boku

Carrier Commerce:
Mobile Transactions Made Simple

Boku is the world's leading independent carrier commerce company.

Boku's Platform, which is linked to billing, identity and sales systems of more than 170 mobile network operators, simplifies transacting on mobile devices. Boku's Payment products enable mobile phone users, of which there are more than five billion worldwide, to buy goods and services and charge them to their mobile phone bill or pre-pay balance. Its Identity Products are used to verify user details. Companies like Apple, Google, Facebook, Microsoft, PayPal, Spotify, Square, Sony and Western Union use Boku to simplify sign-up, acquire new paying users and prevent fraud.

We maintain a corporate website containing a wide range of information of interest to investors and stakeholders at www.boku.com

Our Customers

facebook, PlayStation, Google, NETFLIX, Tencent 腾讯, Microsoft, Blizzard Entertainment, Western Union, ByteDance, Square, PayPal, Spotify, Uber, Riot Games, XBOX

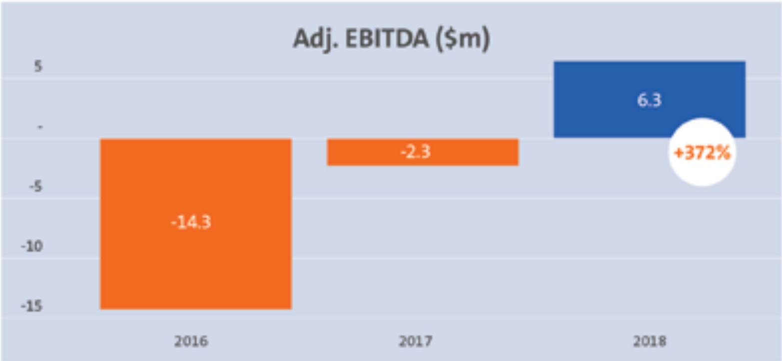
Highlights

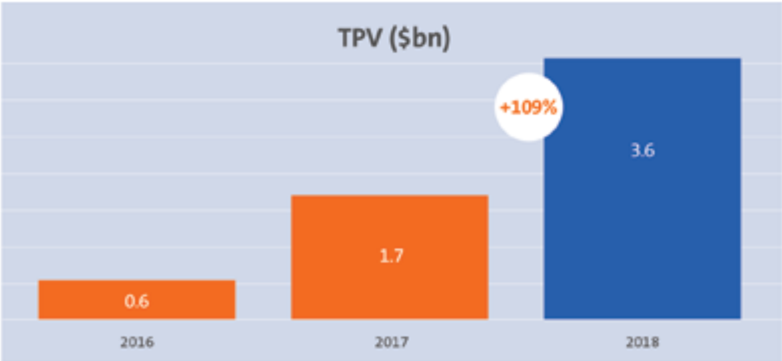
Financial Highlights

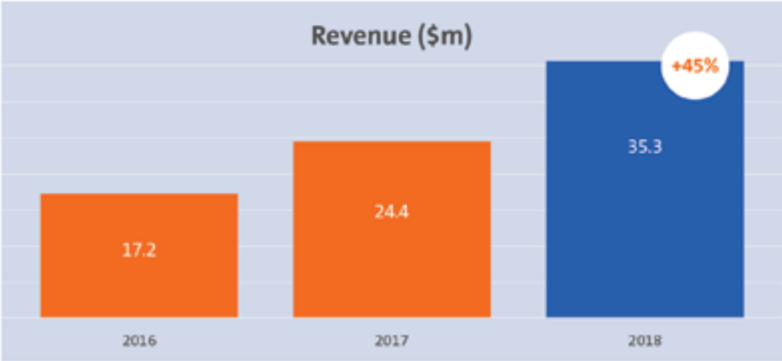
- Revenue up 45% to $35.3m (2017: $24.4m)
- Adjusted EBITDA $6.3m vs. 2017 Adjusted EBITDA** loss ($2.3m)

Operational Highlights

- Total Payment Volume (TPV) doubled to over $3.6bn (2017: $1.7 billion)
- 13.5 million Monthly Active Users (MAU) in December 2018 (December 2017: 8.0 million)
- 70 new Boku Account connections for major customers such as Apple, Microsoft and Spotify (2017: 47)







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Chairman's Statement

2018 has been a year of growth and expansion for Boku.

Volumes processed through the platform have more than doubled to $3.6 billion, further strengthening its lead as the world's largest independent carrier billing company. New customers like Netflix and Rakuten have started to use our platform and existing customers like Sony, Spotify and Apple have expanded their use. Revenues have increased by 45% and for the first time adjusted EBITDA was positive for the whole year.

This increasing scale is a source of considerable competitive advantage to the company. As a platform business, where incremental transactions can be processed for minimal marginal expense, higher volumes drive lower unit costs. This makes Boku a difficult company with which to compete.

The real value that we provide to our customers is to help them acquire new paying users and so it is a source of real pride that the number of Monthly Active Users making payments on the Boku Platform has increased to more than 13.5 million in December 2018, an increase of 66% over December 2017.

Last year I indicated that the company was looking to invest in new capabilities that would allow new value to be unlocked from the platform. The acquisition of Danal Inc., completed on 1 January 2019, which makes the company a leading player in the Mobile Identity market is just such an opportunity. Boku, by virtue of this acquisition, is now able to diversify its addressable market beyond digitally downloaded content to also include electronic remittances, mobile payments, on-demand services, online banking and government services. This application of our platform will drive future growth and lessen the risk of revenue concentration.

I want to thank my fellow Non-Executive Directors for their service throughout the year. Both Richard Hargreaves who chairs the Remuneration Committee and Keith Butcher who performs a similar function for the Audit Committee have been generous with their time and expertise to help the company make the most of its public company position

2019 will be another pivotal year. We have embarked on a course designed to help us diversify from being a single product company to become one with multiple products driven from our state-of-the-art platform. The management have developed the organisation to the point of profitability, and I have every confidence in their ability to help it achieve its potential

I look forward to seeing yet further significant growth over the course of the next year.

Mark Britto
Non-Executive Chairman
25 March 2019

Mobile Phones – the start of the usage revolution

Andreessen Horowitz, a leading venture capital firm [and shareholder in the company], made a presentation in 2016 called "Mobile is eating the world" and another in 2018 called the "End of the beginning". The thesis of the presentations was that whilst we are well on the way to distributing smartphones to all adults on the planet, the usage of those devices, which signals the that start of a new computing paradigm, has only just begun.

Use of the mobile device in commerce is growing rapidly – for example, 40% of Amazon's sales in the US during the 2018 Holiday season were initiated on a phone. In Asian countries, like India and China, where internet adoption happened primarily on mobile, not PC, the percentages are much higher. Despite this, Andreessen Horowitz argues, we are still a long way short of achieving usage to match the distribution.

This shift from distribution to usage is evident in Apple's change of emphasis from a business that grows primarily by selling new iPhones to one that grows by selling more services to the existing base of iPhone customers.

The distribution task is basically over. But mass usage is just beginning.

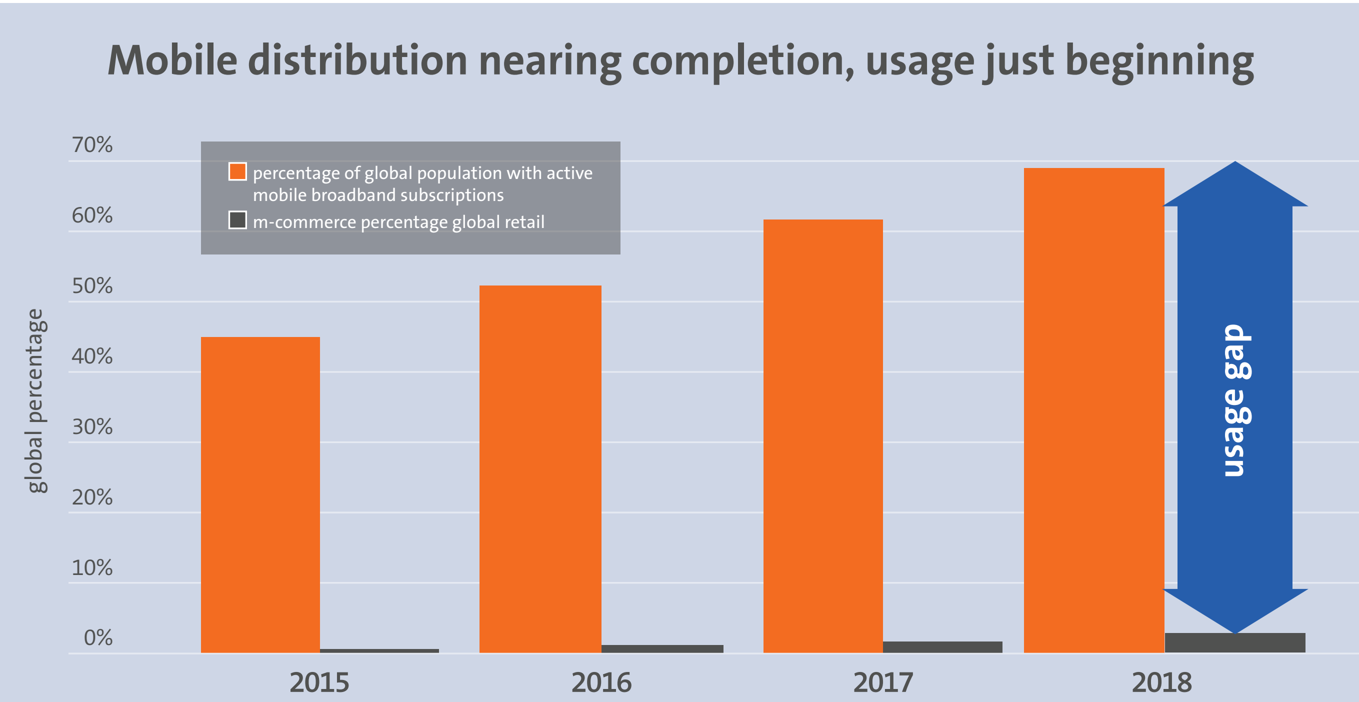
This unprecedented, global deployment of computing power has created a new, mobile-centric economy. As usage increases, an ever-wider selection of goods and services will be bought and sold on the smart phone. Online retail, digital entertainment, on-demand services, and even interactions with Governments are undertaken on mobile, and every one of those interactions – which embrace the whole lifecycle including enrolment, login, purchase, and regular usage -- needs to be easy for the user and secure for the supplier.

Mobile Phone vs PC – a different paradigm

Transacting on mobile is not the same as transacting on a PC, just with a smaller screen. Many problems that have been solved for the PC need to be solved again for mobile. To illustrate this in a small way: most e-Commerce services use your email address as your identifier. But many people who have come to the internet in a mobile-first environment don't have an email address, or prefer not to use it. They use WhatsApp or WeChat or Facebook Messenger to communicate. The index of their digital identity is not their email address, it's their mobile phone number.

The smartphone changes the user interface. It's hard enough to type in 16 digits of your card number on a keyboard (and the 4-digit expiry date and the 3-digit CVV and quite possibly your name and address too), but, on the glass of a smartphone, it's positively painful.

On the other hand, mobile phones offer many unique advantages - they are always with the user, they can be geo-located, they have multiple sensors including built-in cameras, Bluetooth antennae, biometric readers, and a network connection that allows the user to download, install, and run countless apps from anywhere in a matter of seconds. These advantages offer the potential for a completely new user experience.



Disruption across Multiple Industries

TThis new mobile computing paradigm is disrupting industry after industry at every stage of the customer lifecycle. How you get your bank account; the way that transportation services are delivered; the fact that you're prepared to register to consume music or watch films; the way you play games and how you pay for them; how you book hotel rooms how you book a restaurant or order a takeaway. All these experiences are different today because we have in our pockets a location aware, user-friendly computer that is connected to the internet at all times.

The move to mobile has, in particular, disrupted entertainment: the digitisation of games, music and video has proceeded apace. The old media of CDs and DVDs have become all but obsolete. There is a landgrab underway, with new and established players trying to sign up as many new users as possible. Removing friction from the sign-up process and accessing as many users as possible became necessary parts of the armoury for any serious digital content provider. Providing solutions for merchants in this area has been Boku's initial focus.

But mobile disruption doesn't just apply to digital, it applies to all types of transaction. As more business transactions across more market sectors migrate to mobile, the same challenges that faced digital content merchants now apply to a much wider range of other businesses – the need to attract and retain high quality users is universal.

Risk and fraud solutions developed for the PC world don't always address the problems of mobile: One-time PINs can be intercepted with social engineering or malware, apps can be hacked, logins can be phished, and phones, especially those running Android, can be rooted and compromised. The result: increasingly large-scale abuse and fraud on mobile. Legacy anti-fraud solutions typically add friction to transactions What is needed is a way to deliver security with low friction on mobile. This is the next area where Boku is providing solutions.

The Value of Mobile Operator Networks

What these two examples show is that as more businesses transition to mobile, the need will grow for simple, secure ways to acquire new customers, verify their identity, provision services onto the handset and detect threats in real time. Because these transactions all happen on mobile devices, Mobile Network Operators hold the key.

Central to the Mobile Network Operator's ability to secure and authorise voice and data connections is the SIM card. The SIM card provides every mobile phone in the world with a secure element owned by the Mobile Operator. The Mobile Operator can verify that secure element, silently, in real-time; they can detect your mobile number without having to ask for it. In most instances, they also know who you are, know information about your mobile device, know information about your payment or top-up history, and can facilitate financial transactions by leveraging the existing billing relationship they've set up with each mobile subscriber. These assets provide a powerful and essential collection of tools for enabling this new era of mobile usage.

Mobile Network Operators may hold the keys that can unlock much of this latent potential, but they need Boku's help to commercialise these unique assets because, in practice, these capabilities are inaccessible and fragmented behind the hundreds of different back office systems. It's easy for consumers to make phone calls and send text messages, but it is nearly impossible for businesses trying to access any other Mobile Network capability to independently connect to the multitude of different Mobile Operator systems.

The Boku Platform

Boku has developed a platform to solve the problem of accessing and monetising these hard-to-reach mobile assets. By connecting to the user-facing systems of Mobile Operators around the world, we build products, delivered via simple-to-use APIs that enable enterprise customers to transform the mobile experience for their users and power the growth of their business.

With Boku as the trusted intermediary, we can make the power of Mobile Networks available to the world's app developers, businesses and governments.

Other solutions try to deliver low friction approaches, but they

Not just a PC with a smaller screen

Personalised, always on, always with you	Real time location aware	Connected through wifi, carrier network, Bluetooth
Touch, tilt, microphone, fingerprint reader. No keyboard.	Always online	Cloud based App store for on demand access to software
IMSI in the SIM card securely linked to the number	IMEI in the device linked to a KYC'd account	Front and back cameras can verify faces and documents

Mobile Phones – the start of the usage revolution

Boku Platform Statistics

Reliable
zero unplanned outages last year.

High Capacity
peak with 220 transactions per second

Fast
average latency less than 3 seconds

Room to grow
can process triple existing load

require registration; with Boku you registered when you got the phone.

The Boku Platform can use Mobile Network Operator and other systems silently to:

- authenticate the handset;
- gather information about the device;
- check the user's eligibility for different services;
- charge and credit the user;
- collect and disburse aggregated funds in multiple currencies from multiple countries;
- provision new services onto mobile subscriptions;
- provide coarse or fine location data for devices;
- expose certain characteristics of the customer profile including pre-paid/post-paid and length of tenure;
- send and receive messages

TThese raw ingredients can be combined in different ways to produce a myriad of products that solve problems for merchants.

