPO in 2017, those costs incurred in connection with the entire share capital were apportioned to the issue of new shares by reference to the number of new shares compared to the entire share capital. As a consequence, costs relating directly to the issue of new shares in connection with the IPO, plus attributable IPO costs allocated between the share premium account and profit and loss account in proportion to the number of primary and secondary shares admitted to trading on Admission, resulted in a debit of \$428,000 against share premium and a charge of the remaining \$701,000 to administrative expenses.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of amounts arising other than in the presentation currency of the Group (i.e. US dollars) which are recognised either through Other Comprehensive Income or directly through the reserve.

### Merger reserve

As noted in Note 3, the acquisition by Pelatro Plc of Pelatro LLC on 7 September 2017 was accounted for as a reverse asset acquisition. Consequently, the previously recognised book values and assets and liabilities were retained and the consolidated financial information for the period from the date of acquisition has been presented as a continuation of the Pelatro business which was previously wholly owned by Pelatro LLC. The difference between the nominal value of the shares issued pursuant to the above share arrangement and the nominal value of the Pelatro LLC capital at the time of the acquisition was transferred to the merger reserve, together with certain other items relating to investments in subsidiaries.

## 24. Operating leases

Total payments under non-cancellable operating leases will be made as follows:

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Not later than one year                           | 123            | 97             |
| Later than one year and not later than five years | 17             | 62             |
| Later than five years                             | -              | -              |
|   | <b>140</b>     | <b>159</b>     |

PSPL entered into a five-year lease in November 2014 for its premises at 1st Block, HRBR Layout, Bangalore. The Company entered into a short-term lease in September 2017 for its premises at Queen Victoria Street, London, UK. Furthermore, PSPL entered into a lease on 1 September 2018 for additional office space at 7th Main Road, 2nd Block, HRBR Layout, Bangalore, for an initial term of two years with a rollover option.

IFRS 16 Leases (effective for the year ending 31 December 2019), which supersedes IAS 17 Leases and related interpretations, will require all leases to be recognised on the balance sheet, eliminating the distinction between operating and finance leases. The Group has two operating lease arrangements which would require recognition under IFRS 16 and will consider the financial impact of IFRS 16 in due course. If adopted as at 31 December 2018, the impact would be to recognise lease liabilities of approximately \$123,000 and corresponding assets relating to the right to use the properties which are the subject of the current leases.

The Company does not intend to apply the standard retrospectively and so any difference between the carrying value of the assets created and the corresponding liabilities will be applied as an adjustment to opening equity at the date of initial application

## 25. Financial instruments

### Financial risk management

The Group's principal financial instruments are cash, trade receivables, borrowings, trade payables and contingent consideration payable in respect of certain acquisitions. The Group therefore has exposure to certain risks from its use of financial instruments unrelated to the performance of the Group itself. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance and such risk management is carried out by the Directors.

The Group's activities expose it to certain financial risks: market risk, credit risk and liquidity risk, as explained below.

- Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign currency movements
- Credit risk is the financial loss to the Group if a customer or counterparty to financial instruments fails to meet a contractual obligation. Credit risk arises from the Group's cash and cash equivalents and receivables balances. Cash is held predominantly with ICICI, an institution P3 (short term) and a Baa2 (long-term) credit rating from Moody's, and Kotak Mahindra Bank, which has an A-3 (short term) and BBB- (long term) credit rating from Standard and Poors. Given the stage of development of the Group, over the period under review it has contracted with a relatively small number of customers and hence trade receivables are concentrated amongst those customers. The credit quality of customers is assessed by taking into account their financial position, past experience and other factors, and the Group minimises credit risk by dealing exclusively with those customers who it believes have a high credit rating
- Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk relates to the Group's liquidity risk management and implies maintaining sufficient cash and/or committed borrowing facilities. The Directors monitor rolling forecasts of liquidity, cash and cash equivalents based on expected cash flows.



The Group is not subject to any externally imposed capital requirements. The objective when managing capital is to maintain adequate financial flexibility to preserve the ability to meet financial obligations, both current and long term. The Group is funded by both debt and equity and the resulting capital structure is managed and adjusted to reflect changes in economic conditions and with a view to maximising the return to shareholders through optimisation of the balance of debt and equity. Financing decisions are made based on forecasts of the expected timing and level of capital and operating expenditure required to meet commitments and development plans.

