## 1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### 1.1 Basis of preparation

The Company was incorporated on 29 May 2015 under the terms of the Maltese Companies Act, 1995. On 1 June 2015, the Company acquired a 100% shareholding in Catena Operations Limited from its previous five shareholders. On 1 January 2015, Catena Operations Limited transferred its investment in Paxo Finans AB, a subsidiary in which it previously held a 95% interest, to Catena Invest Ltd, a related company which is not included in the Group.

The substance of the above was that of a group restructuring by virtue of which the Company became the new parent company of Catena Operations Limited. Accordingly, the shareholders of the Company are identical to those of Catena Operations Limited, and the restructuring solely interposed an additional holding company as holder of the shares in Catena Operations Limited. This transaction has been accounted for in the consolidated financial statements as a restructuring, and these have been compiled as if Catena Media p.l.c, was the parent company of the Group from incorporation. Accordingly, in order to provide more meaningful information to potential investors, the comparative figures include the financial performance and position of the Group even though the new parent company was legally incorporated on 29 May 2015. The comparative figures therefore present the consolidated results for Catena Operations Limited, the previous parent, and adjustments to reflect the impact of the re-organisation have been reflected in the Statement of changes in equity.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, apart from financial liabilities which are recognised at fair value through profit and loss

**1. Summary of significant accounting policies (continued)**

**1.1 Basis of preparation (continued)**

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies (see Note 4 – Critical accounting estimates and judgements).

The financial statements incorporate the results of Catena Operations Limited and its subsidiaries Molgan Limited, Catena Media UK Limited and Catena Media doo Beograd.

*Standards, interpretations and amendments to published standards effective in 2016*

In 2016, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Group's accounting policies.

*Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for the Group's accounting periods beginning after 1 January 2016. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Group's directors are of the opinion that, with the possible exception of IFRS 9, IFRS 15 and IFRS 16, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2015. Amongst others, it replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. There is a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption.

## 1. Summary of significant accounting policies (continued)

### 1.1 Basis of preparation (continued)

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Under IFRS 16, ‘Leases’, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted, subject to endorsement by the EU, and subject to the Group also adopting IFRS 15. The Group is assessing the impact of IFRS 16.

### 1.2 Principles of consolidation

#### *1.2.1 Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1.6).

Intercompany transactions, balances and unrealised gains or transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

## 1. Summary of significant accounting policies (continued)

### 1.3 Foreign currency translation

#### *1.3.1 Functional and presentation currency*

Items included in these financial statements are measured using the currency of the primary economic environment in which each of the Group's entities operate ('the functional currency'). The consolidated and separate financial statements are presented in Euro which is Catena Media p.l.c's functional and presentation currency.

#### *1.3.2 Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign exchange gains and losses are presented in the statement of profit or loss on a net basis.

#### *1.3.3 Group companies*

Two of the group companies Catena Media UK Limited and Catena Media doo Beograd have a different functional and presentation currency. Catena Media UK Limited uses the Great Britain Pound as its functional and presentation currency whilst Catena Media doo Beograd uses Serbian Dinars as its functional and presentation currency. The results and financial position of the subsidiaries are translated as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

## 1. Summary of significant accounting policies (continued)

### 1.3 Foreign currency translation (continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

### 1.4 Revenue

The revenue of the Company mainly arises from the dividend earned from its subsidiaries.

The Group's revenue is derived from online and affiliate marketing. The Group recognises revenue when the amount of revenue can be reliably measured, and it is probable that the economic benefits will flow to the entity.

#### *1.4.1 Dividend income*

Dividends are recognised in the statement of profit or loss and other comprehensive income when the Company's right to receive payment is established.

#### *1.4.2 Commission income*

The Group's revenue consists of revenue generated in the form of commission on players directed to gaming operators as well as advertising fees charged to gaming operators who want additional exposure on the Group's websites. The commission takes the form of;

##### *1.4.2.1 Revenue share*

For a revenue share deal the Group receives a share of the revenues that the gaming operator has generated as a result of a player playing on their iGaming site. Revenue is recognised in the month that it is earned by the respective gaming operator.

##### *1.4.2.2 Cost per acquisition*

For cost per acquisition deals, a client pays a one-time fee for each player who deposits money on the client's site. Cost per acquisition contracts consist of a pre-agreed rate with the client. Revenue from such contracts is recognised in the month in which the deposits are made.

## 1 Summary of significant accounting policies (continued)

### 1.4 Revenue (continued)

*1.4.2.3 Fixed fees*

The Group also generates revenues by charging a fixed fee for new casinos who would like to be listed and critically reviewed on the Group's sites as well as through advertising revenue whereby an advertising space is sold to gaming operators who wish to promote their brands more prominently on one of the many sites the Group has to offer. Such revenue is apportioned on an accruals basis over the whole term of the contract.

#### *1.4.3 Interest income*

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

### 1.5 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## 1. Summary of significant accounting policies (continued)

### 2.4 Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 1.6 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 subsidiary 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. Acquisition-related costs are expensed as incurred.

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. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

## 1. Summary of significant accounting policies (continued)

### 1.6 Business combinations (continued)

The Company and the Group account for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 1.12). Any gain or bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The contingent consideration is measured at fair value at the date of acquisition. The amounts payable in the future are discounted to their present value as at the date of the exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise subsequent changes in fair value of the contingent consideration are reflected in the statement of financial position against the contingent liability recognised.

### 1.7 Reorganisations between Group entities

Reorganisations between Group entities under common control are accounted for using the reorganisation method of accounting. Under the reorganisation method of accounting, assets and liabilities are incorporated at the predecessor carrying values, which are the carrying amounts of assets and liabilities of the acquired entity as recognised and measured in that entity's pre-reorganisation financial statements. No goodwill arises in reorganisation accounting, and any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity, is included in equity. The financial statements incorporate the acquired entity's full year results, including comparatives, as if the post-reorganisation structure was already in place at the commencement of the comparative period.