While it is carrier information that provides the Boku Platform with much of its distinctive character, the platform is also effective in aggregating and harmonizing mobile capabilities that come from other non-carrier sources. In mobile payment, these additional payment methods can enhance the offer by providing alternative sources of funds when the carrier bill is not appropriate or economic. Combining carrier identity data with other sources can deliver an even higher level of security or insight.

The Boku Platform: Mobile Transactions Made Simple

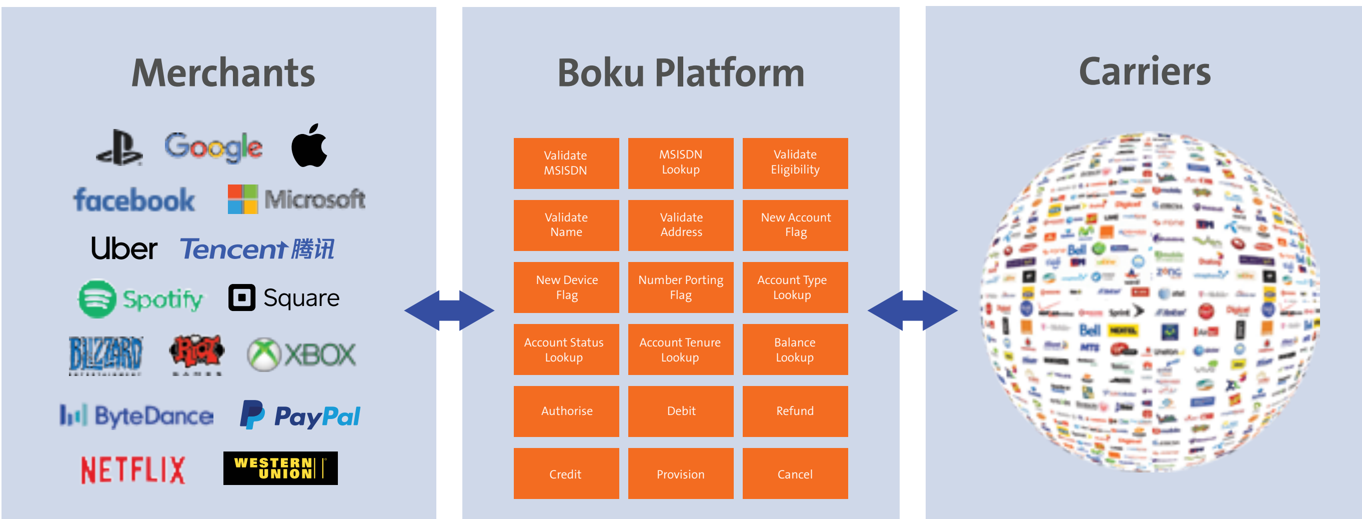
Our platform is a powerful asset. Initially used to help companies distributing digital content acquire new customers, its capabilities can just as easily be applied to other aspects of the customer journey and to other industries. Whether it's retaining customers through prompted messaging, preventing the abuse of marketing promotions, validating the users that access a service or delivering the service to the right device, all aspects of the customer journey can be enhanced by the Boku Platform.

At scale. Globally. Across multiple industries.

Having applied our technology to solving customer acquisition for digital content, we now have the tools and capabilities that can be applied to other parts of the value chain and across multiple other sectors. We have started already by delivering mobile fraud and identity solutions for Banking, Money Transfer and On-Demand Services, and, once we have established strong presence in these markets, we will repeat the process again in new sectors, applying the power of our Platform that connects billions of consumers through their most personal ubiquitous device to simplify more aspects of mobile commerce.

The Benefits of Scale

TTo attract the biggest merchants, Boku built a global organisation and a high function platform which meets the needs of many merchants. These merchants bring us the highest volumes of transactions, which in turn, yield the lowest unit cost in the industry. In the last two years, as the volume of



successful transactions processed through the Boku Platform has more than tripled, unit costs have reduced by nearly three quarters. Further growth is possible at modest cost: in the course of 2018, capacity was increased by 55% for an expenditure of less than $330,000.

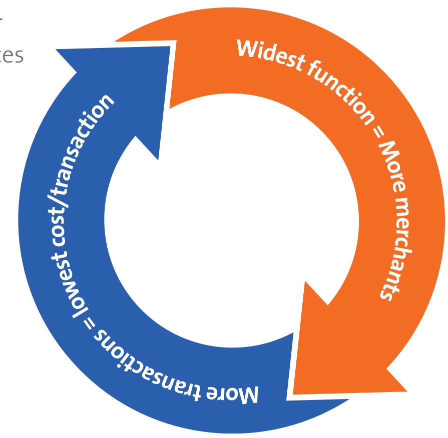
Bigger is also better: Boku's scale brings more data to optimise performance. For example, the value of transactions processed through a single merchant-carrier connection increased by 37% after it was moved to the Boku Platform, through the use of Boku's optimisation tools. On average, a Merchant that uses our Platform can expect to see its volume increase by more than 20%. These economies and advantages apply across multiple products – success in Payments means better Identity products. Wider coverage for one application helps another.

Carrier Network

The carrier network that Boku has built over 10 years with an investment of more than $100m is hard to replicate. The unparalleled level and quality of carrier connections that we enjoy is a consequence of the merchant connections that we have been able to acquire. Because each carrier connection is unique it would be very hard, if not impossible, for anyone else, even had they the resources, to be able to copy the breadth and depth of our carrier network.

Global Merchant Base

Boku has developed an unrivalled network of Global brands as customers. Companies like Apple, Facebook, Microsoft, Netflix, PayPal, Rakuten, Sony, Spotify, Square, Uber and Western Union all trust Boku to be their Partner. With 13 offices in 10 countries Boku has developed the global coverage and the way of working that makes us the natural choice for any organisation looking to access the power of mobile operator networks globally.



Boku Payments For Digital Goods

Market Size

The market for digital content paid for by carrier billing is estimated by Ovum at $26 billion in 2018, growing at 11% CAGR (Compound Average Growth Rate)

Target Merchants

Many of the world's largest digital retailers including app stores, like Apple and Google, console makers like Microsoft and Sony, and streaming companies like Spotify and Netflix, utilise Boku, as do the leading MMO (massive multiplayer online) game publishers such as Activision Blizzard and Tencent Riot, social gaming platforms such as Facebook Games, and gaming PSPs (payment service provider) such as Xsolla. We are also seeking to extend our reach in Asia, targeting companies from China, Korea and Japan to help them acquire new users, especially as they seek to expand abroad.

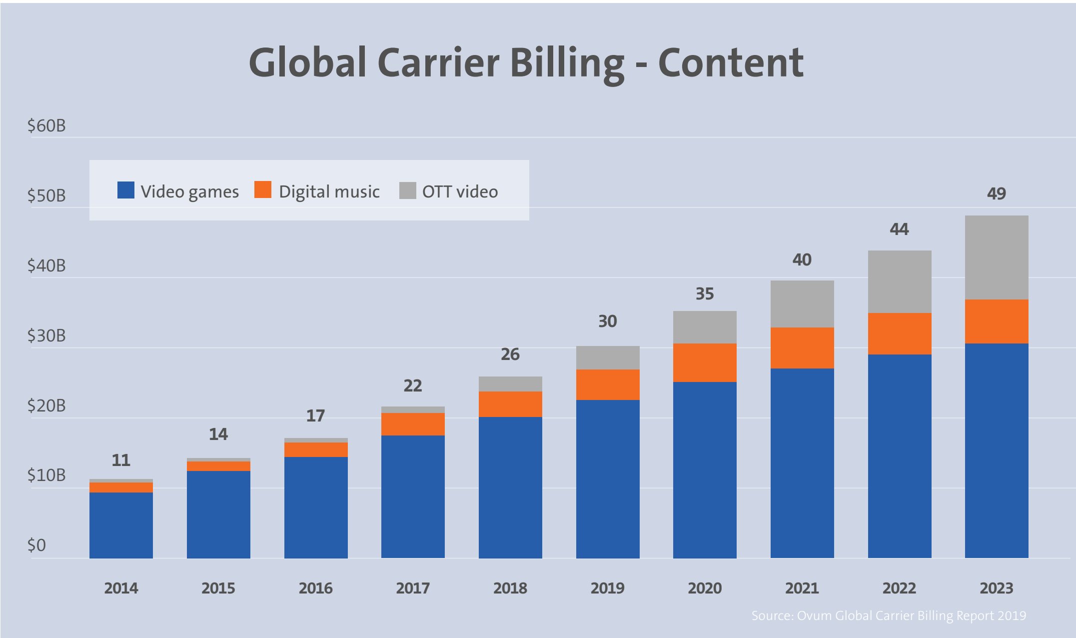
Merchant Benefits

Boku Payments help digital merchants recruit new users. Oftentimes, users only need a single tap to set their phone number as their payment credential, improving conversion rates. Whilst charging to your phone bill is an expensive means of payment for merchants compared to bank-provided alternatives, it is a cost-effective means of acquiring new users.

Business Model and Revenues

Boku Payments have processed over $3.6 billion of transactions in 2018 and accounted for all the revenue generated by the Boku Group in 2018 at $35.3 million, an increase of 45% compared to the previous year.

Fees are charged as a percentage of the overall transaction value with some differences between customers depending on whether Boku handles the funds (the settlement model) or acts solely as a technical processor (transaction model). Some merchants also receive volume discounts as part of their pricing scheme. Take rates (re divided by total payment volume) averaged 1% for the year. The rate of reduction has stabilised, following reductions in prior years driven by a change in the mix between the settlement and transaction business models.



Growth Drivers

In 2018, Boku's volume grew by 109% to more than $3.6bn of value processed, a relatively modest penetration of a large and growing market. The disruption of digital has only just begun. App store growth is forecast at 18% CAGR, which provides a strong tailwind for Boku who already processes 40% of the carrier billed volume coming from app stores. Further growth comes from Boku increasing the number of Boku Account connections*, thereby making the service more widely available. These connections increased to 177 by the end of the year an increase of 65% on 2017's closing figure of 107. Each new connection starts a process of discovery of the Boku payment option amongst that carrier's customers, a process that typically continues for two years. Further growth can also be anticipated from new customers and new funding sources being added to the Boku Platform. In short: super-normal growth is baked in.

Competitive Advantage

Boku's advantage lies in its scale. Having more merchants helps us get the best connections from carriers with the best commercial conditions. In turn, this helps us to recruit more merchants which drives up our transaction volumes and provides us a richer data set for performance optimisation. Similarly, the fact that we have a wider breadth of merchants and a larger scale of volume than any other provider means that we can simultaneously have the broadest range of functionality and the lowest unit costs.

*Connection relate to the link between the merchant and the carrier

Boku Identity

This section predominantly relates to Danal Inc.'s Identity business. The acquisition of Danal Inc. – now renamed Boku Identity Inc. - was completed on the 1st January 2019.

Market Size

McKinsey estimates the size of the Identity-as-a-Service at $10bn in 2017, growing to $16bn --$20bn in 2022 (9-15% CAGR).

Geographically, all parts of the world are exhibiting growth, but this is particularly pronounced in Asia, where identity data is hard to source; mobile is the predominant channel for internet access giving Mobile Operator data a distinct advantage.

Target Merchants

Any organisation transacting on a mobile device or wanting to analyse the mobile behaviour of their users is a potential customer for Boku Identity. Boku is particularly focused on organisations in the Payments, Money Transfer, Banking, On-Demand Services and Government sectors.

Customers of Danal Inc. include PayPal, Square, Western Union, MoneyGram, JP Morgan Chase, BNP Paribas, Uber and the US Government's Internal Revenue Service.

Merchant Benefits

Historically there has been a trade-off between ease of use and security. Increase security and you introduce friction which can drive away potential customers; provide a simple user experience and leave yourself vulnerable to fraud. Boku Identity products allow security with no friction, because the Mobile Operator knows your phone number without having to ask. Using the secure SIM card as your identity, combined with other back office data held by the Mobile Operator, can reduce fraud and ensure compliance without needing to inconvenience the end user.

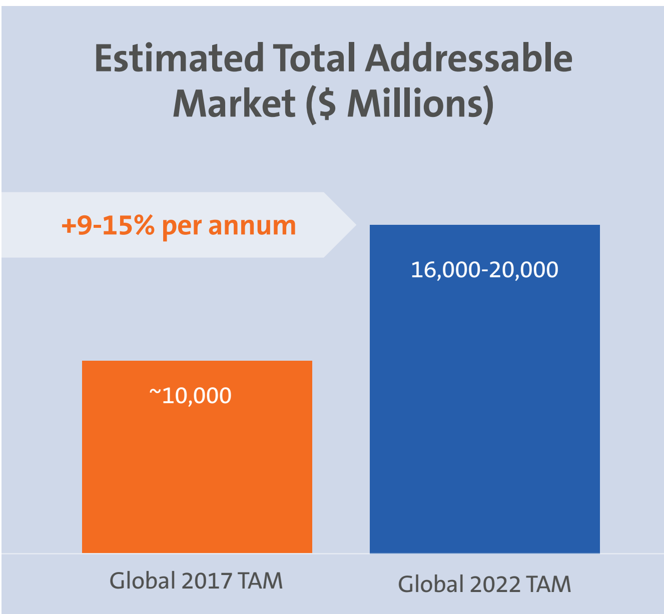
Use cases

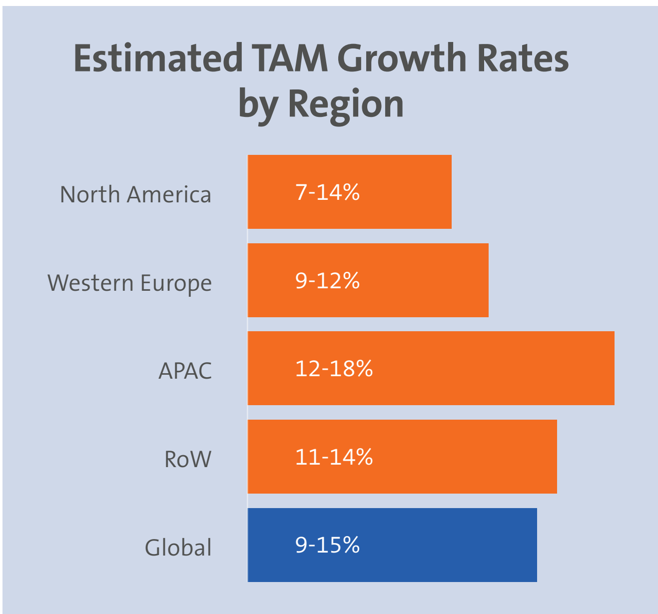
- **Secure, frictionless 2 Factor Authentication:** Silently validate a mobile device without the need for an SMS, using automatic mobile number verification
- **Know Your Customer:** Streamline the KYC process by validating the name and address entered by a user against Mobile Operator data
- **Promotion abuse:** Reduce offer fraud by linking marketing promotions to secure SIM-based user identities instead of email or unverified mobile numbers
- **Account Takeover Prevention:** Pro-actively monitor and detect SIM card changes to prevent SIM swap fraud
- **Credit card and bank fraud:** Reduce fraud by providing real-time Mobile Operator data as risk inputs for enterprise risk and fraud systems
- **CRM data compliance:** Ensure compliance with consumer regulations by validating phone number ownership and monitoring for phone deactivations and number transfers

