PERFORMANCE PROGRESS REPORT

S2 Albania

2020

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ABOUT THIS REPORT

In 2018, the Ministry of Finance approved the Law No. 25/2018, dated 10.05.2018 “On Accounting and Financial Statements” asking companies to prepare the Performance Progress Report (ref: article 17 Performance Progress Report). In addition, for some companies is also required the Internal Governance Report (ref: article 19), which is an integrated part of the Performance Progress Report.

This year Performance Progress Report includes also in a specific section the Internal Governance Report (hereinafter referred to as the “Report”) independently assured for S2 Albanian shpk (“S2 Albania” or “company”), covering the period from 1 January until 31 December 2020. The Report covers the key operations of S2 Albania and its financial and non-financial analysis.

The ‘audience’ of this Report is the company key stakeholders, namely shareholders, employees, customers, suppliers, government and regulatory authorities, local communities, and NGOs. In addition, the audience includes potential investors, analysts and any other interested party.

With a view to respond to our stakeholders’ expectations, the 2020 Report presents both financial and non-financial performance achieved in a more integrated format and focuses on material issues as prioritized. Moreover, the Report describes the Company’s financial risk management policies with a view on the exposure of the Company to the credit, liquidity and market risk.

With this Annual Report, we aim to better respond to the needs of our stakeholders and, in particular, improve shareholder communication concerning our performance and the ways we build value and ensure our long-term sustainability. We use the Report to seek out feedback from stakeholders and it constitutes part of our stakeholder engagement process, enabling us to focus on the most material issues.

S2 IN A GLANCE

S2 worldwide

S2 Global is the leading provider of state-of-the-art screening solutions for inspection and security. S2 pioneered the Build-Own-Operate model of project financing which gives customers access to advanced technology through the lifetime of the project while also offering flexibility in financing and budgeting. S2 is part of the OSI Solutions businesses, a subsidiary of OSI Systems, Inc. As part of efforts to strengthen security and events, S2 Global has put together an experienced team available to review event security programs and consult on solutions that will close any security gaps. Their expertise helps organizations evaluate technology needs, develop operational procedures including traffic flows through the company and people and vehicle entry point screening, in depth training for security and support staff, and manage the entire operation.

Geographical coverage of OSI System Operations Worldwide

S2 Global delivers screening solutions that result in dramatic improvements in areas such as operational efficiency, security, compliance, revenue collection and trade facilitation so that customers can focus on their core objectives:

- Proven track record helping customers achieve their goals
- Operational and project management expertise
- State-of-the-art security screening and inspection
- Powerful systems integration and process automation tools
- Comprehensive training, staffing and recruitment

S2 Global business assists customs, border security, and tax collection agencies with inspection and manifest verification of cargo traveling across borders, increasing the efficiency of trade and infrastructure and supporting economic growth and transparency.

S2 Global and sister company Rapiscan Systems have provided security for FIFA World Cup 2010, Vancouver 2010 Olympics, London 2012 Olympics, Sochi 2014 Olympics, U.S. Open Tennis Championships, Glasgow 2014 Commonwealth Games and Gold Coast 2018 Commonwealth Games.

Vision

Innovative solutions that have a positive impact on the global community are our passion: searching for great ideas that will work in the real world is our challenge.

Mission

S2's Commitments

We have an important **mission** – to make the world a safer and healthier place. But we can't do it alone. We're always looking for talented people committed to helping us develop, sell and support our high-tech security, healthcare, and innovative solutions.

Growth Strategy

We believe that one of our primary competitive strengths is our expertise in the cost-effective design and manufacture of specialized electronic systems and components for critical applications. As a result, we have leveraged, and intend to continue to leverage, such expertise and capacity to gain price, performance and agility advantages over our competitors in the security, healthcare and optoelectronics fields, and to translate such advantages into profitable growth in those fields. At the same time, we continually seek to identify new markets in which our core expertise and capacity will provide us with competitive advantages. Key elements of this strategy include:

Capitalizing on Vertical Integration.