The capital structure of the Group consists of debt, which includes borrowings as disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group statement of changes in equity. There was no change in the Group's approach to capital management during the financial period under review.

### Classification of financial instruments

|  | Group<br>2018<br>\$'000 | Group<br>2017<br>\$'000 |
|--|-------------------------|-------------------------|
| <b>Financial assets</b>                                |                         |                         |
| Cash   | 2,224                   | 4,126                   |
| Trade receivables                                      | 4,138                   | 1,778                   |
| <b>Financial liabilities</b>                           |                         |                         |
| Other payables and accruals                            | 220                     | 220                     |
| Trade payables   | 118                     | 53                      |
| Short-term borrowings                                  | 69                      | 266                     |
| Long-term borrowings                                   | 382                     | 774                     |
| Other financial liabilities - contingent consideration | 1,439                   | -                       |

All trade receivables are due from customers outside the UK.

### Foreign currency risk management and sensitivity analysis

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group is mainly exposed to the currencies of the UK, (Great British Pounds or GBP), the US (US dollars or USD) and India (Indian Rupees or INR), with some exposure to the currency of certain states of the European Union ("EUR"), Philippines (Philippine peso or PHP) and of Russia (rouble or RUB) and a modest exposure to the currency of Singapore (Singapore Dollars or SGD). In 2017 the Group also had exposure to modest amounts in Emirati Dirhams (AED) which currency is pegged to the US Dollar. Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The following table shows the denomination of the year end cash, cash equivalents and borrowings, and trade receivables and payables balances:

| As at 31 December 2018       | USD<br>'000  | GBP<br>'000 | SGD<br>'000 | EUR<br>'000 | INR<br>'000    |
|------------------------------|--------------|-------------|-------------|-------------|----------------|
| Cash and cash equivalents    | 1,382        | 277         | 26          | 23          | 24,797         |
| Trade receivables            | 4,138        | -           | -           | -           | -              |
| Borrowings                   | -            | -           | -           | -           | (31,366)       |
| Trade payables               | (83)         | (28)        | -           | -           | -              |
| <b>Net currency exposure</b> | <b>5,437</b> | <b>249</b>  | <b>26</b>   | <b>23</b>   | <b>(6,569)</b> |

| As at 31 December 2017       | USD<br>'000  | GBP<br>'000  | SGD<br>'000 | AED<br>'000 | INR<br>'000     |
|------------------------------|--------------|--------------|-------------|-------------|-----------------|
| Cash and cash equivalents    | 48           | 2,606        | 61          | -           | 32,437          |
| Trade receivables            | 2,237        | -            | -           | 533         | -               |
| Borrowings                   | -            | -            | -           | -           | (66,379)        |
| Trade payables               | (38)         | (7)          | (6)         | -           | -               |
| <b>Net currency exposure</b> | <b>2,247</b> | <b>2,599</b> | <b>55</b>   | <b>533</b>  | <b>(33,942)</b> |

Had the foreign exchange rate between the US dollar and the other Group currencies changed by 5%, this would have affected the profit for the year and the net assets of the Group by \$14,000 (2017: \$151,000).

#### **Limitations of sensitivity analysis**

The sensitivity analysis above demonstrates the effect of a change in one of the key assumptions while other assumptions remain unchanged. In reality, such an occurrence is very unlikely due to correlation between the factors. Furthermore, these sensitivities are non-linear, and larger or smaller impacts cannot easily be derived from the results. The sensitivity analysis does not take into consideration that the Group's assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

#### **Interest rate risk management and sensitivity analysis**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the year end the Group had no exposure to interest rate risks as all of its borrowings were fixed rate.

#### **Liquidity risk management and interest risk tables**

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and borrowing facilities and by continuously monitoring forecast and actual cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows.