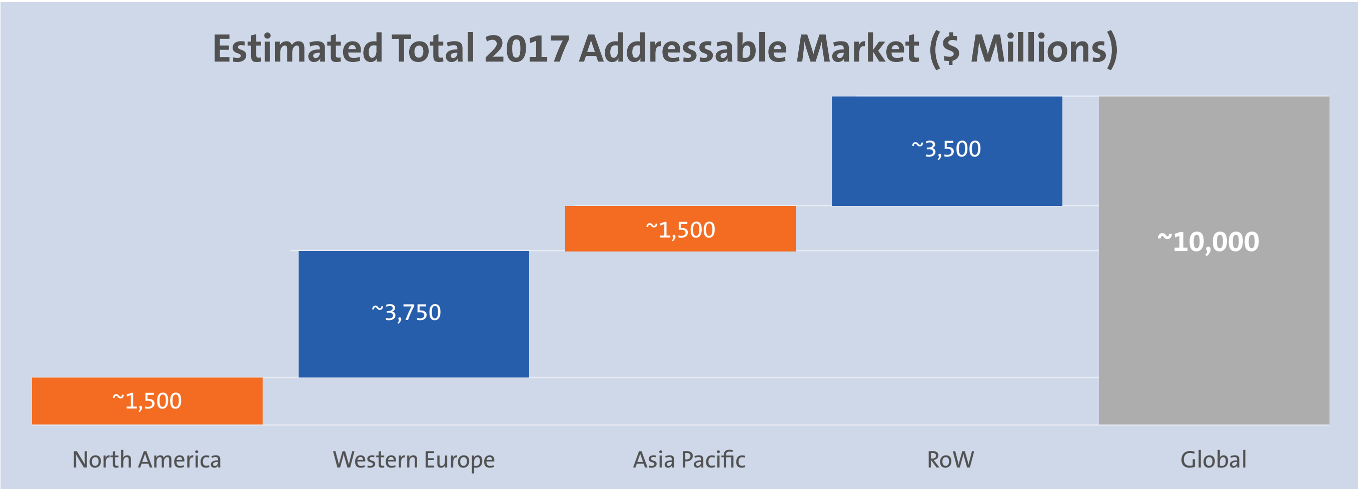
Business Model and Revenues

(pro-forma, these unaudited revenues were reported by Danal Inc. prior to its acquisition by Boku on 1st January)

Merchants are charged either on a per user basis – for monitoring – or on a per transaction basis, typically with monthly minimum amounts. In December 2018, 12.2 million numbers were being monitored. 175 million billable transactions processed in 2018, a 95% increase on the number







processed in 2017. At present charges are predominantly for data elements, over time it is intended to introduce premium pricing for higher value, packaged products.

Revenues amounted to $5.3m, essentially flat from 2017's figure of $5.1m, generated from the provision of mobile identity and compliance services to customers predominantly in the United States.

Growth Drivers

As mobile transactions increase, demand for mobile identity solutions is increasing in lockstep. There is plentiful demand. Growth is constrained by supply of carrier data and sales capacity. Both of these are addressed by integrating Boku Identity into the Boku Group. Supply can be increased by Boku's capacity to source and build new connections at global scale – 20 new connections are planned for 2019. Sales capacity is being tripled, with more account management and business development staff being hired.

Competitive advantage

Traditional identity providers have tended to connect to large static databases, which are optimised for PC-based e-Commerce. Boku Identity's connections provide access to the unique Mobile Operator data set which provides real-time information about a customer's status, all without interrupting the user experience.

Boku Identity is able to leverage the existing network of Mobile Operator relationships and connection capabilities developed by Boku Payments in order to expand into to new markets faster than any competitor.

Chief Executive Officer's Report

2018 has been a stellar year for Boku. The volume of payments processed by the Boku Platform more than doubled. Revenues increased by 45%, costs grew only modestly, and the result was the Company's maiden positive Adjusted EBITDA for the whole year.

Looking to the future, our Payments business is on a steady growth trajectory. Operating in an expanding market, with most of the largest digital companies as customers, our growth is underpinned by their success. But, more than this, our business will benefit from an increased number of connections; in 2018 the number of our most advanced, Boku Account, connections increased to 177, enabling Boku payment for many millions of new subscribers.

These connections have now only started to yield their potential volume and revenue: once launched, subscribers only gradually discover our service as they attempt to make purchases. As a result, a two-year maturity cycle applies, meaning that the 109% TPV growth that we reported for 2018 is a consequence of the deployments that we made in the preceding two years, and the deployments undertaken this year still have two more years of growth to deliver.

Taken together this provides a platform for steady growth with a predictable profile.

The Boku Payments business is generating more recurring revenue from returning users. Our users now fall into three categories, one-off; regular subscriptions and pseudo-subscriptions, like the app stores, where consumers repeatedly (though not necessarily regularly) make transactions using their phone number as their stored payment credential. This recurring revenue helps boost our volume. Every month around 1.5 million users make their first Boku transaction; with increasing numbers of them transacting repeatedly, growth continues to compound.

With gross profit margins at 93% (2017: 91%) and plentiful growth on predictable trends it would be easy to be complacent. It's tempting to play things safe.

Tempting, but wrong.

A company can strive to breakthrough to profitability for years. On reaching profitability, a company is typically congratulated however, the point of profitability is a dangerous time. The company is faced with a choice: does it settle for what it has, or carry on investing in growth? Does one reap or sow?

All things must pass. The growth achieved from pursuing one application of Boku's platform will inevitably, eventually peak over time. Not this year or next, but inevitably the S curve will start to asymptote, level off, slow down.

So, Boku has chosen a path of growth: we have built a platform which brings together the world's largest connected community and for now, most of our revenue comes from using it to help people sign up smoothly to digital services. We're powering app stores. We're helping digital music services to grow their premium users, streaming video companies come to us to help them grow their user bases too. But collectively these sectors account for only 5% of global e-commerce.

Our technology can help more than 5% of commerce – our imperative is to build out our platform to be able to service new merchant segments including Finance, Payments, Money Transfer, Governments and On-demand services; to provide these organisations with a way for their customers to transact on mobile with security and ease of use; to address a bigger market and to embrace the bigger trend, not just the movement to digital entertainment, but to embrace the wider movement to mobile transactions.

Our acquisition of Danal Inc. should be seen in this context. It is the springboard that will enable us to repeat our trick of becoming the globally dominant player in our segment driven by our access to carrier assets. With a great platform, strong channel partners and identity connections already live with carriers in North America and Europe, we have acquired a business at a point of inflection that has signed up important customers and is ready to deploy its services more broadly, within a market that is experiencing substantial growth.

Faced with the choice of reaping or sowing, we have chosen the path of investment; to expand our business, take some of the cash that is being generated from the Payments Business and build a second business line, Identity, on the Boku Platform; to utilise the same skills, carrier connections and sales approach to build a second strand of Carrier Commerce.

Outlook

We look forward to 2019 with enormous optimism. In the next 12 months, Boku will operate with multiple product lines across a broader set of customers, adding value to a greater proportion of mobile commerce. For 2019, we anticipate that continued growth in our Payments Business and investment in Identity will deliver Revenues of at least the current analyst consensus of $52 million, with 15% to 20% of this coming from Identity. Gross Margins in Payments are projected to remain strong at 93%, those in the Identity business will strengthen to c.40%.

We expect Adjusted EBITDA to grow by 45-50%, driven by underlying performance and the implementation of IFRS 16 ($1.9 million).

Our forecast is for a record year: record revenues, record EBITDA, investment in new products and continued cash generation. And this is just the start, our flexible platform allows us to rollout out new products into other sectors, to make more mobile transactions simple. Truly, the journey has just begun.

Jon Prideaux
Chief Executive Officer
25 March 2019

Chief Financial Officer's Report

Predictable growth in Payments revenues, driving benefits of scale and leading to positive Adjusted EBITDA of 18% Revenue

22018 was the year that Boku became a multi-product business. First, when we decided to begin investing internal resources to explore the opportunity for Mobile Identity services organically and subsequently when we embarked on the acquisition of Danal Inc.

What is pleasing about our 2018 results is the degree of predictability in our Payments division. We help our merchants to acquire new paying users, these users in turn consume digital products and this drives our TPV number. TPV is the raw material from which we generate revenue. The other key ingredient to our revenue is the take rate – for the year to December 2018 our weighted average take rate fell at far slower rate from 1.4% in 2017 (compared to 3.1% to 1.4% between 2016 and 2017). The absolute decline was fully anticipated and was driven by mix of business and volume related discounts for some clients

Net Loss

The Company reported a Net Loss for the year of $4.3 million, an improvement of 85% compared to the $28.7 million the net loss posted in 2017 (2017 included costs of Admission to AIM and the conversion of convertible notes). Net of these costs, 2017 Net Loss would have been $7.4 million. Net Profitability in 2018 was influenced by a change in accounting for Employee Long Term Incentives (up $3.1 million on 2017 driven by a higher company share price and a change in accounting policy for tax on share-based payments), a write down of a deferred tax asset ($1.1m), the costs of acquiring Danal Inc ($0.4 million) and some internal restructuring costs ($0.6 million).

When adjusting for the above items, the Net Profit would have been a $1.3 million for the 2018.

Revenue and Gross Margin

Revenue for the year of $35.3 million was up by 45% on 2017. This performance was driven by overall TPV growth and average weighted take rates that held up at 1.0%.

Strong growth from our App Store clients was balanced with an equally buoyant performance by our Settlement business portfolio. The Company benefitted from exposure across all channels to market phenomena such as FIFA, Fortnite and general growth in the market for Digital products and services.

Having a mixed portfolio of customers in Music Subscriptions, Movies, Games, Social Media, in addition to supporting both direct and indirect channels, helps to maintain a reasonable margin mix.

Mix of business combined with continued buying prowess helped gross profit margin continue to increase to 93% up from 91% in the previous year. Gross Profit therefore climbed 48% on revenue that was up 45%.

Operating Expenditure

Adjusted Operating Expenditure (Operating Expenditure adjusted for depreciation, amortisation, foreign exchange, stock option expense, exceptional items, loss on disposal of property and restructuring costs) increased by 8% to $26.4 million in 2018 (2017: $24.5 million). The 2018 increase was mostly driven by the Group's $1.5 million of seed investment in Boku Labs and Boku Mobile Identity. Please refer to note 5 for details.

Underlying expenditure in the core Payments Business grew by just $0.4 million (2% higher than 2017). The majority of this increase resulted from a modest investment in our core payments infrastructure, more specifically a data centre upgrade project which increased the latent processing capacity of the Boku platform to now be capable of processing at up to 600 transactions per second (TPS) (current highest peak 216 TPS).

From 1st January 2019 onwards, costs relating to Operating Leases will be required to be capitalised and amortised below EBITDA under IFRS16. This will have the effect of increasing the Company's EBITDA going forward (please refer to Note 1 of the Financial Statements for details.

Operating Result

Reported Operating Losses for 2018 of $2.4 million were down from $9.0 million in 2017. This can be broken down as follows:

- Foreign Exchange movements caused a small ($0.3 million) charge to the P&L compared to a $0.4 million gain in 2017
- Stock Option Expenses – The Company recognised costs of $4.6 million in 2018 compared with $1.5 million in 2017. Of the $4.6 million booked in 2018, $1.0 million was paid out

- Revenue of $35.3 million demonstrated 45% growth on 2017
- Gross Profit margin of 93% drove Gross Profit up to $32.8 million, up from 91% and $22.1 million respectively in the prior year
- Adjusted EBITDA* of $6.3 million positive, 372% % better than2017 (2017 Net EBITDA Loss of $2.3 million)
- Reported Net Loss of $4.3 million compared with Net Loss of $28.7 million for FY 2017
- Closing cash balances as at 31st December 2018 were $32.3 million – compared with $20.2 million at 31 December 2017 – monthly average cash balances in December 2018 were $24.4 million, compared with $19.2 million in December 2017
- Active users in the month of December 2018 of 13.5 million (up from 8.1 million users in December 2017)
- Total Payment Volume (TPV) of $3.6 billion was 109% higher than 2017 ($1.7 billion)

**Adjusted EBITDA: Earnings before interest, tax, depreciation and amortisation, adjusted for stock option expenses, Forex gains/losses, Exceptional items

in cash (via employers NI), the remainder was non-cash and expensed per below:

- During 2018 the Company introduced a new Employee Equity Scheme to retain and reward employees. Within the scheme, share awards for senior management are deferred by 3 years and are "paid out" in line with company performance against Adjusted EBITDA/share targets
- Due to the high share price on the date of issuing the RSU grants (September 2018: $2.24; 2017: $0.37 pence per share) to the employees and executives the share-based compensation expense is far higher than in previous years (2018: $3.4 million; 2017: $909,000).
- The 2018 expense is highly influenced by the change in accounting policy for accrued employer payroll taxes on issued share options (see note 2).

- Exceptional Items improved from $2.6 million of cost to $1.1 million of cost between 2017 and 2018 In 2018, Exceptional Items incorporated the cost of acquiring Danal Inc ($0.4 million, which mostly includes the legal costs incurred prior to the acquisition of Danal on 1st January 2019) and the cost of closing a surplus legal entity in Italy ($0.6 million). In 2017 exceptional items included costs relating to the Admission on AIM ($2.1 million)

Adjusted EBITDA improved from a loss of $2.3 million loss in 2017 to a profit off $6.3 million in 2018

Financing Expenses

Net financing expense reduced significantly from $19.6 million in 2017 to $0.6 million in 2018. The 2018 cost includes the one-time costs of $0.1 million to early exit a German factoring facility in Q1 2018.

In addition, the working capital debt facility was paid down to minimum interest levels ($2.2 million) in Q1 2018.

Run rate interest expenses are just $15,000 per month as at December 2018.

2017 Finance expenses include the finance costs related to Convertible Notes which were converted into common stock at the Admission to AIM ($17.1 million).

Balance Sheet and Cashflow

The Company strengthened its cashflow in 2018 which can be demonstrated by its closing cash balances increasing to $32.3 million at the end of 2018 from $20.2 million at 31 December 2017.

Monthly average cash balances, which smooth the impact of intra-month flows of both carrier and merchant payments, climbed to $24.4 million in December 2018 from $19.2 million in December 2017, proving that Adjusted EBITDA performance is starting to convert into cash. Cash generated from Operations during the year was $13.5 million.

From a working capital perspective, Current Assets exceeded Current Liabilities at 31 December 2018 by $4.4 million compared with $1.3 million at the 2017 year end.

The working capital loan facility was reduced from $2.4 million to $2.2 million during 2018. Net Cash was $30.1 million at the end of 2018 (31 December 2017: $18.7 million)

Intangible Assets were reduced to $22.5 million over the period, down from $25.8 million at December 2017 reflecting annual amortisation. Remaining intangible assets include $17.9 million of Goodwill emanating from historical acquisitions.

Chief Financial Officer's Report

Looking Ahead and the Acquisition of Danal Inc

The Company successfully concluded the acquisition of Danal Inc, effective 1 January 2019. The transaction will help the company to springboard plans to widen its addressable target market exponentially, beyond digitally downloaded content and into broader m-commerce.