Our vertical integration provides several advantages in each of our divisions. These advantages include reduced manufacturing and delivery times, lower costs due to our access to competitive international labor markets and direct sourcing of raw materials. We also believe that we offer significant added value to our customers by providing a full range of vertically-integrated services, including component design and customization, subsystem concept design and application engineering, product prototyping and development, efficient pre-production and short-run and high-volume manufacturing. We believe that our vertical integration differentiates us from many of our competitors and provides value to our customers who can rely on us to be an integrated supplier. We intend to continue to leverage our vertical integration to create greater value for our customers in the design and manufacture of our products.

Capitalizing on the Market for Security and Inspection Systems.

Attentiveness to terrorist and other security threats may continue to drive the market for security and inspection systems in transportation security and also at ports and border crossings, government installations, military facilities and public event venues. The trend toward increased screening of goods entering and departing from ports and borders has resulted, and may continue to result in, the growth in the market for cargo inspection systems and turnkey security screening services that are capable of screening shipping containers for contraband and assisting customs officials in the verification of shipping manifests

Package and cargo screening by freight forwarders, airlines and air cargo companies represents a growing sector, as regulations in the United States and Europe have continued to support increased screening of air cargo shipments.

Growth Strategy (continued)

Capitalizing on the Market for Security and Inspection Systems (continued)

We intend to capitalize on opportunities to replace, service and upgrade existing security installations, and to offer turnkey security screening solutions in which we may construct, staff and/or operate on a long-term basis security screening checkpoints for our customers.

Selectively Entering New Markets.

We intend to continue to selectively enter new markets that complement our existing capabilities in the design, development and manufacture of specialized electronic systems and components for critical applications such as security inspection, patient monitoring and diagnostic cardiology. We believe that by manufacturing products that rely on our existing technological capabilities, we will leverage our integrated design and manufacturing infrastructure to build a larger presence in new markets that present attractive competitive dynamics. We intend to achieve this strategy through internal growth and through selective acquisitions.

Acquiring New Technologies and Companies.

Our success depends in part on our ability to continually enhance and broaden our product offerings in response to changing technologies, customer demands and competitive pressures. We have developed expertise in our various lines of business and other areas through internal research and development efforts, as well as through selective acquisitions. We expect to continue to seek acquisition opportunities to broaden our technological expertise and capabilities, lower our manufacturing costs and facilitate our entry into new markets.

In 2019, OSI Systems unit S2 Global has secured a contract to provide a complete turnkey screening solution for the Port of Santo Tomas de Castilla in Guatemala. As part of the new ten-year contract, S2 Global will look after the civil works as well as deliver and integrate the Rapiscan Eagle P60 high-energy X-ray inspection systems. The company will conduct security screening and remote image analysis using the integration platform for all the inbound, outbound and transshipped cargo, and offer full life cycle support. Similar contracts, using intelligent integration platform that delivers accelerated integrated inspection services to secure trade, transport and events, S2 has secured with US Customs and Border Protection, Mexico, Kazakhstan, Saudi Arabia, Abu Dhabi etc

COVID-19

In March 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and President Trump declared a national emergency concerning the pandemic. The COVID-19 pandemic has dramatically impacted the global health and economic environment, with millions of confirmed cases, business slowdowns and shutdowns and market volatility. COVID-19 has caused, and is likely to continue to cause, significant economic disruption and is having widespread, rapidly evolving and unpredictable impacts on global society, financial markets and business practices. Various governments around the world have implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, limitations on public gatherings, work from home, supply chain logistical changes, and closure of non-essential businesses. The COVID-19 pandemic has impacted, and is expected to continue to impact, our business operations and the operations of our suppliers and customers as a result of quarantines, facility closures and travel and logistics restrictions. There is substantial uncertainty regarding the duration and degree of COVID-19's continued effects over time. The extent to which the COVID-19 pandemic impacts our business going forward will depend on numerous evolving factors we cannot reliably predict, including the duration and scope of the pandemic or recurrence thereof, timing of development and deployment of an effective vaccine, governmental, business and individuals' actions in response to the pandemic and the impact on economic activity including the possibility of recession or financial market instability.