### 1.8 Goodwill and other intangible assets

#### *1.8.1 Recognition and measurement*

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Intangible assets are initially measured at cost. The cost of a separately acquired intangible assets comprises its purchase price and any directly attributable cost of preparing the asset for its intended use.

## 1. Summary of significant accounting policies (continued)

### 1.8 Goodwill and other intangible assets (continued)

#### *1.8.1 Recognition and measurement (continued)*

Where the cost of acquisition includes contingent consideration, cost is determined to be the current fair value of the contingent consideration as determined on the date of acquisition. Any subsequent changes in estimates of the likely outcome of the contingent event are reflected in the statement of financial position. The cost of acquisition of intangible assets for which the consideration comprises an issue of equity shares is calculated as being the fair value of the equity instruments issued in the transaction.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated losses.

Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. Refer to not 1.11.2 for further details.

The estimated useful lives are as follows:

- Domains and websites — indefinite
- Player databases — 3 years
- Other intellectual property — 3 – 4 years

Other intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in the statement of comprehensive income in the period of derecognition.

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

## 1. Summary of significant accounting policies (continued)

### 1.8 Goodwill and other intangible assets (continued)

#### *1.8.2 Amortisation*

Intangible assets with a finite useful life are amortised over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each year end.

Intangible assets with indefinite useful lives are not systematically amortised and are tested for impairment annually or whenever there is an indication that the other intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortised systematically over its useful life. Goodwill however, is not amortised but assessed for impairment on an annual basis.

### 1.9 Plant and equipment

#### *1.9.1 Recognition and measurement*

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

#### *1.9.2 Subsequent costs*

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

## 1. Summary of significant accounting policies (continued)

### 1.9 Plant and equipment (continued)

#### *1.9.3 Depreciation*

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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

| | |
|---|---|
| • Computer equipment | 4 years |
| • Furniture and fixtures | 10 years |

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

### 1.10 Financial instruments

The Group classifies its financial assets as loans and receivables. Financial liabilities are classified as financial liabilities at amortised cost and as financial liabilities at fair value through profit or loss.

#### *1.10.1 Financial assets and financial liabilities – recognition and derecognition*

The Group recognises loans and receivables on the date that they are originated and the Group becomes a party to the contractual provisions of the instrument. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets.

The Group derecognises a financial asset when the contractual right to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control over the transferred asset.

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

## 1. Summary of significant accounting policies (continued)

### 1.10 Financial instruments (continued)

#### *1.10.1 Financial assets and financial liabilities – recognition and derecognition (continued)*

Debt securities issued by the Company have been designated by management as a financial liability at fair value through profit or loss since this financial instrument contains an embedded derivative that may significantly modify the resulting cash flows. The fair value designation, once made, is irrevocable.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If payments of the amounts is expected in one year or less they are classified as current liabilities. If not, they are presented as non-current liabilities.

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

#### *1.10.2 Financial assets - measurement*

*Loans and receivables*

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Loans and receivables comprise cash and cash equivalents and receivables.

*Cash and cash equivalents*

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and cash held at financial intermediares.

#### *1.10.3 Financial liabilities – measurement*

Financial liabilities at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Subsequent measurement is at fair value and all gains/losses from the liability, are reported in the income statement as “Other losses on financial liability at fair value through profit or loss”, whilst the related interest expenses are reported within “Interest payable on borrowings”.

## 1. Summary of significant accounting policies (continued)

### 1.10 Financial instruments (continued)

#### *1.10.3 Financial liabilities – measurement (continued)*

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

### 1.11 Impairment of assets

#### *1.11.1 Non-derivative financial assets*

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not otherwise consider, indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### *1.11.2 Non-financial assets*

Non-financial assets with indefinite useful lives are reviewed at each reporting date to determine whether there is any impairment. The carrying amounts of the Group's non-financial assets with finite useful lives, as well as those with indefinite useful lives, are reviewed for impairment whenever there is an indication that the asset may be impaired. The asset's recoverable amount is estimated annually for intangible assets with indefinite useful lives, and is also estimated for all non-financial assets if an indication of impairment exists.

## 1. Summary of significant accounting policies (continued)

### 1.11 Impairment of assets (continued)

#### *1.11.2 Non-financial assets (continued)*

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ('CGUs').

The recoverable amount of an asset or cash-generating unit ('CGU') is the greater of its value in use and its fair value less costs to sell. Value in use, is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 1.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.7). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against profit or loss.

### 1.13 Trade and other payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

## 1. Summary of significant accounting policies (continued)

### 1.13 Trade and other payables (continued)

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

### 1.14 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 1.15 Share capital

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

### 1.16 Dividends declared

Final dividends are recognised when approved by the Company's shareholders and interim dividends are recognised when declared by the directors. Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### 1.17 Share based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Company. Through these equity settled schemes, eligible employees are granted share options, while directors are being granted share warrants.

Equity-settled share based payment transactions are measured at the grant date fair value for employee services, which requires a valuation of the options and warrants. Once the fair value has been determined, the amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-marketing performance conditions at the vesting date.

## 1. Summary of significant accounting policies (continued)

### 1.17 Share based payments (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In the case of share warrants, eligible directors are immediately being granted the warrants and are entitled to the rights granted under the agreement. Accordingly, these are considered to vest immediately and therefore the Group recognises the cost in full on the date these warrants are granted.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

### 1.18 Earnings per share

#### *1.18.1 Basic earnings per share*

Basic earnings per share is calculated by dividing profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

#### *1.18.2 Diluted earnings per share*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all dilutive potential ordinary shares.