Danal was acquired for 26.7 million Boku shares (equal to 10.7% of the enlarged share capital) with posted 2018 revenues of $5.3 million and expected strong revenue growth in 2019 delivered through a material sales pipeline. A further payment in Boku shares and warrants will be made, on a ratcheted basis, should the acquired business deliver above $10.0 million in revenues during 2019. Any such payment or further issue of shares would be made in the financial year ending 31 December 2020. As of the approval of the Annual Report, the Group is finalizing its evaluation of the purchase price accounting relating to the acquisition and an update will be provided at the Group's forthcoming interim announcement.

Revenue upside will be delivered through accelerated global roll out to carriers with whom Boku already has a relationship and cross sell opportunities into Boku's existing merchant base.

The company expects the acquisition to be Group EBITDA accretive from 2020 onwards.

Aside from investment in Mobile Identity, the Company expects to see continued growth in its core Payments business and will be making investments in new product developments in Payments to sustain this growth. This will be funded through a modest increase in Operating Expenses and by reallocating existing resources as they roll off current projects.

Stuart Neal
Chief Financial Officer
25 March 2019

Principal Risks And Uncertainties

Managing the risk in our business

Effective risk management is critical to achieving the Group's objectives. Boku has an adequate system of controls in place to manage risks and conducts regular reviews of the major risks which may affect our business and financial performance. Risks are identified, evaluated and mitigated through a combination of a "top down" approach (driven by the Audit Committee and the Board) and a "bottom up" process (originating from the operations).

Responsibility

The Board has oversight responsibility for the effective management of all major risks affecting the Group. In each area, the Board is supported by members of the executive management team and other managers with key functional responsibilities.

Risk analysis

The Group's principal risks can be categorised as 'financial'. 'operational', 'regulatory and legal', or 'market' risks as shown in the tables below.

Financial Risks (Description and Impact)	Examples of mitigating activities include:
Loss of major merchant Loss of one or more major merchants of the Group could result in a material loss of revenue and profit for the Group. Three customers of the Group account for more than 15% of group revenues.	Concentration of revenue is a consequence of the digital markets that the Group serves, where winners take disproportionate share. The Group expends considerable resources in ensuring that its key customers are satisfied with the Group's service to them. Additionally, to reduce dependence in the medium-term further lines of business, namely, Boku Identity are being developed so as to lessen dependence on one particular sector.
Movements in foreign currency exchange rates The majority of the Group's revenues are derived outside of the USA and therefore, fluctuations in currency exchange rates may adversely affect the reported financial condition of the Group.	The Group uses foreign exchange contracts to manage its exposure to adverse fluctuations in foreign exchange rates.
Failure of carriers to pay the amount due to merchants The company is reliant on third parties, including MNOs and SMS aggregators to pay significant amounts due from them in a timely manner as specified under contract. A large-scale failure to do so would have a material effect on the Group's financial condition or operating results.	Developing strong relationships with MNOs and aggregators. Effective credit control and management of receivables.

Regulatory and Legal Risks (Description and Impact)	Examples of mitigating activities include:
Changes to the regulatory environment Changes in the law and regulatory framework which prohibit the provision of services by some of Group's suppliers or customers could have a material adverse effect on the Group. For example, the Group's business could also be adversely affected by: • an increase in "Know-your-customer" regulations aimed at money laundering and affecting small content providers;	Diversifying the range of services available to all types of customers to mitigate the impact of any single regulatory change Continuing to invest in solutions that improve the Group's ability to manage credit risk and fraud and ensure compliance with regulations. Employing and retaining experien ced risk and compliance staff who can monitor any changes and ensure timely compliance.

Market Risks (Description and Impact)	Examples of mitigating activities include:
Competitive environment The Group operates in rapidly evolving payments markets where service provision is intensely competitive and subject to rapid technological change. The company faces competition from other providers of direct carrier billing and alternative payment providers. The Group anticipates that it will continue to face competition as new companies enter the Group's markets and alternative payment products and technologies become available. The results of such increased competition may adversely affect our financial results.	Investing in new products, markets and technologies and improving relationships with key merchants and carriers. Launching new payment products and developing the Group's offerings to meet changing client demands and market preferences. Develop the necessary expertise and experience to sell and deliver new products and technologies to new and existing clients.

Operational Risks (Description and Impact)	Examples of mitigating activities include:
Attracting and retaining the best talent The Group's success depends on its ability to attract and retain key management and skilled technical employees. If the Group is unable to identify, attract, develop, motivate and adequately compensate and retain well-qualified and engaged personnel, this could have a material effect on the Group's reputation, business, operations and financial performance.	Developing the skills and capabilities of staff as part of talent management. Creating opportunities within the Group for personal development and career enhancement. Recruiting specialised, experienced staff.
Cyber Security and Data Protection The Group IT environments may be subject to hacking, data theft or other cyber security threats which may harm customer relationships and the market perception of the effectiveness and resilience of the Group's products and services. Such an attack may also have a material adverse effect on the Group's financial position.	Ensuring the group has the systems in place to defend against potential cyber security threats. Building resilience within the platform to mitigate the impact of an attack in the event of a successful penetration

Board Of Directors

Mark Britto, Non-Executive Chairman

With over 20 years as an entrepreneur, sales and financial services executive, Mark Britto is currently the Chief Revenue Officer at PayPal. Mark founded Boku after six years as the Chief Executive Officer of Ingenio, a service marketplace and performance advertising company, which he led to a 2007 acquisition by AT&T. Prior to Ingenio, Mark spent 4 years as Senior Vice President of worldwide services and sales at Amazon.com. Mark's first start-up, Accept.com, was bought by Amazon.com in 1999 and served as the primary backbone of Amazon's global payments platform. Mark began his career in senior credit and risk management roles at leading national banks First USA and Bank of America.

Jon Prideaux, Chief Executive Officer

Jon has more than 25 years of payments experience. He was an early Visa Europe employee and key contributor to its growth, leaving in 2006 as Executive Vice President of Marketing. He started Visa Europe's ecommerce division, was the lead executive on the introduction of Chip and PIN technology and oversaw product launches such as Visa Electron and V PAY. He served on the Board of EMV Co, was the Chairman of the Compliance Committee and was a member of Visa's Global Product and Brand Councils. Since leaving Visa in 2006, Jon served as Deputy Chief Executive Officer for Secure Trading, where he doubled transaction numbers and quadrupled profitability. He then led a management buy in at Shopcreator, the e-commerce software platform.

Stuart Neal, Chief Financial Officer

Prior to re-joining Boku in 2017, Stuart was advising new technology ventures, bringing to market cutting edge technology in AI Machine Learning, Crypto Currency and Blockchain. Previously, he was Chief Commercial Officer at Vocalink Zapp (acquired by Mastercard), building distribution channels and creating merchant demand for their Pay by Bank App product. Stuart was also Commercial Director at Barclaycard, Europe's second largest card acquirer, where he oversaw the roll out of contactless payments across the UK market. He has held senior Commercial and Finance positions within a number of blue-chip corporations including GlaxoSmithKline, Worldcom and Virgin Media. Stuart was previously Chief Financial Officer of Boku between 2012 and 2014.

Dr. Richard Hargreaves, Non-Executive Director

Richard co-founded Endeavour Ventures in 2006 and has been investing in and advising companies for over 30 years. He began his career at 3i plc where he spent ten years before starting Baronsmead and launched one of the first VCTs – Baronsmead VCT. He sold this to Friends Ivory & Sime plc in 1995 (it later became ISIS Equity Partners). Richard was Managing Director of their unquoted investment business at that time which had £180 million funds under management. Richard is a former chairman of the British Venture Capital and Private Equity Association (BVCA). He has significant experience as a non-executive director on both public and private company boards. He is a graduate of the University of Cambridge and has an MSc and PhD from Imperial College, London. Richard is the Chairman of Boku's Remuneration Committee.

Keith Butcher, Non-Executive Director

Keith is the Chief Financial Officer at Global Processing Services. Over the course of his career, Mr. Butcher has held Chief Financial Officer roles at several high-growth technology and e-commerce companies, including PaySafe Group, Flomerics and DataCash Group. In each of these roles, he played an instrumental role in streamlining costs, improving investor relations and guiding the companies through successful mergers and acquisitions. During his tenure as Chief Financial Officer at PaySafe Group, formerly known as Optimal Payments, Mr. Butcher guided the company through three significant acquisitions that helped transform the company into a £2 billion business. This included the company's successful acquisition of Skrill in 2015 for €1.1 billion, which propelled PaySafe Group into the FTSE 250. Mr. Butcher chairs Boku's Audit Committee.

Senior Management

Adam Lee, Chief Revenue Officer

Adam has been developing new products and services for startup ventures for over 15 years. At Boku, Adam leads product, design, and marketing, charged with finding innovative new applications for the over four billion mobile phones the Boku platform is currently connected to. Before joining Boku, Adam was at Intuit where he launched the world's first consumer medical wallet used to understand, manage, and pay for healthcare expenses, distributed by two of the largest US healthcare networks, UnitedHealthcare and CIGNA. Prior to Intuit, Adam had also worked for two major industry backed B2B platform companies, Neoforma and more notably GlobalNetXchange, where he developed technology and services to drive better supply chain performance between companies around the world including Carrefour, Sears, Sainsburys, Metro AG, Karstadt Quelle, Unilever, Proctor & Gamble, and Diageo.

Mike Cahill, Chief Operating Officer

Mike joined Boku from American Express where he served as Vice President of Mobile Engineering managing both national and international engineering teams. In that role, Mike was responsible for American Express' app development and company-wide mobile application and mobile payment frameworks, as well as projects ranging from the implementation of Apple Pay to the development of several mobile applications. Prior to American Express, Mike was Boku's Vice President of Engineering for four years where he led multiple engineering teams in the development of Boku's industry leading mobile payment platform. He returned to Boku as Chief Technology Officer in 2014 to lead Boku's global engineering and technical operations. Prior to joining Boku, Mike held senior engineering roles at companies including Sepialine, Wakesoft, Autodesk, Buzzsaw.com, and Synon.

Corporate Governance Report

Chairman's Introduction

Dear Shareholder,

In September 2018, the board of directors of Boku (the "Board") decided to adopt The QCA Corporate Governance Code (the "QCA Code") as the benchmark for the corporate governance of the Company. At that time, I reported on the key details of the Board's application of the Code and this Corporate Governance Report provides an update on progress since that time.

Since the time of the Company's IPO, a significant number of steps have been taken to establish a Board governance structure appropriate for an AIM-listed companies. We have continued to develop those structures and practices during 2018 and the following Report summarises how the QCA Code has been applied by the Board.

The Board and I believe that we substantially comply with the QCA Code and there are no significant areas where the Company's governance structures and practices differ from the expectations set by the QCA Code. A significant milestone in measuring our progress will be the Board's first evaluation, which is expected to be undertaken by the Board towards the end of 2019.

My Board colleagues and I believe that good governance allows the internal processes and controls of the Company to operate efficiently and helps mitigate financial and other risks which could otherwise impact the value in the Company. This provides a platform upon which the Company's medium to long-term success can be built.

Mark Britto
Non-executive Chairman
25 March 2019

Statement of Compliance

Application of the QCA Corporate Governance Code

Deliver Growth

	Principle	Application
1	Establish a strategy and business model which promote long-term value for shareholders	At Boku we seek to develop an entrepreneurial and supportive culture across our business which means that these values are integral to everything else we do. An explanation of the company's business model and strategy, including key challenges in their execution (and how those will be addressed) is included on pages 5 to 21 of this Annual Report and Accounts for the year ended 31 December 2018.
2	Seek to understand and meet shareholder needs and expectations	A description of the ways in which the Company seeks to engage with shareholders and how successful this has been is set out in the Shareholders section of the Boku. Website. The board engages with shareholders via a variety of channels and activities including the annual general meeting, updates to shareholders via reporting and the regulatory news services and institutional presentations.
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success	Boku's culture is very open and this includes reaching out and seeking feedback and insights from our various stakeholders. The Board has considered the key stakeholder relationships for Boku which give it competitive advantage and thereby contribute to the long-term success of the company. These key stakeholders are the skilled people employed by the company and its merchant and carrier customers. These relationships with these stakeholders are regularly monitored by the Board.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation	The board is responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. Our risk management framework and approach to risk is summarised on pages 20 and 21 of this Annual Report

Maintain a Dynamic Management Framework

	Principle	Application
5	Maintain the board as a well-functioning, balanced team led by the chair.	The QCA Code requires that boards have an appropriate balance between executive and non-executive directors and that each board should have at least two independent directors. The Board is made up of two executive directors and 3 non-executive directors. The names of the current directors and the designation of those who are considered to be independent are set out on page 22 of this Annual Report. There were 5 Board meetings held during 2018 and each Director had an attendance record of [100%] during 2018.
6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	The current directors, their background and experience are identified on pages 22 to 23 of this Annual Report. These demonstrate that our team collectively has the necessary skills and experience, as well as the required caliber to carry out the group's strategy and business model effectively. The Company has appointed H2Glenfern to assist it with its remuneration strategy. Richard Hargreaves is the senior independent director and he is available to speak with shareholders concerning the corporate governance of the Company. The Company Secretary, Deepa Kalikiri is responsible for advising the Board on governance matters and ensuring that decisions of the Board in relation to governance matters are implemented.
7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The first evaluation exercise is expected to be undertaken by the Board in Q3 2019. Once it has been undertaken, further information will be set out in the Corporate Governance report. Low scoring or divergent scoring responses will be discussed, with gaps and actions for improvement identified.
8	Promote a corporate culture that is based on ethical values and behaviours	An outline of the corporate culture promoted by the Board is set out in the section of the Company's website headed Corporate Values.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Formal board meetings are held quarterly to review strategy, management and performance of the group, with additional meetings between those dates convened as necessary. We have two board committees: the Audit Committee and the Remuneration Committee. The terms of reference of both these committees of the Board have been revised to reflect the principles of the QCA Code and are available online. The roles and responsibilities of the chair, chief executive and any other directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups) are set out on pages 22 to 23 of the 2018 Annual Report. The Board has a schedule of matters reserved for the Board which requires the following key matters to considered and approved by the Board • Strategy and overall management of the Group • Financial reporting and controls • Ensuring a sound system of internal controls • Approval of major capital projects and contractors • Communication with shareholders • Board membership and appointments • The Remuneration Policy • Delegated authorities • Corporate governance matters • Approval of key policies

Corporate Governance Report

Statement of Compliance (continued)

Build Trust

	Principle	Application
10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Reports on the work of the Board and its committees are set out in this Annual Report as follows: • Board: pages 28 to 29 • Audit Committee: pages 30 to 31 • Remuneration Committee: pages 32 to 37 Information about shareholder voting at the 2018 annual general meeting of the Company is set out on Boku's website. The Group's approach to investor and shareholder engagement is described under Principle 2 above. Annual Reports, Annual General Meeting notices, regulatory announcements, trading updates and other governance related materials for 2018 and retrospective years are available from the Group's website.

Although the Company's principal place of business is the UK, the Company is incorporated in and subject to the laws of the State of Delaware, United States. As a result, the Company is subject to the exclusive jurisdiction of the Delaware Courts and the Company's Certificate of Incorporation and Bylaws. As such, the rights of shareholders may differ from the rights of shareholders in a UK incorporated company.

The Board Composition and Responsibilities

The Board currently consists of a non-executive Chairman, the Chief Executive Officer, the Chief Financial Officer and two non-executive Directors. There is a clear division of responsibilities between the Chairman and the executive officers and the Board considers two of the non-executive directors to be independent of management. The composition of the Board ensures that no single individual or group of individuals is able to dominate the decision-making process. Details of the individual Directors and their biographies are set out on pages 22 to 23.