The COVID-19 pandemic has significantly reduced airline passenger traffic, which reduces demand for certain of our security screening products and services. To slow and limit the transmission of COVID-19, governments across the world have imposed significant air travel restrictions and businesses and individuals have cancelled air travel plans. These restrictions and cancelations have reduced demand for security screening products and related services at airport checkpoints globally as the number of airline passengers requiring screening has fallen. The pandemic has also hampered our ability to meet with our customers and prospective customers. We often provide proposals and quotations to customers and prospective customers only after conducting both technical surveys of the site where our security inspection equipment will be installed and in person meetings with technical and operations staff of customers and prospective customers.

Many of our products and services are considered to be essential under federal, state and local guidelines. Accordingly, we currently continue to operate across our global footprint; however, given recent government regulations, many of our global facilities are not able to operate at optimal capacity. Notwithstanding our continued operations, COVID-19 has had and may continue to have further negative impacts on our operations, supply chain, transportation networks and customers, which may compress our margins, including as a result of preventative and precautionary measures that we, other businesses and governments are taking.

S2 Albania

S2 Albania part of S2 Global (OSI System Company) is registered at the National Business Centre (NBC) and currently is administrated by the Large Taxpayers Directorate.

The company's main activity is the implementation of the concession agreement.

The Concession Agreement is concluded between the Ministry of Finance (today Ministry of Finance and Economy) acting on behalf of the Republic of Albania as authorized by the Decision of Council of Ministers no. 755, dated 2.11.2011, and Rapiscan Systems, INC. No. 954-41- 3488, a company organized under the laws of California, USA, for "Financing, Establishing and Operating of Scan Service for Containers and Other Vehicles in the Republic of Albania and Scanning Service Fee" Rapiscan Systems, INC. founded S2 Albania Ltd for the purposes of the Concession Agreement.

Term of the agreement

The Concession Agreement is valid for a period of 15 years and commences on the effective date of operation for each custom operating site. The effective date of operation at the first custom site is September 7, 2015.

The object of the agreement

The Authority, hereby this agreement, engages the Operator for the duration of this Agreement to ensure the implementation of the project, design, testing and system operation, providing the defined services and the transfer of sites and equipment to the Authority upon termination in accordance with terms and conditions of this contract. The operator's obligation to ensure container scanning will be limited only within defined sites and services. According to the Agreement, the company operates scanning service of containers and other vehicles at five custom sites; i) Durrës, ii) Kapshticë, iii) Kakavijë, iv) Qafë Thanë, v) Morinë.

Payment terms

The Authority will pay to the operator a fee for defined Services for each custom site (the Service Fee for each site).The customs site Service Fee will be calculated and paid in equal monthly installments, each at the value of 1/12 of the Annual site Fee. The Custom site Service fee will be VAT-free.

Concession fee

The Operator is obliged to pay to the Authority a monthly concession fee calculated at 2% of the Custom site Service Fee. This concessional fee is held by the Customs site Service Fee paid to the operator from the Authority.

COVID-19 impact

While the COVID-19 pandemic situation has impacted the worldwide economic (included S2 Global) and Albanian economy as well, S2 Albania however has offered support to the Authority (Ministry of Finance and Economy) by deferring payment obligations of the Authority toward S2 Albania related with scanning service performed by S2 Albania for the period August -September 2020 , for more than one year.

This has caused increase of the account receivables for the company.