| As at 31 December 2018              | Weighted average effective interest rate | Less than 1 year<br>\$'000 | 2-5 years<br>\$'000 | More than 5 years<br>\$'000 | Total<br>\$'000 |
|-------------------------------------|--|----------------------------|---------------------|-----------------------------|-----------------|
| Fixed rate instruments - borrowings | 12.5%                                    | 69                         | 299                 | 83                          | <b>451</b>      |
| Related party borrowings            | nil                                      | 28                         | -                   | -                           | <b>28</b>       |
| <b>Total</b>                        |  | <b>97</b>                  | <b>299</b>          | <b>83</b>                   | <b>479</b>      |

| As at 31 December 2017                          | Weighted average effective interest rate | Less than 1 year<br>\$'000 | 2-5 years<br>\$'000 | More than 5 years<br>\$'000 | Total<br>\$'000 |
|---|--|----------------------------|---------------------|-----------------------------|-----------------|
| Non-interest bearing liabilities                | nil                                      | 421                        | -                   | -                           | <b>421</b>      |
| Variable interest rate instruments - borrowings | 10.5%                                    | 316                        | -                   | -                           | <b>316</b>      |
| Fixed rate instruments - borrowings             | 12.5%                                    | 30                         | 105                 | 161                         | <b>296</b>      |
| Related party borrowings                        | nil                                      | 428                        | -                   | -                           | <b>428</b>      |
| <b>Total</b>                                    |  | <b>1,195</b>               | <b>105</b>          | <b>161</b>                  | <b>1,461</b>    |

The related party borrowings in 2017 had no formal terms and were hence treated as repayable on demand.

### Fair values of financial assets and financial liabilities

As at 31 December 2018 and 31 December 2017 there were no material differences between the book value and fair value of the Group's financial assets and liabilities.

The fair value of contingent consideration arising on acquisitions is estimated by discounting the possible future cash flows using probability adjusted forecasts for the acquired company or assets, and represents a level 3 measurement in the fair value hierarchy under IFRS 7. The fair value is sensitive to the weighting assigned to the expected future cash flows. A change in weighting of 10 percentage points towards the higher expectations would result in an increase in the undiscounted estimate of future cash flows of \$200,000.

## 26. Business combinations

### Danateq

The Company and the Danateq Group entered into a sale and purchase agreement (“SPA”) on 30 July 2018 to acquire certain assets of Danateq Pte and Danateq Limited (together “the Danateq Group” or where appropriate “Danateq”) for an initial consideration of \$7.0 million with potential further payments of up to \$5.0 million, depending on certain targets being met (the “Danateq Acquisition”). The Danateq Group was founded by entrepreneurs with backgrounds in robotics, telecom control systems and defence who came together to develop LINK™, a real-time self-learning “cognitive” analytics platform, with the vision of enabling enterprises to implement continuously improving automated business processes through cognitive loops. The Danateq Group used data analytics to provide campaign management solutions to telcos over a range of geographies. In addition to its campaign management solution, the Danateq Group also offered two additional products complementary to Pelatro’s product: loyalty management and a notification platform.

Through the Acquisition, Pelatro acquired or had transferred:

- (i) certain assets from the Danateq Group, including contracts and sales staff;
- (ii) certain employees of the Danateq Group, including staff in a development centre in Nizhny Novgorod;
- (iii) contracts from the Danateq Group pursuant to which it provided software and services to Globe Telecom Inc. of the Philippines (“Globe”) and certain operating companies (“OpCos”) within the Telenor group of companies (“Telenor”) pursuant to a Global Framework Agreement (“GFA”) with Telenor ASA of Norway. The GFA was signed in 2016 for 5 years and since

that time the Danateq Group had entered into contracts with 3 OpCos of Telenor in Bulgaria, Myanmar and Bangladesh (where it trades as Grameenphone). These contracts cover 90 million subscribers, and the GFA provided the potential to win 8 further OpCo contracts across Central Europe and Asia, covering a further 85 million subscribers. The Danateq Group has also provided software and services since 2013 to Globe through a re-seller agreement. This contract, which renews automatically on an annual basis, is a maintenance and managed services contract covering 75 million subscribers across the Philippines;

- (iv) two re-seller agreements with Ericsson and Wireless Services Asia which were originally signed on 3-year terms; and
- (v) sundry other intellectual property

(together the “Danateq Assets”)

The key terms and provisions of the SPA are as follows:

- an initial cash consideration of \$7.0 million to the vendors at completion;
- a further \$2.0 million payable should the Danateq Assets generate revenue of \$2.25 million in the first twelve-month period following completion, with an additional \$1.0 million payable should the Danateq Assets generate in excess of \$4.5 million during the same period; and
- \$1.0 million payable should the Danateq Assets generate revenue of \$2.9 million in the second twelve-month period following Completion, with an additional \$1.0 million payable should the Danateq Assets generate in excess of \$5.8 million during the same period.