Board Composition

Executive
40%

Non-Executive
60%

Board Tenure

0-3 years
40%

3-6 years
40%

Above 6 years
20%

By rotation, Directors are subject to reappointment by a shareholder vote at our Annual General Meeting. Mr Neal and Mr Hargreaves are up for re-election at the meeting scheduled for 22nd May 2019. The directors evaluate the balance of skills, knowledge and experience of the Board when defining the role and capabilities required for new appointments.

The Board is responsible for setting the strategic direction and policies for the business. The Board meets regularly to attend to any issues which require its attention and oversees the financial position of the Company monitoring performance on behalf of the shareholders, to whom the Directors are accountable. The primary duty of the Board is to act in the best interests of the Company at all times. The Board will also address issues relating to internal controls and the Company's approach to risk management.

The day-to-day management of the Company's business is delegated to the Chief Executive Officer and the Executive Management Team.

The Board meets at least once every two months to review and is attended by all Directors either in person or over the phone. The Board formulates and approves the Company's strategy, budgets, corporate actions and oversees the Company's progress towards its goals.

It has established an audit committee and a remuneration committee with formally delegated duties and responsibilities and with written terms of reference.

From time to time, separate committees may be set up by the Board to consider specific issues when the need arises. Due to the size of the Company, the Directors have decided that issues concerning the nomination of directors will be dealt with by the Board rather than by a committee.

Audit committee

The audit committee is chaired by Keith Butcher and its other members are Richard Hargreaves and Mark Britto, all of whom are non-executive directors. The audit committee meets formally at least twice a year and otherwise as required. It has the responsibility for ensuring that the financial performance of the Company is properly reported and reviewed and its role includes monitoring the integrity of the financial statements of the Company (including annual and interim accounts and results announcements), reviewing internal controls and risk management systems, reviewing any changes to accounting policies, reviewing and monitoring the extent of the non-audit services undertaken by external auditors, and advising on the appointment of external auditors. A full report of the Audit committee can be found on page 30.

Remuneration committee

The remuneration committee is chaired by Richard Hargreaves and its other members are Mark Britto and Keith Butcher, all of whom are non-executive directors. The remuneration committee meets at least twice a year and at such other times as required. It has responsibility for determining, within the agreed terms of reference, the Company's policy on the remuneration packages of the Company's chief executive, chairman, and the executive directors and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors will be a matter for the chairman and executive directors of the Board. No director or manager is allowed to partake in any discussions as to their own remuneration. In addition, the remuneration committee has the responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and succession planning. It also has responsibility for recommending new appointments to the Board. A full report of the remuneration committee can be found on page 32.

Share Dealing code

The Company has adopted a dealing code for the Directors and all employees, which is appropriate for a company whose stock is admitted to trading on AIM. The Company takes all reasonable steps to ensure compliance by the Directors and employees with the terms of that dealing code.

Shareholders

The Board is committed to regular and effective communication with shareholders and will provide annual and interim statutory financial reports, investor and analyst presentations, regular trading and business updates to the London Stock Exchange. At the Annual General Meeting all shareholders will have the opportunity to meet and ask questions of the Board of Directors. The next Annual General Meeting is scheduled for 22rd May 2019.

All investor materials are published on the investor section of the Group's website available through www.boku.com

Audit Committee Report

I was pleased to take over the Audit Committee Chairman role for Boku from Clint Smith at the end of May 2018. A lot of work had been done to prepare the company for IPO in November 2017 (including the conversion from US GAAP to IFRS) and so the focus over the past twelve months has been on continuing to improve group policies and processes around financial control as the business continues to enjoy rapid expansion.

The company hired an experienced Group Controller at the end of 2017 to lead the company's accounting function and make improvements to processes across the accounting spectrum.

During 2018 all major subsidiaries, which had previously used different accounting systems, have been moved to one accounting system: Microsoft Dynamics Great Plains. Having all major subsidiaries using one accounting system has improved visibility at Group level and ensured that accounting procedures are the same across all entities. It also helped the review of internal controls and ensured they are in line with wider Group controls.

The integrity of the Group's financial reporting and the effectiveness of its internal controls and risk management processes remain of upmost importance to the Board, as I am sure they are to shareholders.

Audit Committee Structure

The Boku Audit Committee has primary reponsibility for managing and assessing the activities of the company's external auditors.

The Audit Committee reports to the Boku Board and comprises of the Chairman and all other Non-executive Directors of the company and meets minimum twice a year, usually to coincide with the financial reporting timetable.

Responsibilities

The Audit Committee meets primarily to review the independent audit report of Boku's external auditors, but also has the wider responsibilities as set out below:

- provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the QCA Corporate Governance code, and to maintain an appropriate relationship with the Company's auditors.;
- monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them;
- review the Company's internal financial controls and the Company's internal control and risk management systems;
- review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- consider the need for an internal audit function and, if considered necessary, monitor and review the effectiveness of the Company's internal audit function;
- make recommendations to the Board, for it to put to the stockholders for their approval in a general meeting of the stockholders, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and
- report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

External Audit

The scope of the audit work undertaken by external auditors is agreed in partnership with the Audit Committee and typically covers the following areas:

- the External Auditor's overall work plan for the forthcoming year
- the External Auditor's fee proposal
- the major issues that arose during the course of the audit and their resolution
- key accounting and audit judgements and estimates
- the levels of errors identified during the audit, and
- recommendations made by the External Auditor in their management letters and the adequacy of management's response.

The Audit Committee meets privately with the External Auditor in the absence of management to review matters within their sphere of interest and responsibility.

Internal Audit

Boku does not currently employ an internal audit function - as is typical for a company of Boku's size – however, the need for one will be reviewed by the Audit Committee on a periodic basis.

Risk and Governance Framework

The Board in conjunction with the Audit Committee regularly reviews Boku's internal control systems.

Boku has a small Risk & Compliance Team whose primary area of focus is to ensure that the company remain compliant with all relevant regulation, most notably the FSA in the UK/EU (issuer of our e-money license) and relevant local Telecoms regulation within each specific market; in addition to broader regulatory requirements such as GDPR and PSD2 within the EU. The company also employs a dedicated team focused on revenue assurance and reconciliation.

Activities of the Audit Committee ('the committee") Over the Past Year

Tax Audit – Boku AG – The company successfully navigated a full retrospective tax audit of its German subsidiary during the year

Appointment of KPMG as advisor – the company has engaged KPMG to review and refresh global transfer pricing agreements with a focus on tax compliance and tax optimisation as the company expands its global footprint. KPMG will also be conducting a s382 analysis in the US to assess the company's ability to utilise carried forward losses going forward following change of capital structure at IPO. In addition KPMG has been engaged to assist with the purchase price allocation for the Danal acquisition.

Review of key business risks – the committee revisited the top business risks to the company

(Please refer to page 20 for a more detailed review of the company's Principal Risks and Uncertainties)

A Note on the Acquisition of Danal Inc

The company employed Connor Group to conduct a full financial due diligence on Danal Inc prior to the acquisition. No material issues were discovered, and the work of Connor Group helped to determine the final working capital position at the point of transfer and fully supported the terms of the transaction.

Looking Ahead

The company is looking to implement a new accounting system during 2019 which will improve working practices and provide opportunities to cross-train the Finance team across multiple geographies on one set of systems and processes.

Two new accounting standards have been adopted during 2018 as required: IFRS9 Financial Instruments, IFRS15 Revenue from Contracts with Customers. It is not believed that any of these standards will materially affect Boku's reported numbers.

IFRS16 Leases has been adopted as at 1st January 2019. IFRS16 will have a material effect on Boku's reported numbers. Please refer to Note 2 of the financial statements for details.

The group transfer pricing review will conclude and will ensure existing intercompany agreements remain relevant in addition to making provision for the expansion plans that the company has, particularly in Asia.

The post year acquisition of Danal inc will accelerate the company's plans to broaden its product offering into new verticals and new geographies. The Audit Committee will continue to ensure that the same degree of rigour and financial control is applied to new business as it is for the underlying Payments business.

Keith Butcher
Audit Committee Chairman
25 March 2019

Remuneration Report

Chairman's Introduction

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for the 2018 financial year. This letter introduces the report, outlines the major decisions on Directors' remuneration during the year and explains the context in which these decisions have been taken.

Boku is committed to high standards of corporate governance and our policy and disclosures on Directors' remuneration are intended to reflect this approach. We welcome shareholder feedback and will continue our practice of putting an advisory resolution on remuneration to shareholders at our AGM.

The Company put the Remuneration Report to an advisory vote at the inaugural AGM as a public company in 2018 which was approved. I would like to thank shareholders for their support.

This report sets out the remuneration policy and the detailed remuneration for the Executive and Non-Executive Directors of the Company for the period to 31 December 2018. As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19. Boku, Inc., being a US incorporated entity is not required to comply with the UK's Companies Act Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The information is unaudited

Remuneration policy

The Company's approach to remuneration is that the overall package should be sufficiently attractive to recruit, motivate and retain individuals of a high calibre with significant technical and strategic expertise. The Company needs to ensure that key personnel can deliver the Company's objectives and value for shareholders in a competitive sector.

The four main elements of the remuneration package are basic salary, benefits, annual performance related bonuses and long-term share incentives. The policy in each area is detailed in this report.

Performance and decisions on remuneration taken

The Company performed strongly in its first full financial year as an AIM listed company and is growing fast. Financial performance for the year was in excess of targets and market expectations for both revenues and EBITDA.

Bonuses for 2018 were paid to the two executive directors as detailed on page 35. Awards were made to all employees under the new long-term incentive plan in September 2018 and comprised of a combination of performance stock units and restricted stock units. Awards of performance stock units were only made to Jon Prideaux, Stuart Neal, Adam Lee and Mike Cahill. These awards vest after three years subject to an Adjusted EBITDA per share performance condition.

During the year, the company made long term incentive awards to executives and other employees in the form of market value options and restricted stock units. These stock units have vesting rules which are detailed on page 36.

Decisions for 2019

Annual bonuses for 2019 will operate in a very similar way to 2018, reflecting the core objectives of revenue and EBITDA growth and personal contribution.

The Committee sees long term incentives as an important part of the remuneration of executives. It intends to make awards to executives during the first half of 2019.

I hope that you find the report helpful and informative and I look forward to receiving feedback from our investors on the information presented..

Richard Hargreaves
Remuneration Committee Chairman
25th March 2018

Composition of Committee

The Committee members since IPO have been Richard Hargreaves (Chairman), Mark Britto and Keith Butcher. The Committee normally meets at least twice a year to review the remuneration of the Executive Directors and other executive team members and to set the overall pay policy. The views of the Chief Executive are sought in respect of awards to the other Executive Director and Executive Team members.

Remuneration policy

The Committee's overall approach is focused on ensuring the company's remuneration policy is aligned with shareholders' interests whilst also enabling the company to attract, retain and motivate high quality executive management. The Committee will take into account periodic external comparisons to examine current market trends and practices at equivalent roles in similar companies.

Base Salary

Base salary for each Executive Director is reviewed annually by the Committee, taking account of the Director's performance, experience and responsibilities. Changes are normally effective 1st February 2019 (2018: 1st January). The Committee takes salary levels paid by companies of a similar size and nature into account but also considers wider economic factors and the performance of the Group as a whole.

Annual bonus

Bonuses are paid at the discretion of the Committee. The Committee's general policy is that Executive Directors should receive a bonus for the achievement of stretching performance targets. Currently the Company uses revenue, EBITDA and personal performance targets.

Bonuses for achievement of target performance will be paid in cash on a half-yearly basis. Bonuses for over performance will only be paid annually. The Committee has discretion to make adjustments to the level of bonus to avoid unintended consequences of the basic workings of the plan. Bonuses for the executive directors are currently set at 35% of salary for achieving target performance and capped at 70% of salary.

The bonus scheme extends to the other two executives who are members of the Executive Management Team.

Long term incentives

During 2018, the company made long term incentive awards to executives and other employees in the form of market value options and restricted stock units. In general, restricted stock units vest and convert into common shares on the vesting date. Details of awards currently held by directors are set out later in this report.

The Committee sees long term incentives as an important part of the remuneration of executives, to align them with shareholders and reward them for strong performance. The Committee intends to make awards to executives during the first half of 2019, and on an annual basis thereafter, and is currently considering the level of such awards. Awards to executive directors and key employees will have a minimum normal vesting period of three years and specified earnings per shares and individual performance conditions. Executives only receive awards with performance conditions.

Pension provision

The Company operates a stakeholder pension scheme for UK employees. Executive Directors participate on the same basis as other employees. Mr Prideaux opted out from the pension scheme.

Benefits

The Company provides the option for employees to participate in the private healthcare plan. Mr Prideaux participated for 11 months and Mr Neal participated throughout the year.

Remuneration of non-executive directors

The fees paid to the non-executive directors are determined by the Board. They receive an annual fee and additional fees for chairing board committees. Non-executive directors are not entitled to receive any bonus or other benefits. Non-executive directors are entitled to reasonable expenses incurred in the performance of their duties. They were granted RSU's in 2018 but did not receive any further awards.

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Remuneration Report

Service Contracts

The service contracts and letters of appointment of the Directors include the following terms:

	Date of contract	Notice period (months)
Executive Directors		
Jon Prideaux	1 May 2012	3
Stuart Neal	25 May 2017	3
Non-executive Directors		
Mark Britto	30 August 2017	2
Richard Hargreaves	8 August 2017	2
Keith Butcher	25 July 2017[1]	2
Clint Smith	24 September 2017[2] *Resigned on 23 May 2018*	2

1. Mr Butcher's Appointment became effective upon Admission, 20th November 2017 **2.** Mr Smith received no compensation for his Non-Executive Directorship prior to Admission on 20th November 2017 and resigned on 23rd May 2018.

The service contracts of the executive directors do not provide for any extra payment on the termination of employment. The letters of appointment of the non-executive directors have an initial period of 12 months.

Directors are subject to re-election by rotation at the Annual General Meeting. Mr Hargreaves and Mr Neal are required to be re-elected at the next meeting.

Annual Report on Remuneration

The following sections show how remuneration was managed during 2018.

Salaries

Salaries for Executive Directors at the year ended 31 December 2018 were as follows:

Jon Prideaux	Chief Executive Officer	£220,000
Stuart Neal	Chief Finance Officer	£175,000

Fees of non-executive directors

Fees for Non-Executive Directors at the year ended 31 December 2018 were as follows:

Name	Role	Committee Chairman	Base Fee	Committee Chairman Fee
Mark Britto	Chairman	Nomination	$60,000	
Richard Hargreaves	Non-Executive Director	Remuneration	£30,000	£5,000
Keith Butcher	Non-Executive Director	Audit	£30,000	£5,000
Clint Smith	Non-Executive Director	Resigned 23 May 2018	£30,000	£5,000

Bonus

The annual bonus targets for 2018 were based on growth in revenue, EBITDA and personal performance. The maximum awardable to Mr Prideaux was £77,000 (35% of salary) for achieving targets, with a maximum further amount of £77,000(35% of salary) payable for over performance. On-target bonus was originally set at £61,250 (35% of salary) for Mr Neal, with a maximum further amount of £61,250 (35% of salary) payable for over performance. Revenue and EBITDA in 2018 exceeded the company's targets for the year by 5% and 14% respectively. At the half year on target bonuses were paid to the Executive Directors. Total bonuses in respect of 2018 will be paid to Jon Prideaux and Stuart Neal of £122,665 and £97,574 respectively.