KEY FIGURES

Finances

Statement of Financial Position

	31 Dec 2020	31 Dec 2019	Variance	%
ASSETS				
Non-Current Assets				
Property, plant and equipment	486,877,692	606,007,875	(119,130,183)	-20%
Right of Use Assets	85,863,755	102,546,016	(16,682,261)	-16%
Financial receivables	6,465,994	6,465,994	-	0%
Prepayments and deferred expenses	-	133,421,437	(133,421,437)	-100%
Trade receivables	414,996,393		414,996,393	-
Total Non-Current Assets	**994,203,834**	**848,441,322**	**(269,233,881)**	**-32%**
Current assets				
Trade receivables	127,640,174	125,003,912	2,636,262	2%
Other receivables	115,407,059	165,979,291	(50,572,232)	-30%
Prepayments and deferred expenses	137,833,309	135,786,400	2,046,909	2%
Deferred tax assets	40,143,088	90,103,321	(49,960,233)	-55%
Cash and cash equivalents	86,231,211	80,598,391	5,632,820	7%
Total Current assets	**507,254,841**	**597,471,315**	**(90,216,474)**	**-15%**
Total Assets	**1,501,458,675**	**1,445,912,637**	**(359,450,355)**	**-25%**
Equity				
Share capital	1,000	1,000	-	0%
Other reserves	246,653,446	-	246,653,446	-
Legal reserves	100	100	-	0%
Current year profit	251,659,078	246,653,446	5,005,632	2%
Total Equity	**498,313,624**	**246,654,546**	**251,659,078**	**102%**
Liabilities				
Non – current liabilities				
Lease liability	74,068,207	89,066,881	(14,998,674)	-17%
Accrued expenses	40,020,254	40,020,254	-	0%
Trade payables	110,894,910		110,894,910	-
Total non-current Liabilities	**224,983,371**	**129,087,135**	**(14,998,674)**	**-12%**
Current liabilities				
Lease liability	15,567,860	14,708,869	858,991	6%
Trade payables	199,293,093	174,757,333	24,535,760	14%
Accrued expenses	210,799,376	537,445,093	(326,645,717)	-61%
Tax Liabilities	15,885,225	7,291,299	8,593,926	118%
Other payables	336,616,126	335,968,362	647,764	0%
Total current Liabilities	**778,161,680**	**1,070,170,956**	**(292,009,276)**	**-27%**
Total Liabilities	**1,003,145,051**	**1,199,258,091**	**(307,007,950)**	**-26%**
Total Equity & Liabilities	**1,501,458,675**	**1,445,912,637**	**(55,348,872)**	**-4%**

Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31-Dec-20	For the year ended 31-Dec-19	Variance	%
Revenue	1,578,319,002	1,526,052,364	52,266,638	3%
Other income	-	-		-
Total Revenue	1,578,319,002	1,526,052,364	52,266,638	3%
				-
Raw materials and consumables used	(838,771,379)	(825,636,775)	(13,134,604)	2%
Personnel Expenses	(271,168,913)	(261,816,885)	(9,352,028)	4%
Depreciation and amortization	(138,523,348)	(166,714,873)	28,191,525	-17%
Other operating expenses	(82,790,958)	(86,185,496)	3,394,538	-4%
Operating profit	**247,064,404**	**185,698,335**	**61,366,069**	**33%**
Impairment of financial assets and investments classified as short term	53,634,389	113,753,911	(60,119,522)	-53%
			-	-
Interest income (expenses) Net	(4,785,010)	(5,343,669)	558,659	-10%
Financial (expenses) Net	5,705,528	(19,390,188)	25,095,716	-129%
Total Financial (expenses)	**920,518**	**(24,733,857)**	**25,654,375**	**-104%**
Profit before tax	**301,619,311**	**274,718,389**	**26,900,922**	**10%**
Income tax expense	**(49,960,233)**	**(28,064,943)**	**(21,895,290)**	**78%**
Income tax expense	-	(71,409,411)	71,409,411	-100%
Deferred tax expenses	(49,960,233)	43,344,468	(93,304,701)	-215%
Profit/Loss for the year	**251,659,078**	**246,653,446**	**5,005,632**	**2%**
Other comprehensive income for the year				
Total comprehensive income for the year	**251,659,078**	**246,653,446**	**5,005,632**	**2%**

Key financial performance indicators

This section provides a summary of the key financial ratios, how they can be used and some things to be aware of when undertaking ratio analysis. This document provides greater depth by taking each ratio and exploring in detail it's application and complexities.

The ratios will enable to make an assessment of the profitability and operating efficiency and effectiveness of an organization.

Profitability

Return on sales

ROS (in %) = (EBIT / sales) x 100

In 2020 the company resulted in a ROS of 16%, whereas in 2019 the ROS was 12%. The increase in ROS has been caused due to increase of the revenue from sales as per concession agreement and decrease of the depreciation costs of the fix assets.

Liquidity

The first financing issue is whether a company can meet its liabilities as they fall due within the coming year. It is a key focus because a company that is unable to make payments as they fall due will cease to operate. There are three measures that can be used to determine how 'liquid' a company is, although each has certain limitations. These are: the **current ratio**, the **quick ratio** and **working capital**.