The amounts recognised in respect of identifiable assets acquired is set out in the table below.

|  | Book value | Adjustment   | Fair value   |
|--|------------|--------------|--------------|
|  | \$'000     | \$'000       | \$'000       |
| Customer relationships                                 | -          | 6,862        | 6,862        |
| Enterprise software for sale to third parties          | -          | 1,250        | 1,250        |
| <b>Net assets acquired</b>                             | -          | <b>8,112</b> | <b>8,112</b> |
| Goodwill on acquisition                                |            |              | 318          |
| <b>Fair value of assets acquired</b>                   |            |              | <b>8,430</b> |
| Initial cash consideration paid                        |            |              | 7,000        |
| Contingent purchase consideration estimated to be paid |            |              | 1,430        |
| <b>Consideration payable in cash</b>                   |            |              | <b>8,430</b> |

The goodwill represents:

- the technical expertise of the acquired workforce
- the opportunity to leverage this expertise across Pelatro's existing business; and
- the ability to exploit the Group's enlarged customer base.

The fair value of contingent consideration payable of \$1,430,000 at acquisition was estimated based on performance observed to date and the expectation of likely future cash flows and is discounted at the Group's notional cost of borrowing over the earn-out period. The Danateq Assets contributed approximately \$1.3m of revenue and \$456,000 of profit after tax for the year ended 31 December 2018. As the acquisition was for certain assets and contracts only and not the corporate entity which controlled them up to the point of sale, it is impractical to state what would have been the Group's reported revenue and profit after tax if the acquisition had been made at the start of the financial year.

### Pelatro Solutions Private Limited

On 13 December 2017 the Group completed the acquisition of Pelatro Solutions Private Limited ("PSPL"), the company with which the Group has an agreement for software development, implementation and support. The amounts recognised in respect of identifiable assets acquired and liabilities assumed are set out in the table below.

|  | Book value   | Adjustment | Fair value   |
|--|--------------|------------|--------------|
|  | \$'000       | \$'000     | \$'000       |
| Property, plant and equipment                  | 31           | -          | 31           |
| Intangible assets                              | 16           | -          | 16           |
| Deferred tax asset                             | -            | 118        | 118          |
| Trade and other receivables                    | 802          | -          | 802          |
| Cash and bank balances                         | 11           | -          | 11           |
| Long-term borrowings                           | (272)        | -          | (272)        |
| Trade and other payables                       | (117)        | (33)       | (150)        |
| Short-term borrowings                          | (808)        | -          | (808)        |
| <b>Net identifiable assets and liabilities</b> | <b>(337)</b> | <b>85</b>  | <b>(252)</b> |
| Goodwill on acquisition                        |              |            | 287          |
| <b>Consideration payable in cash</b>           |              |            | <b>35</b>    |
| <b>Analysis of cash flows on acquisition</b>   |              |            |              |
| Net cash acquired with subsidiary              |              |            | 11           |
| Cash paid                                      |              |            | -            |
| <b>Net cash inflow</b>                         |              |            | <b>11</b>    |

The goodwill recognised above is attributable to intangible assets from PSPL that cannot be individually separated and reliably measured due to their nature. These items include the expected value of synergies and assembled workforce. The cash consideration for PSPL of \$34,644 was paid to the former shareholders of PSPL in January 2018.

## 27. Related party transactions

Amounts outstanding at the end of the year in respect of transactions with related parties were as follows:

| Amount outstanding - (debtor)/creditor   | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Key management personnel - net loans outstanding   | -              | 428            |
| Key management personnel - outstanding reimbursements in respect of expenses incurred on behalf of Group companies | 28             | 101            |

Details of unsecured loan transactions with key management personnel are as follows:

| Related party and nature of transaction         | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Outstanding at the beginning of the year        | 428            | -              |
| Acquired as part of a business combination      | -              | 431            |
| Loan taken during the year                      | -              | 2              |
| Loan repaid during the year                     | (429)          | (9)            |
| Foreign exchange movements                      | 1              | 4              |
| <b>Loans outstanding at the end of the year</b> | <b>-</b>       | <b>428</b>     |

The remuneration of the Directors, who are deemed to be the only key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

|                                       | 2018<br>\$'000 | 2017<br>\$'000 |
|---------------------------------------|----------------|----------------|
| Wages and salaries                    | 594            | 248            |
| Payments in respect of other services | 30             | -              |
| Pension cost                          | 2              | -              |
|                                       | <b>626</b>     | <b>248</b>     |

To comply with local legislation regarding resident directors, Hamish Christie is a director of Pelatro Pte Ltd. Mr Christie is also the proprietor of H.A. Christie & Co., which firm provides accountancy and tax advisory services to that company. During the year payments of approximately \$5,000 were made to H.A. Christie & Co., and a further \$4,000 was outstanding at the year end in relation to 2018 expenses.