Summary of Directors' Total Remuneration (audited)

Executive Directors	Salary £	Annual Bonus £	Performance Bonus £	Pension £	Benefits £	Total 2018 £	Total 2018 $	Total 2017 £	Total 2017 $
Jon Prideaux	218,333	77,000	45,665	434	1,920	343,352	458,588	300,350	387,721
Stuart Neal	175,000	61,250	36,324	703	1,396	274,673	366,859	137,093	176,973

Non-Executive Directors	Fees 2018 £	Fees 2018 $	Fees 2017 £	Fees 2017 $
Mark Britto	44,923	60,000	82,686	105,737
Richard Hargreaves	35,000	46,847	20,317	28,303
Keith Butcher	33,333	44,520	3,333	4,470
Clint Smith	13,600	18,165	3,333	4,470

Remuneration Report

Long-Term Incentive Plans

On 4 September 2018 the Company granted 1,766,400 performance-based restricted stock units ("PRSUs") and 2,532,990 restricted stock units ("RSUs") over common shares to Executive Directors, executives, employees and Non-Executive Directors, under the Company's 2017 Equity Incentive Plan.

The PRSUs granted to the executives and Executive Directors will vest over Common Shares three years from the award date, in one event, subject to the meeting of an adjusted EBITDA per share performance target for the year ending 31 December 2020.

Boku also granted RSUs to the Non-Executive Directors of the Company to support retention and align the interests of these directors with those of the Company's shareholders. The RSUs granted to the Non-Executive Directors will vest on 20 November 2020, subject to certain conditions.

A breakdown of the Directors' current interests in the long-term incentive awards is set out below.

Market value options

	Date of grant	Number	Exercise price	Initial vesting date	Final vesting date	Lapsing date
Jon Prideaux	28 Oct 2016	200,000	USD $0.28	12 Dec 2012	12 Dec 2016	23 Dec 2023
Jon Prideaux	28 Oct 2016	1,500,000	USD $0.28	23 Apr 2014	23 Apr 2018	22 Apr 2024
Jon Prideaux	28 Oct 2016	750,000	USD $0.28	23 Sep 2016	23 Sep 2020	27 Oct 2026
Jon Prideaux	13 Oct 2017	2,000,000	USD $0.37	20 Nov 2018	20 Nov 2018	12 Oct 2027
Stuart Neal	26 July 2017	500,000	USD $0.37	19 Jun 2017	19 Jun 2021	25 Jul 2027
Mark Britto	28 Oct 2016	569,930	USD $0.28	23 Jan 2013	23 Dec 2016	23 Dec 2023
Mark Britto	28 Oct 2016	424,514	USD $0.28	23 Jan 2013	23 Dec 2017	23 Dec 2023
Mark Britto	28 Oct 2016	1,209,697	USD $0.28	28 Jan 2010	28 Dec 2013	15 Mar 2020
Mark Britto	28 Oct 2016	842,760	USD $0.28	28 Jan 2010	28 Jan 2014	15 Mar 2020
Mark Britto	28 Oct 2016	500,000	USD $0.28	23 Sep 2016	23 Sep 2020	27 Oct 2020

Jon Prideaux is obliged to exercise a portion of his options and sell some of the resultant common shares in order to repay the promissory note of US$793,000 issued to him on 24 December 2013 in connection with the issue of 1,150,000 common shares to him prior to its expiry on 3 December 2023.

Restricted Stock Units

	Date of Issue	Number of RSUs	Initial Vesting Date	Final Vesting Date	Lapsing Date
Jon Prideaux	27 Jan 2015	20,384	20 Nov 2018	01 Apr 2019	26 Jan 2025
	27 Apr 2016	166,667	20 Nov 2018	27 Apr 2020	26 Apr 2026
	28 Oct 2016	375,000	20 Nov 2018	20 Nov 2019	27 Oct 2026
	04 Sep 2018	350,000	04 Sep 2021	04 Sep 2021	04 Sep 2023
Mark Britto	27 Apr 2016	166,667	20 Nov 2018	01 Apr 2020	26 Apr 2026
	28 Oct 2016	250,000	20 Nov 2018	20 Nov 2019	27 Oct 2026
	04 Sep 2018	51,399	04 Sep 2018	20 Dec 2020	03 Sep 2028
Stuart Neal	26 Jul 2017	125,000	20 Nov 2018	01 Apr 2019	25 Jul 2027
	04 Sep 2018	400,000	01 Apr 2021	01 Apr 2021	04 Sep 2023
Keith Butcher	04 Sep 2018	38,462	20 Nov 2020	30 Dec 2020	03 Sep 2028
Richard Hargreaves	04 Sep 2018	38,462	20 Nov 2020	30 Dec 2020	03 Sep 2028

Directors' interests in shares

The interests of the Directors as at 31 December 2018 in the shares of the company were:

Name	Number of Common Shares	Percentage of share capital
Mark Britto	8,930,393	3.75%
Jon Prideaux	2,300,321	1.02%
Stuart Neal	287,500	0.13%
Richard Hargreaves	1,132,241	0.51%
Keith Butcher	108,474	0.05%

Jon Prideaux's interests include 16,949 shares held by his spouse and 1,694 shares held by his family member.
Richard Hargreaves's interest include 213,342 shares held by his family members.

Directors remuneration for the year commencing 1 February 2019

Executive Director salary levels as at 1st February 2019 were as follows:

Jon Prideaux	£227,700
Stuart Neal	£181,125

The salary of the CEO, Jon Prideaux, was increased from £210,000 to £220,000 from 1st February 2018 and to 227,700 from 1st February 2019. The salary of the CFO, Stuart Neal, was increased to £181,125 from £175,000 from 1st February 2019.

Non-executive director fees will remain unchanged.

Annual bonus for the year commencing 1st January 2019 will be operated within the policy disclosed in this report. Bonus is paid based on the achievement of revenue, EBITDA and individual performance targets. 35% of salary will be paid for on-target performance with amounts above this paid for exceeding targets. Maximum bonus is capped at 70% of salary.

Directors' Report

The directors present their report and the audited financial statements for Boku Inc. for the year ended 31 December 2018.

The preparation of financial statements is in compliance with IFRS as adopted by the European Union.

Principal Activities

Boku Inc. is a holding company.

The principal activity of the Boku Inc. and its subsidiaries ("the Group") is the provision of mobile billing and payment solutions for mobile network operators and merchants. These solutions enable consumers to make online payments using their mobile devices.

Business review and future developments

The review of the period's activities, operations, future developments and key risks is contained in the Strategic Report on pages 5 to 21.

Directors

The directors who held office during the period and subsequently were as follows:

1. Mark Britto
2. Jon Prideaux
3. Stuart Neal
4. Richard Hargraves
5. Keith Butcher
6. Clint Smith (resigned on 23 May 2018)

With regard to the appointment and replacement of Directors, the Company is governed by its Charter (the US equivalent of the Articles of Association) and related legislation. The Charter may be amended by special resolution of the shareholders.

The Remuneration and Audit Committee reports can be found of pages 32 and 30 respectively.

Directors' interests

Directors' share options and interests in shares can be found in the remuneration report on page 32.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the period and remain in force at the date of this report.

Dividends

The Directors do not recommend a final ordinary dividend for the period (2017: £nil).

Post Balance Sheet Events

Boku Inc completed the acquisition of 100% of the outstanding shares of Danal on 1 January 2019 following the announcement of the deal on 6 December 2018. Following the completion of the acquisition, Danal Inc was renamed Boku Identity Inc. The full details of the transactions can be found in Note 27 Post Balance Events on page 85.

Financial Risk management

Details of financial risk management are provided in note 3 to the financial statements.

Internal Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The processes to identify and manage the key risks of the group are an integral part of the internal control environment. Such processes, which are regularly reviewed and improved as necessary, include strategic planning, approval of annual budgets, regular monitoring of performance against budget (including full investigation of significant variances), control of capital expenditure, ensuring proper accounting records are maintained, the appointment of senior management and the setting of high standards for health, safety and environmental performance. The effectiveness of the internal control system and procedures is monitored regularly through a combination of review by management, the results of which are reported to and considered by the Audit Committee. The system of internal control comprises those controls established to provide assurance that the assets of the Group are safeguarded against unauthorized use and to ensure the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. Any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failing to achieve the business objectives of the Group.

Going Concern

The Directors, having made appropriate enquiries, consider that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Purchase of own shares

The Group does not hold any shares in treasury.

Substantial shareholdings

The Company has been advised of the following interests in more than 3% of its ordinary share capital as at 31 December 2018:

Holder	Percent
Benchmark Capital Partners VI	7.38 %
New View Capital	6.13 %
Khosla Ventures	6.08 %
Boku Inc Directors and Related Parties	5.58 %
River & Mercantile Asset Management	5.46 %
Merian Global Investors	4.96 %
DAG Ventures	3.98 %
Schroder Investment Management	3.77 %
Danske Capital Management	3.38 %
Legal and General Investment Management	3.04 %

Statement of Disclosure to the Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Auditors appointment

BDO were appointed during the period and have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

Directors Responsibility Statement

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

The company is incorporated in and subject to the laws of the State of Delaware, United Stated, which does not require the Directors to prepare financial statements for each financial year, however the group is required to do so to satisfy the requirements of the AIM Rules for Companies. When preparing the financial statements, the Directors are required to prepare the group financial statements in accordance with an appropriate set of generally accepted accounting principles or practice. The Directors have elected to use International Financial Reporting Standards as adopted by the European Union (IFRSs).

The Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 (revised) requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that correctly explain the transactions of the Company, enable the financial position of the Company to be determined with reasonable accuracy at

any time and allow financial statements to be prepared. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the website is accessible in many countries and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors' responsibility also extends to the continued integrity of the financial statements contained therein.

By order of the Board

Jon Prideaux
Chief Executive Officer
25 March 2018

Independent Auditor's Report

to the members of Boku Inc.

Opinion

We have audited the financial statements of Boku, Inc. and its subsidiaries (the 'Group') for the year ended 31st December, 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cashflows and notes to the consolidated 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 issued by the International Accounting Standards Board.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 31st December, 2018 and of the Group's loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board.

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 as applied to listed entities, 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 the ISAs (UK) require us to report to you where:

- 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 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.

Independent Auditor's Report

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) we identified, including 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.

Key audit matter	How we addressed the matter in our audit
Revenue recognition The Group's revenue is earned primarily from services earned on mobile payment transactions and integration fees. Details of the group's revenue streams and accounting policies applied during the period are given in note 2 on page 50. We considered there to be a significant audit risk arising from inappropriate or incorrect recognition of revenue. The risk of material misstatement in relation to revenue recognition concerns the recognition of accrued revenue around year end, comprising the net of accrued gross receipts from mobile network operators ('MNO's') and the associated gross payables to merchants. There is also a risk that revenue has not been recognised in line with the revenue recognition policy, in particular the appropriate application of principal versus agent considerations in accordance with accounting standards.	We assessed whether the revenue recognition policies adopted by the Group comply with relevant accounting standards. We performed cut-off procedures including recalculations of contract liabilities around the year-end in order to get comfort over integration revenues. We performed substantive audit procedures over the accrued revenue and the associated accrued merchant payable recorded at year end. Our procedures included testing of amounts accrued to the subsequent carrier statements and cash receipts, and the calculation of amounts due to merchant with underlying merchant agreements and subsequent invoices. We tested revenue where the group acts as an agent through substantive procedures over the gross cash receipts from MNOs and the gross cash payments due to merchants. Our procedures included ensuring that net presentation is appropriate in accordance with accounting standards.

Our application of materiality

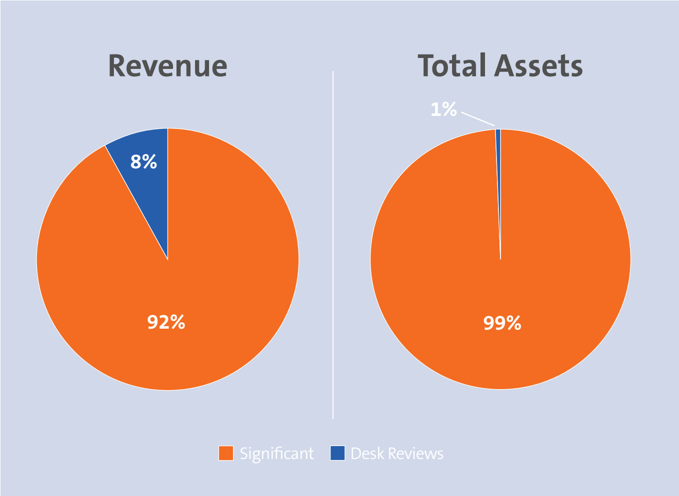
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole

We determined materiality for the financial statements as a whole to be $352,000 (FY17: $240,000) which represents 1% (FY17: 1%) of Group revenue.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at $264,000 (2017: $156,000) which represents 75% (2017 65%) of the above materiality levels.

We agreed with the audit committee that we would report to them misstatements identified during our audit above $17,000 (FY17:12,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit



In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting unit in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results of the Group's subsidiaries and determined significant components to be in Germany, U.K and U.S..

The significant components in the UK and the US were audited by the group audit team, as the group's finance team and information for these territories are based within the UK. However, we instructed our network member firm in Germany to perform a full scope audit of financial information of the significant component accounted for in this territory. We visited this location during the year to ensure we obtained a full understanding of the operational activities and appropriately scoped risks and agreed responses to those risks. We took an active part in reviewing the work undertaken by the component auditor and also visited and held discussions with local management. This, together with the additional procedures performed at Group level over the consolidation process gave us the evidence we needed for our opinion on the financial statements as a whole. For components of the group not considered to be significant components we performed limited audit procedures. Under this approach full scope audit procedures covered 92% of group revenue and 99% of group assets.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and accounts 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 40, 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent Auditor’s Report

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: 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 members of Boku, Inc. (the “Parent Company”), as a body, in accordance the terms of our engagement letter dated 20th November, 2018. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Iain Henderson
For and on behalf of BDO LLP, Chartered Accountants
London, United Kingdom
25 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 $'000	Restated* Year ended 31 December 2017 $'000
Revenue	4	**35,275**	24,412
Cost of sales		**(2,512)**	(2,265)
Gross profit		**32,763**	22,147
Administrative expenses	5	**(35,179)**	(31,147)
Operating loss analysed as:			
Adjusted EBITDA**		**6,324**	(2,319)
Depreciation and amortisation		**(2,794)**	(2,985)
Stock Option expense		**(4,593)**	(1,480)
Foreign exchange gains/(losses)		**(279)**	428
Exceptional items (included in administrative expenses)	5	**(1,074)**	(2,644)
Operating loss		**(2,416)**	(9,000)
Finance income	7	**53**	18
Finance expense	7	**(631)**	(19,558)
Loss before tax		**(2,994)**	(28,540)
Tax expense	8	**(1,339)**	(129)
Net loss for the period attributable to equity holders of the parent company		**(4,333)**	(28,669)
Other comprehensive income/(losses) net of tax			
Items that will or may be reclassified to profit or loss			
Foreign currency translation (loss)/gain		**(938)**	2,269
Net increase/(decrease) in fair value of cash flow hedge derivatives	15	**27**	(38)
Total comprehensive gain (loss)/gain for the period		**(911)**	2,231
Total comprehensive loss for the period attributable to equity holders of the parent company		**(5,244)**	(26,438)
Loss per share for loss attributable to the owners of the parent during the year			
Basic and fully diluted ($)	9	**(0.02)**	(0.19)

* the 2017 Income Statement was restated due to a change in accounting policy to employer taxes for share options (and RSUs).
**Earnings before interest, tax, depreciation, amortisation, stock option expense, foreign exchange gains/(losses), and exceptional items. Management has assessed this performance measure as relevant for the user of the accounts.