Current ratio

The current ratio looks at the level of current assets (also called short term assets) relative to the level of current liabilities (also called short term liabilities).

Current ratio = current assets / current liabilities

This ratio assumes that the current assets can be converted to cash at book value (that is at the value recorded in the accounts of the company), irrespective of the actual market value of the assets. In this way, current assets are supposed to provide a key flow of funds from which the liabilities that are falling due within the year can be met. The ratio carries two implicit assumptions that are unlikely to be met in a strict sense because it assumes that:

1. creditors will be satisfied by payment within the year, when in practice they will focus on a specific due date, which may be much more immediate;
2. current assets will realise their book value; this may be true of some assets, but it is not necessarily true of others.

Current ratio (continued)

The current ratio in 2020 was 0.65 whereas in 2019 it was 0.56. There is an increase on the current ratio. However, the ratio includes also the accrued expenses, but they are still not liabilities to be paid on short term. If accrued expenses will be excluded from the calculation, then the ratio for 2020 will be 0.89, (2019: 1.12). The variance between two years is a result in the increase of trade payables and tax liabilities of the December 2020 .

Quick ratio (or liquidity ratio, or acid-test ratio)

Uncertainty about the value of current assets is addressed by the quick ratio, also called the ‘liquidity ratio’ or ‘acid-test ratio’. This looks only at those current assets most readily convertible to cash.

While this ratio makes the very conservative assumption that inventory will generate no cash and the brave assumption that all accounts receivable can be collected, it still suffers from the first of the limitations concerning creditors discussed above (under ‘Current ratio’).

Nevertheless, the range of satisfactory quick-ratio numbers is somewhat narrower than for the current ratio, though what is a ‘safe’ number still depends on the particular business circumstances within which the company operates. A number a little bigger than one as a starting point is satisfactory. The key idea when thinking about liquidity is: ‘does enough cash flow in on a regular basis to cover the flows out that are anticipated?’.

Quick ratio = (current assets – inventory)/current liabilities

The current ratio in 2020 was 0.65 whereas in 2019 it was 0.56, the same value from the current ratio since the company has no inventory. Both current assets and current liabilities have been decreased. Current assets have decreased by 90 mil ALL and current liabilities by 292 mil ALL. The main decrease in current liabilities has been caused by the decrease of accrued expense. However, the increase in trade payables and tax liabilities has managed to offset a part of decrease in the total current liabilities. The main decrease in current assets has been caused by the decrease of other receivables and deferred tax asset.

Operating efficiency

This section considers the ratios that allow the company to evaluate its performance by considering its operating efficiency. An efficient organization in this context is one that chooses the appropriate pool of assets and uses them in such a way that the maximum return is made for shareholders over time. This section will focus on two ratios that measure efficiency in the use and management of the core constituents of the organization’s current assets and current liabilities, specifically the credit it gives to customers (debtors or receivables) and the credit it gets from suppliers (creditors or payables).

Creditor days

The ratio used to investigate management’s control over its supplier credit is **creditors days**. This is an important ratio because a company’s trading partners often know (or need to know!) a great deal about those they are supplying. On the one hand, suppliers can be expected to shorten credit terms or to insist on cash payments if they have doubts about a company’s credit worthiness. On the other hand, when a company is in severe difficulty and is not able to pay its suppliers, this ratio will also rise.

Creditor days (continued)

The ratio is defined as:

Creditor days = (creditors / operating expenses) x 365

It makes for easy comparison between the time suppliers *allow* the company (either ‘normal trade terms’ or perhaps a known length of time) with the period the business actual *takes.* In general, good management will be indicated by the creditor figure being just a day or two *shorter* than the contracted payment terms.

The creditors days is increased from 48 days in 2019 to 85 days in 2020. The increase has been caused due to renegotiation of the payment terms due to COVID 19 situation.

The company has improved its payment terms. This shows that the Company:

- is making appropriate use of the credit granted; this is sensible because this sort of funding is free,
- it is not risking its supply chain by annoying its suppliers through late payment;
- it has systems good enough for it to be confident that it can pay efficiently on the due date without leaving a margin for error (which would waste part of the credit period).