Other than disclosed in this note or elsewhere in this financial information as appropriate, no related party transactions have taken place during the year that have materially affected the financial position or performance of the Group.

## 28. Impact of IFRS 15 on opening balance sheet at 1 January 2018

The Group has applied IFRS 15 using the cumulative effect of initially applying the effects of the new revenue standard as an adjustment to the opening balance of equity at 1 January 2018. Therefore, relevant comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. The details of the significant changes and the quantitative impact of the changes are as follows:

- A net \$18,000 credit to retained profits brought forward relating to the recognition of the impact on transition to IFRS 15 at 1 January 2018. The adjustment relates to the unbundling of certain contracts according to the Group's assessment of each contract's performance obligation to be delivered to its customers, and comprises:

(i) a creditor balance of \$93,000 in contract liabilities relating principally to PCS income invoiced (as part of an overall license fee) but not yet performed; and

(ii) a debtor balance of \$111,000 relating to PCS income recognised but not invoiceable

A summary of these changes is as follows:

|  | 31 December<br>2017<br>As reported | 31 December<br>2017<br>Effect of IFRS | 31 December<br>2017<br>As adjusted |
|--|------------------------------------|---------------------------------------|------------------------------------|
|  | \$'000<br>(audited)                | \$'000<br>(unaudited)                 | \$'000<br>(unaudited)              |
| <b>Income statement</b>                    |                                    |                                       |                                    |
| Revenue                                    | 3,146                              | 18                                    | 3,164                              |
| <b>Balance sheet</b>                       |                                    |                                       |                                    |
| <i>Current assets</i>                      |                                    |                                       |                                    |
| Trade receivables                          | 1,721                              | -                                     | 1,721                              |
| Accrued income - UBR                       | 57                                 | -                                     | 57                                 |
| Accrued income - contract assets           | -                                  | 111                                   | 111                                |
| <b>Total trade and related receivables</b> | <b>1,778</b>                       | <b>111</b>                            | <b>1,889</b>                       |
| <i>Current liabilities</i>                 |                                    |                                       |                                    |
| Contract liabilities                       | -                                  | (93)                                  | (93)                               |
| <i>Equity</i>                              |                                    |                                       |                                    |
| Accumulated profits                        | 1,217                              | 18                                    | 1,235                              |
| <b>Earnings per share</b>                  |                                    |                                       |                                    |
| Basic                                      | 4.8¢                               | 0.1¢                                  | 4.9¢                               |
| Adjusted (non IFRS)                        | 8.9¢                               | 0.1¢                                  | 9.0¢                               |

## 29. Capital commitments and contingent liabilities

Other than as disclosed above, as at 31 December 2018 the Group had no material capital commitments (2017: nil) nor any contingent liabilities (2017: nil).

## 30. Events after the balance sheet date

There have been no events subsequent to the reporting date which would have a material impact on the financial statements.