Consolidated Statement Of Financial Position

	Note	31 December 2018 $'000	Restated* 31 December 2017 $'000
Non-current assets			
Property, plant and equipment	10	**286**	410
Intangible assets	11	**22,466**	25,799
Deferred income tax assets	8	**254**	714
Total non-current assets		**23,006**	26,923
Current assets			
Trade and other receivables	13	**51,658**	59,115
Derivative financial instrument	15	**3**	-
Cash and cash equivalents	14	**31,073**	18,741
Restricted cash	14	**1,251**	1,439
Total current assets		**83,985**	79,295
Total assets		**106,991**	106,218
Current liabilities			
Trade and other payables	16	**77,374**	75,514
Derivative financial instrument	15	**-**	24
Loans and borrowings	17	**2,193**	2,482
Total current liabilities		**79,567**	78,020
Non-current liabilities			
Other payables	16	**107**	124
Deferred tax liabilities	8	**671**	-
Loans and borrowings	17	**-**	43
Total non-current liabilities		**778**	167
Total liabilities		**80,345**	78,187
Net assets/ (net liabilities)		**26,646**	28,031
Equity attributable to equity holders of the company			
Share capital	18	**22**	21
Share premium		**178,079**	174,220
Cash flow hedging reserve		**3**	(24)
Foreign exchange reserve		**(1,867)**	(928)
Retained losses		**(149,591)**	(145,258)
Total equity		**26,646**	28,031

*the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

The financial statements were approved by the Board for issue on 25th March 2019

Jon Prideaux
Chief Executive Officer

Stuart Neal
Chief Financial Officer

Consolidated Statement Of Changes In Equity

	Share capital	Share premium	Cash flow hedging reserve	Foreign exchange reserve	Retained losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Equity as at 1 January 2017	15	119,315	14	(3,197)	(116,589)	(442)
Loss for the year restated*	-	-	-	-	(28,669)	(28,669)
Other comprehensive income/ (losses)	-	-	(38)	2,269	-	2,231
Issue of new shares on IPO	2	19,023	-	-	-	19,025
Shares issued for convertible note	4	33,772	-	-	-	33,776
Shares issued in respect of warrants	-	462	-	-	-	462
Share issue costs	-	(983)	-	-	-	(983)
Issue of share capital upon exercise of 3,357 stock options		1,722	-	-	-	1,722
Share-based payment[1]	-	909	-	-	-	909
Equity as at 31 December 2017	21	174,220	(24)	(928)	(145,258)	28,031
Loss for the year	-	-	-	-	(4,333)	(4,333)
Other comprehensive income/(losses)	-	-	27	(939)	-	(912)
Issue of share capital upon exercise of 9,710,341 stock options	1	510	-	-	-	511
Share-based payment1	-	3,349	-	-	-	3,349
Equity as at 31 December 2018	**22**	**178,079**	**3**	**(1,867)**	**(149,591)**	**26,646**

[1] Share based expense has been credited against share premium in accordance with the local company law and practice in US.
Employer taxes paid on the exercise of shares as well as the accrual for employer taxes has been recorded in the retained losses reserve.
*the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

Consolidated Statement Of Cash Flows

	Note	Year ended 31 December 2018 $'000	Restated* Year ended 31 December 2017 $'000
Cash generated from/ (used in) operations	23	**13,742**	(6,819)
Income taxes paid		**(248)**	-
Net cash from/ (used in) operating activities		**13,494**	(6,819)
Investing activities			
Purchase of property, plant and equipment		**(91)**	(223)
Purchased of software development		**(238)**	(97)
Restricted cash (net)		**188**	(959)
Investments, net of cash acquired	12	**(164)**	-
Interest received		**53**	18
Net cash used in investing activities		**(252)**	(1,261)
Financing activities			
Payments to finance lease creditors		**(82)**	(117)
Share Issue Costs		**-**	(983)
Issue of common stock		**510**	20,747
Interest paid		**(631)**	(937)
Proceeds from line of credit		**-**	2,321
Repayment of line of credit		**(250)**	(5,921)
Net cash from financing activities		**(453)**	15,110
Net increase in cash and cash equivalents		**12,789**	7,030
Effect of foreign currency translation on cash and cash equivalent		**(457)**	389
Cash and cash equivalents at beginning of period		**18,741**	11,322
Cash and cash equivalents at end of period		**31,073**	18,741

*the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

Notes to the Consolidated Financial Statements

1. Corporate Information

The consolidated financial information represents the results of Boku Inc. ("the Company") and its subsidiaries (together referred to as "the Group").

Boku Inc. is a company incorporated and domiciled in the United States of America. The registered office of the Company is located at 735 Battery St., 2nd Floor, and San Francisco, CA 94111, United States.

On 20th November 2017, the Company's shares were listed on the Alternative Investment Market of the London Stock Exchange ("AIM").

The principal business of the Group is the provision of mobile billing and payment solutions for mobile network operators and merchants. These solutions enable consumers to make online payments using their mobile devices.

2. Accounting policies

The financial information has been prepared using the historical cost convention, as modified by the revaluation of certain derivative financial instruments, as stated in the accounting policies below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and IFRIC Interpretations issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed below.

The presentation currency of the financial statements is US Dollars, rounded to the nearest thousands ($'000) unless otherwise indicated. The Company's functional currency is US Dollars.

Going concern

The Directors have prepared a cash flow forecast covering a period extending beyond 12 months from the date of this financial information.

The forecast contains certain assumptions about the performance of the business including growth in future revenue which are deemed high volume and low value in nature, the cost model and margins; and importantly the level of cash recovery from trading. Furthermore, investment in winning customers via marketing expenditure, remains an important function of the forecasts. The Group obtained additional funding through the placement of shares on AIM in November 2017 which helped fund the business during 2018. Boku has been cash generative during 2018 which helped provide further working capital to cover all operating activities.

The Directors are aware of the risks and uncertainties facing the business, but the assumptions used are the Directors' best estimate of the future development of the business.

After considering the forecasts and the risks, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial information.

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial information presents the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial information incorporates the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

A list of the subsidiary undertakings which, in the opinion of the Directors, principally affected the amounts of profit or loss and net assets of the Group is given in note 12 of the financial information.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied any applicable new standards, amendments to standards and interpretations that are mandatory for the financial year beginning on 1 January 2018. However, no adjustments were required on transition.

• **The Group applied IFRS 15** Revenue from Contracts with Customers, which was effective from 1 January 2018. IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. This standard replaces the previous standard IAS 11 Construction Contracts, IAS18 Revenue and revenue related IFRICs. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

An analysis of the key considerations that IFRS 15 has on the Group's revenue streams is summarised below.

1. *Settlement Model:* when it acts as an agent between a merchant and mobile network operators (MNOs) or an aggregator (a middleman between the Group and the MNO). Management has determined that it is acting as an agent under IFRS 15 because it does not have the primary responsibility for providing the services to the customer. Therefore there has been no change in the classification as an agent from the previous assessment that there was no exposure to the risks and rewards.

2. *Transactional Model:* from larger virtual and digital merchants who receive the sale collections directly and pay a service fee to the Group.

Under both the transactional and settlement model (see point 1 and 2 above), revenue was previously recognised under IAS 18 once the merchant transfers risks and rewards to the customer. Under IFRS 15, the Group's contracts with customers include one performance obligation only. This relates to an obligation to facilitate the payment for the transaction between the merchant and their end users. Under IFRS 15 revenues for this service is recognised under this contract at a point in time as the obligation is fulfilled at time when transaction happens. There has been no change on the adoption of IFRS 15, as the point of delivery of the performance obligation is the same as when the risks and rewards have been transferred. Payments are due once the Group receives the monthly statement of information from the Aggregator or the MNO. There is no financial effect of the change in policy for the current and comparative periods, hence no adjustments were required to the current or comparative periods.

3. *Other revenue:* from special merchant integrations, subscription services and early settlement of funds.

Under IAS 18, the revenue earned from special merchant integrations were previously spread over the term of the customer contract. This is in line with the treatment under IFRS 15, as the customer gets the benefit equally over the subscription period. Payments are due once the integrations has successfully occurred. There is no financial effect of the change in policy for the current and comparative periods, hence no adjustments were required to the current or comparative periods.

Under IAS 18, the revenue earned from early settlement of funds is recognised when the early settlement is made to the merchant. Under IFRS 15, the performance obligation is met once the early termination of the agreement has been announced and BOKU is entitled to the early termination fee. This is not different to the previous treatment as the point when meeting the performance obligation is the same as when risk and rewards are transferred. There is no financial effect of the change in policy for the current and comparative periods, hence no adjustments were required to the current or comparative periods.

• **IFRS 9 Financial Instruments,**

In adopting IFRS 9, the only changes made from the previous reporting period is 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 based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. The impairment provision on shareholders loan, measured at amortised cost, have been calculated in accordance with IFRS 9's general approach.

The Group has elected to adopt the initial application date of 1 Jan 2018 and has not restated comparatives. The effect of IFRS 9 is an increase to the provision of $548,000 on the current year and the effect on the prior year was immaterial. For trade receivables, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income, as this is a directly attributable to the operations. The Group has chosen to continue applying the hedge accounting requirements of IAS 39.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

(b) New, amended standards, interpretations not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in this financial information, will or may have an effect on the Group's future financial statements:

• **IFRS 16 Leases,** effective date 1 January 2019 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 completes the IASB's project to improve the financial reporting of leases and replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.

Adoption of IFRS 16 will result in the Group recognising the right use of assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, disclosing instead the total commitment in its annual financial statements. At 31 December 2018 the commitment disclosed was $4.3m. Assuming the group's lease commitments remain at this level, the effect of discounting those commitments might be expected to result in the right-of-use assets and lease liabilities of approximately $3.8m being recognized on 1 January 2019. Instead of recognising an operating expense for its operating lease payments, the group will instead recognize interest on its lease liabilities and amortisation on its right of use assets. This will increase the reported EBITDA by the amount of its current operating lease costs (which for the year ended 31 December 2018 was $1.9m).

Since the Group last reported, the Board has decided to apply the modified retrospective method when the standard is first adopted in its financial statements for the year ended 31 December 2019. Therefore, there will be no impact on any comparative accounting period (interim or annual) up to and including 31 December 2018, with any leases recognised on balance sheet on the date of initial application of IFRS 16 (1 January 2019). In applying the modified retrospective approach, the Board has further decided to measure the right of use assets by reference to the amount at which lease liabilities are measured on 1 January 2019. Therefore, there is no immediate impact on these financial statements as a result of adopting the standard on that date.

Changes to the accounting policy for national insurance on share-based payments

The group has amended its accounting policy for national insurance on share-based payments following a review with regards to all options and restricted stock units currently available. Following the adoption of this updated policy the Group now accrues for employer's-based taxes (e.g. National Insurance, FICO) as part of the share-based payments charge in line with IFRS 2, in each accounting period. The prior year has been represented following this change in accounting policy.

The impact in the change in accounting policy on the consolidated income statement for 2017 is:

Income statement impact	2017 $'000
Total previous loss before tax	(27,969)
Share based payment charge	(571)
Updated loss before tax	(28,540)

The impact of the change in accounting policy on previously reported total equity may be summarised as follows:

Impact on equity	2017 $'000
Total equity as previously reported	28,602
Share based payment charge	(571)
Updated loss before tax	28,031

The impact of the change in accounting policy on the previously reported consolidated statement of financial position as at 31st December 2017, is summarised as follows

	31 December 2017		31 December 2017
	$'000	$'000	$'000
	As previously reported	Change in policy	Updated
Current Trade and other payables	74,981	533	75,514
Long term Trade and other payables	86	38	124

Foreign Currency

The main functional currencies for the Company's subsidiaries are the United States Dollar, Euro and Great Britain Pound.

Foreign currency transactions and balances

i. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

ii. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iii. Share capital, share premium, brought forward earnings are translated using the exchange rates prevailing at the dates of the transactions.

Consolidation of foreign entities

On consolidation, results of the foreign entities are translated from the local functional currency to US$ using average exchange rates during the period. All asset and liabilities are translated from the local functional currency to US$ using the reporting period end exchange rates. These exchange differences arising from the translation of the net investment in foreign entities are recognised in other comprehensive income and accumulated in a separate component of equity.

Exchange differences are recycled to profit or loss as a reclassification adjustment upon disposal of the foreign operation.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Revenue

The Group applied IFRS 15 Revenue from Contracts with Customers, which was effective from 1 January 2018. IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. This standard replaces the previous standard IAS 11 Construction Contracts, IAS18 Revenue and revenue related IFRICs. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Boku Group recognises revenue in accordance with that core principle by applying the following steps: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognise revenue when (or as) the entity satisfies a performance obligation.

Contract assets and contract liabilities are included within 'trade and other receivables' and 'trade and other payables' respectively on the face of the statement of financial position.

The Group provides a payment platform to facilitate the mobile payment processing of virtual and digital goods purchases and also provides a collection service for amounts due to the merchants.

The Group's revenue is principally its service fees earned from its merchants (we do not offer volume discounts). There are slight differences to contracts depending on the services provided.

Cost of sales

Cost of sales is primarily related to the costs incurred by the Group to authorise the transactions of mobile device customers with the associated MNOs.

Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive management team including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the Chief Revenue Officer.

The Board considers that the Group's provision of a payment platform for the payment processing of virtual goods and digital goods purchases constitutes one operating and one reporting segment, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

Retirement Benefits: Defined contribution schemes

The Company has a 401(k) plan, a type of defined contribution scheme in the United States in which all employees are eligible to participate after meeting eligibility requirements. Participants may elect to have a portion of their salary deferred and contributed to the scheme up to the limit allowed by applicable income tax regulations. The Company has made a matching contribution to the scheme for the year ended 31 December 2018.

Contributions to defined contribution schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

Share options and RSUs (restricted stock units) which will incur future employer payroll taxes on exercise, are accrued for the future cost of National Insurance from the point the options are granted over their vesting period. This accrual is then reviewed and amended at each subsequent balance sheet date under IFRS 2.

Intangible assets

(i) Goodwill

The Group uses the acquisition method of accounting for the acquisition of a subsidiary. The consideration transferred is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed in the period. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

In respect of business combinations that have occurred since 1 January 2014, goodwill represents the excess of the cost of the acquisition and the Group's interest fair value of net identifiable assets and liabilities acquired. In respect of business combinations prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under US GAAP. As permitted by IFRS 1, Goodwill arising on acquisitions prior to 1 January 2014 is stated in accordance with US GAAP and has not been remeasured on transition to IFRS. Goodwill is recognised and measured at the acquisition date.

Goodwill is capitalised as an intangible asset at cost less any accumulated impairment losses. Any impairment in carrying value is being charged to the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Goodwill is allocated to appropriate cash generating units (CGUs). Goodwill is not amortised but is tested annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows. The major assumptions are disclosed in note 11.