Trade receivables days

The production cycle is not complete until cash has been received from the customer, so the collection phase represents the final phase in the cycle for companies providing their customers with credit terms. Deferring payment is an important marketing tool in many areas of business activity. The company will need to look for any changes in the company’s credit policy or its collection experience. A change in credit policy or a lengthening of collection times can be seen in the ratio of trade receivables to sales. Matching the approach used for other ratios, this can be expressed as trade receivables days. The ratio is also commonly referred to as ‘debtors’ and ‘debtors’ da ys’.

Debtors days = (debtors / sales) x 365

The debtor’s day are 30 days in 2019 to 125 days in 2020. The debtor’s days is increased due to deferral of the payments for the services of Aug-November 2021 from the client for more the one year, due to COVID 19situation.

Environmental Regulations

OSI System is subject to various environmental laws, directives, and regulations pertaining to the use, storage, handling and disposal of hazardous substances used, and hazardous wastes generated, in the manufacture of their products. Such laws mandate the use of controls and practices designed to mitigate the impact of their operations on the environment. To ensure compliance and practice proper due diligence, they conduct appropriate environmental audits and investigations at their manufacturing facilities in North America, Asia Pacific, and Europe, and, to the extent practicable, on all new properties. Their manufacturing facilities conduct regular internal audits to ensure proper environmental permits and controls are in place to meet changes in operations. Third-party investigations address matters related to current and former occupants and operations, historical land use, and regulatory oversight and status of associated properties and/or operations (including surrounding properties). The purpose of these studies is to identify, as of the date of such report, potential areas of environmental concern related to past and present activities or from nearby operations. The scope and extent of each investigation is dependent upon the size and complexity of the property and/or operation and on recommendations by independent environmental consultants

S2 Albania is subject of various environment laws, directives, and regulations pertaining to the use, storage, handling and disposal of hazardous substances used, and hazardous waste generated during operations. Such laws mandate the use of controls and practices designed to mitigate the impact of the operations on the environment. To ensure compliance and practice proper due diligence there are Internal procedures and mechanisms in place in S2 Albania through which it is conducted regular appropriate environment controls/measurements and environmental audits in all operational sites. S2 Albania is subject of control and audits of government Institutions that monitoring various environmental laws and regulations pertinent to use of equipment on current operations. To mention one, is the Albanian Health Institute – Radiation Safety Office and their audits confirming that S2 compliancy with required environment laws and national/international standards.

Employees

S2 Albania employs are qualified, motivated, and performance-oriented employees with a high level of professional competence. The company offers an attractive environment for all the employees. Recruitment of staff goes through best practices and it is managed through an international HR entity contracted which provides advice and implements up to date methodology.

Training of staff is a very important part of the process and it is conducted from most experienced international trainers with more than 25 years of live experience working with US Customs Border Control. S2 University, which is part of engagement policy of the Group (including S2 Albania), enhances security programs offering unique, tailored learning management systems that use real-world scenarios and images. Security personnel is trained to be experts, with modules focused on skills assessment, security and image analysis. S2U students have access to a wealth of shared detection data to keep them informed of trends happening around the world.

S2 Albania is part of S2 Global organization and as such it is subject of the corporate’s consolidated system of performance evaluation process. S2 Albania is structured in a way that allows transparence growth in carrier for each individual based on merits where the decisive evaluation factor is the KPI (Key Performance Indicators).

Once a year, before the annual salary review, a preliminary analysis is carried out by Human Resources Manager to define the Salary Scale to be adopted.

Research and development

Our security and inspection systems are primarily designed at our facilities in the United States and in the United Kingdom, Australia, Singapore, India, and Malaysia. These products include mechanical, electrical, analog and digital electronics, software subsystems and algorithms, which are designed by us. In addition to product design, we provide system integration services to integrate our products into turnkey systems at the customer site. We support cooperative research projects with government agencies and provide contract research for government agencies.