# COMPANY STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

|   | Note | 2018<br>\$'000 | 2017<br>\$'000 |
|---|------|----------------|----------------|
| <b>Assets</b>   |      |                |                |
| <i>Non-current assets</i>   |      |                |                |
| Investments in subsidiaries   | 6    | 654            | 654            |
| Intangible assets   |      | 8,300          | -              |
|   |      | <b>8,954</b>   | <b>654</b>     |
| <i>Current assets</i>   |      |                |                |
| Trade and other receivables   | 7    | 4,096          | 1,108          |
| Cash and cash equivalents   |      | 1,684          | 3,524          |
|   |      | <b>5,780</b>   | <b>4,632</b>   |
| <b>Total assets</b>   |      | <b>14,734</b>  | <b>5,286</b>   |
| <b>Liabilities</b>  |      |                |                |
| <i>Non-current liabilities</i>  |      |                |                |
| Other financial liabilities   |      | 1,141          | -              |
|   |      | <b>1,141</b>   | <b>-</b>       |
| <i>Current liabilities</i>  |      |                |                |
| Trade and other receivables   | 8    | 307            | 406            |
| Other financial liabilities   |      | 289            | -              |
|   |      | <b>596</b>     | <b>406</b>     |
| <b>Total liabilities</b>  |      | <b>1,737</b>   | <b>406</b>     |
| <b>NET ASSETS</b>   |      | <b>12,997</b>  | <b>4,880</b>   |
| <b>Issued share capital and reserves attributable to owners of the parent</b> |      |                |                |
| Share capital   | 9    | 1,065          | 801            |
| Share premium   | 9    | 11,603         | 4,472          |
| Translation reserve   |      | (211)          | -              |
| Retained earnings   | 9    | 540            | (393)          |
| <b>TOTAL EQUITY</b>   |      | <b>12,997</b>  | <b>4,880</b>   |

For the period ended 31 December 2018, the Company recorded a profit of \$933,000 (2017: \$393,000 loss).

The financial statements of Pelatro Plc, registered number 10630166, were approved by the board of Directors and authorised for issue on 25 March 2019. They were signed on its behalf by:

**S. Menon (Director)**

**N. Hellyer (Director)**

The accompanying notes 1 to 10 are an integral part of these financial statements.



# COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

|   | Share capital<br>\$'000 | Share premium<br>\$'000 | Translation reserve<br>\$'000 | Retained profits<br>\$'000 | Total equity<br>\$'000 |
|---|-------------------------|-------------------------|-------------------------------|----------------------------|------------------------|
| <b>Balance at 21 February 2017</b>                              | -                       | -                       | -                             | -                          | -                      |
| Profit after taxation for the year                              | -                       | -                       | -                             | (393)                      | <b>(393)</b>           |
| <b>Transactions with owners:</b>                                |                         |                         |                               |                            |                        |
| Shares issued by Pelatro Plc in exchange for Pelatro LLC shares | 531                     | -                       | -                             | -                          | <b>531</b>             |
| Shares issued by Pelatro Plc for cash                           | 270                     | 4,901                   | -                             | -                          | <b>5,171</b>           |
| Issue costs   | -                       | (429)                   | -                             | -                          | <b>(429)</b>           |
| <b>Balance at 31 December 2017</b>                              | <b>801</b>              | <b>4,472</b>            | -                             | <b>(393)</b>               | <b>4,880</b>           |
| Profit after taxation for the year                              | -                       | -                       | -                             | 933                        | <b>933</b>             |
| <b>Other comprehensive income:</b>                              |                         |                         |                               |                            |                        |
| Exchange differences  | -                       | -                       | (211)                         | -                          | <b>(211)</b>           |
| <b>Transactions with owners:</b>                                |                         |                         |                               |                            |                        |
| Shares issued by Pelatro Plc for cash                           | 264                     | 7,450                   | -                             | -                          | <b>7,714</b>           |
| Issue costs   | -                       | (319)                   | -                             | -                          | <b>(319)</b>           |
| <b>Balance at 31 December 2018</b>                              | <b>1,065</b>            | <b>11,603</b>           | <b>(211)</b>                  | <b>540</b>                 | <b>12,997</b>          |

| Reserve             | Description and purpose   |
|---------------------|---|
| Share capital       | Nominal value of issued shares  |
| Share premium       | Amount subscribed for share capital in excess of nominal value less associated costs  |
| Translation reserve | The difference arising on the translation of balances denominated in currencies other than US Dollars into the presentational currency of the Company |
| Retained earnings   | All other net gains and losses not recognised elsewhere   |

The accompanying notes 1 to 10 are an integral part of these financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. Accounting policies

### Basis of preparation

The Parent Company financial statements of Pelatro Plc (the "Company") have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework and as required by the Companies Act 2006.

The financial statements have been prepared in US Dollars, which is the currency of the primary economic environment in which the Company operates (its functional currency). The financial statements are prepared under the historical cost convention and were approved for issue on 25 March 2019.

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

### Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly-owned members of the Pelatro Group.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements. These financial statements do not include certain disclosures in respect of:

- business combinations;
- financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value); and
- impairment of assets.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

### Trade receivables

Short term trade receivables are measured at transaction price, less any impairment. The Company assesses at each balance sheet date whether any trade receivables or other assets or group of financial assets is impaired.