We design and manufacture optoelectronic devices and we provide electronics manufacturing services primarily in our facilities in the United States and internationally in the United Kingdom, Canada, Mexico, India, Indonesia, Malaysia and Singapore. We engineer and manufacture subsystems to solve the specific application needs of our OEM customers. In addition, we offer entire subsystem design and manufacturing solutions. We consider our engineering personnel to be an important extension of our core sales and marketing efforts. In addition to close collaboration with our customers in the design and development of our current products, we maintain an active program for the development and introduction of new products, enhancements and improvements to our existing products, including the implementation of new applications of our technology. We seek to further enhance our research and development program and consider such program to be an important element of our business and operations.

FINANCIAL RISK MANAGEMENT

Main financial liabilities of the Company consist of accounts payable and other liabilities. The main purpose of these financial liabilities is to finance and to provide guarantees for the Company's operations. The Company has loans and trade receivables, cash and cash equivalents and short-term deposits resulting from its operations.

The management of the company is in charge of managing these risks.:

-credit risk

-liquidity risk

-currency risk

Credit risk

Credit Risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the company trade receivables and amounts held in the bank account. The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

	31 December 2020	**31 December 2019**
Trade receivables	542,636,567	125,003,912
Cash and cash equivalents	86,231,211	80,598,391
Total	**628,867,778**	**205,602,303**

Liquidity risk (Cash flow risk)

Liquidity risk is the risk that the Company may not be able to pay its obligations associated with financial liabilities at their due date. Liquidity risk is the risk inherent in the business of the Company as some specific assets purchased or liabilities sold may have specific liquidity characteristics. If the Company will need to have large amounts in a short period of time that exceeds normal requirements for cash, the Company may encounter difficulty to ensure competitive prices. The Company manages the liquidity risk by continuously monitoring forecasts and actual cash flows and by trying to match the maturity profiles of assets and liabilities.

	December 31st, 2020				
Description	**Up to 6 months**	**6-12 months**	**1-5 years**	**> than 5 years**	**Total**
Trade and other receivables	243,047,233	-	421,462,387	-	664,509,620
Cash on hand and at banks	86,231,211	-	-	-	86,231,211
Total	**329,278,444**	**-**	**421,462,387**	**-**	**750,740,831**
Trade payables and other payables	(567,362,304)		(161,250,978)	(23,712,139)	(752,325,421)
Total	**(567,362,304)**	**-**	**(161,250,978)**	**(23,712,139)**	**(752,325,421)**
Liquidity Risk as at December 31, 2020	**(238,083,860)**	**-**	**260,211,409**	**(23,712,139)**	**(1,584,590)**

	December 31st, 2019				
Description	**Up to 6 months**	**6-12 months**	**1-5 years**	**> than 5 years**	**Total**
Trade and other receivables	290,983,203	-	6,465,994	-	297,449,197
Cash on hand and at banks	80,598,391	-	-	-	80,598,391
Total	**371,581,594**	**-**	**6,465,994**	**-**	**378,047,588**
Trade payables and other payables	(532,725,863)	-	(64,412,034)	(24,654,847)	(621,792,744)
Total	**(532,725,863)**	**-**	**(64,412,034)**	**(24,654,847)**	**(621,792,744)**
Liquidity Risk as at December 31, 2019	**(161,144,269)**	**-**	**(57,946,040)**	**(24,654,847)**	**(243,745,156)**

Currency risk

The Company undertakes transactions denominated in foreign currencies as a result of exposure to fluctuations in exchange rates. The exposure to exchange rates is managed by determining a policy between accounts receivable and payable. The net book value of monetary assets and liabilities of the company by currency for the year ended are presented in the table below:

	December 31st, 2020			
Description	**EUR**	**ALL**	**USD**	**Total**
Trade and other receivables	127,640,174	121,873,053	-	249,513,227
Cash on hand and at banks	28,864,459	56,852,165	514,587	86,231,211
Total	156,504,633	178,725,218	514,587	335,744,438
Trade payables and other payables	(316,817,692)	(354,469,263)	(81,038,466)	(752,325,421)
Total	**(316,817,692)**	**(354,469,263)**	**(81,038,466)**	**(752,325,421)**
Currency Risk as at December 31, 2020	**261,149,328**	**(182,210,039)**	**(80,523,879)**	**(1,584,590)**