### Taxation

#### Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated within investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income or directly to equity if it relates to items that are credited or charged to other comprehensive income or directly to equity. Otherwise, income tax is recognised in the income statement.

### Foreign currencies

Transactions denominated in foreign currencies are translated at an approximation of the exchange rate ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Resulting exchange gains and losses are taken to the profit and loss account.

### Related party transactions

The Company has taken advantage of the exemption under FRS 101 from disclosing related party transactions with entities that are wholly owned subsidiary undertakings of the Pelatro Group.

### Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

## 2. Critical accounting judgements and key sources of estimation uncertainty

### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

#### *Investments in subsidiary companies*

The carrying cost of the Company's investments in subsidiary companies is reviewed at each balance sheet date by reference to the income that is projected to arise therefrom. From a review of these projections, the Directors have made no provisions against their carrying values as shown in note 6 to the financial statements as the Directors believe that the investments concerned will generate sufficient economic benefits to justify their carrying values.

## 3. Auditor's remuneration

The figures within the auditors' remuneration note in the Pelatro consolidated financial statements include fees charged by the Company's auditors to Pelatro plc in respect of audit and non-audit services. As such, no separate disclosure has been given above.

## 4. Directors' remuneration

Information concerning Directors' remuneration can be found in note 12 to the Group financial statements.

## 5. Dividends paid and proposed

No dividends were declared or paid during the year and no dividends will be proposed for approval at the Annual General Meeting of the Company.

## 6. Investment in subsidiaries

|                          | \$'000 |
|--------------------------|--------|
| At 21 April 2017         | -      |
| Investment in the period | 654    |
| At 31 December 2017      | 654    |
| Investment in the period | -      |
| At 31 December 2018      | 654    |

## 7. Trade and other receivables

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| <b>Due within a year</b>                 |                |                |
| Trade receivables                        | 3,676          | 804            |
| Other receivables                        | 1              | 4              |
| Prepayments                              | 49             | 53             |
| Intra-Group receivables                  | 370            | 247            |
| <b>Total trade and other receivables</b> | <b>4,096</b>   | <b>1,108</b>   |

## 8. Trade and other payables

|                                       | 2018<br>\$'000 | 2017<br>\$'000 |
|---------------------------------------|----------------|----------------|
| <b>Due within a year</b>              |                |                |
| Trade payables                        | 87             | 9              |
| Other payables                        | 192            | 106            |
| Amounts due to related parties        | 28             | 30             |
| Intra-Group payables                  | -              | 261            |
| <b>Total trade and other payables</b> | <b>307</b>     | <b>406</b>     |

## 9. Reserves

### Share capital

The balance classified as share capital represents the nominal value arising from the issue of the Company's equity share capital, comprising 2.5 pence ordinary shares.

On 19 December 2017, the Company issued 6,102,212 new ordinary shares (ranking pari passu with existing shares in issue) via a placing to institutional shareholders. The shares were issued at a placing price of 62.5 pence raising \$3,771,000 after expenses of \$701,000 and direct issue costs of \$429,000. On 17 August 2018 the Company issued 8,219,179 new ordinary shares (ranking pari passu with existing shares in issue) via a placing to institutional shareholders in order to fund the Danateq Acquisition (see Note 26 "Business combinations"). The shares were issued at a placing price of 73 pence raising \$7,395,000 after direct issue costs of \$319,000.

### Share premium

The balance classified as share premium represents the premium arising from the issue of the Company's equity share capital, comprising 2.5 pence ordinary shares, net of share issue expenses. There are restrictions on the use of the Share Premium Account. It can only be used for bonus issues, to provide for the premium payable on redemption of debentures, or to write off preliminary expenses, or expenses of, or commissions paid on, or discounts allowed on, the same issues of shares or debentures of the Company.

### Retained earnings

All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

### 10. Capital commitments and contingent liabilities

Other than as disclosed in Note 26 of the Group financial statements, as at 31 December 2018 the Group had no material capital commitments nor any contingent liabilities (2017: \$nil)

### 11. Events after the balance sheet date

There have been no significant events which have occurred subsequent to the reporting date.

The Company is exempt from disclosing transactions within the wholly-owned subsidiaries in the group. Other related party transactions are included within those given in note 27 of the consolidated financial statements.

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