	December 31st, 2019			
Description	**EUR**	**ALL**	**USD**	**Total**
Trade and other receivables	125,003,912	172,445,285		297,449,197
Cash on hand and at banks	46,612,123	18,303,976	15,682,292	80,598,391
Total	**171,616,035**	**190,749,261**	**15,682,292**	**378,047,588**
Trade payables and other payables	(181,893,340)	(98,259,852)	(341,639,552)	(621,792,744)
Total	**(181,893,340)**	**(98,259,852)**	**(341,639,552)**	**(621,792,744)**
Currency Risk as at December 31, 2019	**(10,277,305)**	**92,489,409**	**(325,957,260)**	**(243,745,156)**

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
ALL/EUR	**2020**	**2019**	**2020**	**2019**
	123.77	123	123.70	121.77

In managing currency risks the company aims to reduce the impact of short-term fluctuations on the company earnings. Over the longer-term, however, permanent changes in foreign exchange rates might have an impact on profit.

Interest rate risk

The company does not face any interest rate cash flow risk because it does not have any interest- bearing financial liabilities.

INTERNAL GOVERNENACE REPORT

Composition and functioning of executive and supervisory bodies

There are no dedicated bodies for S2 Albania. It is governed under the executive and supervisory bodies of S2 Global (OSI System).

- Board Composition of Osi System

The Board will annually review the appropriate size of the Board. The Board will periodically appoint a Chairman. Both independent and employee Directors are eligible for appointment as the Chairman. The Board may also assign to Directors such other leadership roles as it deems appropriate. The Board will be responsible for the selection of nominees for election or appointment to the Board.

- Audit Committee

The Committee assists the Board in fulfilling its oversight responsibilities with respect to (i) the annual and quarterly financial information to be provided to stockholders and the SEC; (ii) the system of internal controls that management has established; and (iii) the internal and external audit process. In addition, the Committee provides an avenue for communication between internal auditor, the independent auditor, financial management and the Board.

- Risk management Committee

The purpose of the Risk Management Committee of the Board of Directors will be to assist the Board in its oversight of the Company's management of key risks, including strategic, operational, legal, regulatory, compliance, security, reputational and other risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

- Technology Committee of The Board of Directors

The purpose of the Technology Committee of the Board of Directors shall be to evaluate and make recommendations to the Board regarding technology-related matters, and such other duties as the Board may from time to time prescribe.

- Chairman of S2 Albania

Chairman is appointed by the Board. The Chairman represents the company before third parties and in court, together with the directors vested with special powers. The Chairman organizes the activities of the Board of Directors and ensures that the Directors are provided with all necessary documentation and information in a timely manner to enable them to make decisions.

- Administration of S2 Albania

S2 Albania has an administrator Mr. Jonathan Fleming.

Internal policies and procedures related to internal control systems covering the financial reporting

S2 Albania implements the procedures and policies of the group.

Internal control over financial reporting is a system designed to provide reasonable assurances regarding the reliability, accuracy, fairness and timeliness of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. The internal control system was designed in accordance with two fundamental principles: to extend control to all levels of the organizational structure, consistent with operating responsibilities; and the sustainability of controls in the long term, so as to ensure that the performance of controls is increasingly integrated and compatible with operational requirements.

The Board of Directors of OSI System plays a key role with regard to internal control matters, as it defines the guidelines of the organizational, management and accounting structure of the parent company and its main subsidiaries and the Group as a whole.

Financial statements of the S2 Albania

The financial year is through 1 January to 31 December. The company prepares the annual statutory financial statements in accordance with the accounting legislation in Albania. In order to ensure the quality of financial and tax reporting as well as the full compliance with the Albanian accounting and tax legislation in force, the finance team of the company is supported by the external accountign and tax consultants.

- **Internal and External Audit of the Company**

S2 Albania does not have an in-house internal audit function because it is audited from the internal audit team of group for business matters, governance, closure of financial statements and monthly reporting, cash management, consolidation, procurement and purchases, etc.

As necessary and requested by the law, the financial statements of the company shall be audited by a certified public accountant. For the year 2020, they have been audited by Mazars Shpk.