(ii) Intangible assets acquired as part of a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. The cost of such intangible assets is their fair value at the acquisition date and comprises Group's tradenames, merchant relationships and developed technologies. All intangible assets acquired through business combination are amortised over their useful lives.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. The carrying values are tested for impairment when there is an indication that the value of the assets might be impaired.

(iii) Research and development

Expenditure on research activities as defined in IFRS is recognised in the income statement as an expense as incurred.

Expenditure on internally developed software products and substantial enhancements to existing software product is recognised as intangible assets only when the following criteria are met:

1. it is technically feasible to develop the product to be used or sold;
2. there is an intention to complete and use or sell the product;
3. the Group is able to use or sell the product;
4. use or sale of the product will generate future economic benefits;
5. adequate resources are available to complete the development; and
6. expenditure on the development of the product can be measured reliably.

The capitalised expenditure represents costs directly attributable to the development of the asset from the point at which the above criteria are met up to the point at which the product is ready to use. The costs include external direct costs of materials and services consumed in developing and obtaining internal-use computer software, and payroll and payroll-related costs for employees who are directly associated with and who devote time to developing the internal-use software. If the qualifying conditions are not met, such development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

(iv) Amortisation rates

The significant intangibles recognised by the Group and their useful economic lives are as follows:

Intangible asset	Useful economic life
Tradenames	10 years
Merchant relationships	5 years
Developed technologies	1 - 7 years
Domain names	5 years
Internally developed software	3 - 6.75 years

The amortisation expense is recognised within administrative expenses in the consolidated statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment are held under the cost model and are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Office equipment and furniture	3- 5 years on cost
Computer equipment and software	3- 5 years on cost
Leasehold improvement	6.5 years on cost

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

Restricted cash

The restricted cash does not meet the definition of cash and cash equivalents and is therefore separately disclosed in the Group's statement of financial position and not part of the cash and cash equivalents for cash flow purposes. These cash amounts are restricted as to withdrawal or use under the terms of certain contractual agreements.

Financial assets

The Group's financial assets mainly comprise cash, trade and other receivables.

Trade and other receivables are not interest bearing and are stated at their amortised cost as reduced by appropriate allowances for irrecoverable amounts or additional costs required to effect recovery.

The Group 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. The Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. Trade and other payables are not interest bearing and are stated at their amortised cost.

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. The Group's financial liabilities are categorised as loans and payables or derivative financial instruments.

At initial recognition,

- Financial liabilities (trade and other payables, excluding other taxes and social security costs and deferred income), are measured at their fair value plus, if appropriate, any transaction costs that are directly attributable to the issue of the financial liability. These financial liabilities are subsequently carried at amortised cost.
- Bank borrowings which are initially recognised at fair value net any of transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost ensuring the interest element of the borrowing is expensed over the repayment period at a constant rate.

Derivative financial instruments

Hedge accounting is applied to financial assets and liabilities only where all the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge remains highly effective on each date tested.

Cash flow hedges

The Group from time to time enters into derivative financial instruments such as forward foreign exchange contracts to reduce the potential impact of decreases in the value of the U.S. dollar on receipt payments from Aggregator and MNO.

The effective part of the gain or loss of these forward contracts designated as a hedge of the variability in cash flows of foreign currency risk arising from the above firm commitments are measured at fair value with changes in fair value recognised in other comprehensive income and accumulated in the cash flow hedge reserve. The ineffective portion of the gain or loss of these contracts is recognised in the Group's profit or loss. The associated gains or losses that were recognised in other comprehensive income shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period during which the hedged forecast cash flows affect profit or loss.

The value of the forward contracts within one year is disclosed separately as derivatives under current assets or liabilities in the Group's statement of financial positions.

Fair Value Hierarchy

All financial instruments measured at fair value must be classified into one of the levels below:

- Level 1: Quoted prices, in active markets.
- Level 2: Fair Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs that are not based on observable market data.

Share Capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary share capital and preference shares are classified as equity instruments.

Operating leases: lessee

Rentals paid under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Leased assets: lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the income statement over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the income statement over the term of the lease and is calculated on an effective interest rate basis. The capital part reduces the amounts payable to the lessor.

Notes to the Consolidated Financial Statements

2. Accounting policies (continued)

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions 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.

(a) Goodwill, Intangible assets acquired in a business combination

As set in the accounting policies above, intangible assets acquired in a business combination are capitalised and amortised over their useful lives. Both initial valuations and valuations for subsequent impairment tests are based on risk adjusted future cash flows discounted using appropriate discount rates. These future cash flows will be based on forecasts which are inherently judgemental. Future events could cause the assumptions to change which could have an adverse effect on the future results of the Group. Refer to note 11 for a description of the specific estimates and judgements used and the net book values of intangible assets.

(b) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

(c) Taxation

In recognising income tax assets and liabilities, management makes estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such a determination is made. In recognising deferred tax assets and liabilities management also makes judgements about likely future taxable profits. The carrying values of current tax and deferred tax assets and liabilities are disclosed separately in the consolidated statement of financial position.

d) Acquisition of entities

The group determines the acquisition date for when a business acquisition is consummated, is when it is deemed unconditional. This involves the group considering all pertinent facts and circumstances, which include the date on which it obtains control of the acquiree and acts of law that are required to be fully executed.

Notes to the Consolidated Financial Statements

3. Financial instruments – Risk Management

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group reports in US$. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group does not issue or use financial instruments of a speculative nature.

The Group is exposed to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents and restricted cash
- Trade and other payables
- Bank loans

To the extent financial instruments are not carried at fair value in the consolidated statement of financial position, book value approximates to fair value at 31 December 2018 and December 2017.

Trade and other receivables are measured at book value and amortised cost. Book values and expected cash flows are reviewed by the Board and any impairment charged to the consolidated statement of comprehensive income in the relevant period.

Trade and other payables are measured at book value and amortised cost.

Financial instruments by category

Financial assets

	31 December 2018 $'000	31 December 2017 $'000
Cash and cash equivalents	**31,073**	18,741
Restricted cash	**1,251**	1,439
Total Cash	**32,324**	20,180
Accounts receivable (net)	**48,979**	56,360
Other receivables	**300**	199
Note receivable from shareholder	**793**	793
Total other financial assets classified as loans and receivables	**50,072**	57,352
Loans and receivables	**82,397**	77,532
Derivative financial assets designated as hedging instrument	**3**	-

Financial liabilities

	31 December 2018 $'000	31 December 2017 $'000
Trade payables	**69,064**	64,275
Accruals	**6,402**	7,641
Total other financial liabilities	**75,466**	71,916
Bank loans (secured)	**2,150**	2,400
Finance lease payables	**43**	125
Loans and borrowings	**2,193**	2,525
Financial liabilities at amortised cost	**77,659**	74,441
Derivative financial liabilities designated as hedging instrument	**-**	24

The management of risk is a fundamental concern of the Group's management. This note summarises the key risks to the Group and the policies and procedures put in place by management to manage them.

a) Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

Interest rate risk

The Group is exposed to cash flow interest rate risk from bank borrowings at variable rates. The Group's bank borrowings and other borrowings are disclosed in note 17. The Group's exposure to interest rate risk on the finance leases is considered low as the outstanding balance at year-end is not significant. The Group manages the interest rate risk centrally.

The following table demonstrates the sensitivity to a 1 percent change (lower/higher) to the interest rates of the following borrowings at 31 December 2018 to the profit before tax and net assets for the period:

	31 December 2018 Increase/(decrease) of loss before tax and net assets $'000	31 December 2017 Increase/(decrease) of loss before tax and net assets $'000
Bank loans	**+/-22**	+/-24

Notes to the Consolidated Financial Statements

3. Financial instruments – Risk Management (continued)

Foreign exchange risk

Foreign exchange risk is the risk that movements in exchange rates affect the profitability of the business. The company manages this risk through natural hedging and forward contracts.

The effect of fluctuations in exchange rates on the Euro and GBP denominated trade receivables is partially offset through the use of foreign exchange contracts to the extent that any remaining impact on profit after tax is not material.

At December 31, 2018, the Company had entered into 1 (2017: 31) foreign currency forward contracts totalling a notional amount of $141,783 (2016: $1,004,306). These instruments were used to hedge the variable cash flows predominantly associated with monthly Aggregator payments. All the Company's hedges are designated as cash flow hedges.

The Company's objective in using derivatives is to add stability to Aggregator payments and to manage its exposure to foreign currency movements or other identified risks. To accomplish this objective, the Company primarily uses foreign currency forward contracts as part of its cash flow hedging strategy which is managed centrally. The Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

As of 31 December, the Group's gross exposure to foreign exchange risk was as follows:

31 December 2018	GBP $'000	Euro $'000	Other $'000	Total $'000
Trade and other receivables	**12,818**	**20,808**	**16,120**	**49,746**
Cash and cash equivalents and restricted cash	**11,052**	**9,402**	**8,102**	**28,556**
Trade and other payables	**(22,906)**	**(26,118)**	**(19,760)**	**(68,784)**
Financial assets/(liabilities)	**964**	**4,092**	**4,462**	**9,518**
10% impact - +/-	**107**	**455**	**496**	**1,058**

31 December 2017	GBP $'000	Euro $'000	Other $'000	Total $'000
Trade and other receivables	17,305	24,578	15,046	56,929
Cash and cash equivalents and restricted cash	10,926	2,002	4,088	17,016
Trade and other payables	(23,283)	(26,694)	(17,459)	(67,436)
Financial assets/(liabilities)	4,948	(114)	1,675	6,509
10% impact - +/-	551	(13)	185	723

The impact of 10% movement in foreign exchange rate of US$ will result in an increase/decrease of total comprehensive loss after tax and financial assets/(liabilities) by $1,057,518 for December 2018 (2017: $723,151).

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. The Group's net trade receivables for the three reported periods are disclosed in the financial assets table above.

The Group is exposed to credit risk in respect of these balances such that, if one or more the aggregators or MNOs encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customers with agreed credit terms.

To minimise this credit risk, the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount.

The Company evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses as necessary. The Company has factored accounts receivable as a means of financing until April 2018 and at 31 December 2018 the facility was completely closed (2017: 7% of group accounts receivable were factored). The Group can draw down to a maximum of 85% of the trade receivables and paid factoring, collection fee and interest on the drawdown. The fee charged during the year was $345,380 (2017: $542,989). This fee was charged to the profit and loss account, under finance expense and includes a penalty charge for terminating the agreement early of €160,00 ($197,315).

At the reporting date, the largest exposure was represented by the carrying value of trade and other receivables, against which $1.959m is provided at 31 December 2018 (2017:$1.410m). The provision represents an estimate of potential bad debt in respect of the year-end trade receivables, a review having been undertaken of each such year-end receivable. The Group's customers are spread across a broad range of sectors and consequently it is not otherwise exposed to significant concentrations of credit risk on its trade receivables.

A debt is considered to be bad when it is deemed irrecoverable, for example when the debtor goes into liquidation, or when a credit or partial credit is issued to the customer for goodwill or commercial reasons. The Group has applied the Simplified Approach applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions. The Group's provision matrix is as follows:

31-Dec-18	<60 days	61-120 days	121-150 days	>150 days	Total
Expected credit loss % range	0%	0%	0%	98%-100%	
Gross debtors ($'000)	47,625	829	494	1,987	50,935
Expected credit loss rate ($'000)				-1,956	-1,956
					48,979

Notes to the Consolidated Financial Statements

3. Financial instruments – Risk Management (continued)

At 31 December 2018 Group had a specific provision as well as the provision made in accordance with the credit loss matrix above. This provision was for two thousand dollars - which was considered to be 100% irrecoverable due to potential business closure. The total provision for trade and accrued receivable as at 31 December 2018 was $1,958.

31-Dec-17	<60 days	61-120 days	121-150 days	>150 days	Total
Expected credit loss % range	0%	0%	0%	85%-90%	
Gross debtors ($'000)	51,838	1,437	2,861	1,599	57,734
Expected credit loss rate ($'000)				-1,374	-1,374
					56,360

At 31 December 2017 the Group had a specific provision for $37k of which $34k was fully written off during 2018. The total provision of trade and accrued receivables as at 31 December 2017 was $1,410.

Other receivables are considered to be low risk. The management do not consider that there is any concentration of risk within other receivables. No other receivables have been impaired.

Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. At times, domestic deposits may be in excess of the amount of insurance provided on such deposits. At December 31 2018, cash and cash equivalents of $31,073,215 held in foreign institutions are not insured (2017: $18,740,583). The maximum exposure is the amount of the deposit. To date, the Group has not experienced any losses on its cash and cash equivalent deposits.

c) Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group also uses an invoice discounting facility to help manage this risk. The invoice discounting facility has been cancelled as at 30th April 2018. The table below analyses the Group's financial liabilities by contractual maturities and all amounts disclosed in the table are the undiscounted contractual cash flows:

31 December 2018	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
	$'000	**$'000**	**$'000**	**$'000**
Trade and other payables	**77,374**	**107**	**-**	**-**
Bank loans (secured)	**2,150**	**-**	**-**	**-**
Finance leases	**43**	**-**	**-**	**-**
Total	**79,567**	**107**	**-**	**-**

31 December 2017	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
	$'000	**$'000**	**$'000**	**$'000**
Trade and other payables	75,514	124	-	-
Bank loans (secured)	2,400	-	-	-
Derivative financial liabilities	24	-	-	-
Finance leases	82	43	-	-
Total	78,020	167	-	-

Capital Management

The Group's capital is made up of share capital, foreign exchange reserve and retained losses.

The Group's objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. All working capital requirements are financed from existing cash resources and borrowings.

4. Segmental analysis

(a) Revenue from operations

	2018 $'000	2017 $'000
Revenue arises from:		
Provision of services	**35,275**	24,412

In 2018, there were 4 customers with revenue amounting to $28.4m and where three of these customers represent more than 10% of group revenues each (2017: 4 customers ($16.6.0m)).

(b) Operating segment

For executive management purposes, the Group has one reportable segment – provision of a payment platform for the payment processing of virtual goods and digital goods purchases and categorizes all revenue from operations to this segment.

Operating segment information under the primary reporting format is disclosed below:

	2018 $'000	Restated* 2017 $'000
Revenue	**35,275**	24,412
Depreciation	**(213)**	(221)
Amortisation	**(2,581)**	(2,764)
Segment loss before exceptional items	**(1,342)**	(5,785)
Segment loss – exceptional items (note 5)	**(1,074)**	(2,644)
Segment loss	**(2,416)**	(8,429)
Finance income	**53**	18
Finance expense	**(631)**	(19,558)
Group loss before tax	**(2,994)**	(27,969)

*the restatement relates t to a change in accounting policy to employer taxes for share options (and RSUs).

(c) Geographic segment – secondary basis

The geographical analysis of the revenue by location of the users is presented below:

Revenue by Market	2018 $ '000	2018 %	2017 USD '000	2017 %
Americas	**2,655**	**7.5**	2,187	9.0
APAC	**14,021**	**39.7**	7,520	30.8
EMEA	**18,599**	**52.8**	14,705	60.2
Total	**35,275**		24,412	

An analysis of non-current assets by geographical market is given below:

	2018 $'000	2017 $'000
United States of America	**22,133**	25,714
Germany	**557**	818
Other European countries (including UK)	**165**	162
Rest of the World	**151**	229
Total	**23,006**	26,923

Notes to the Consolidated Financial Statements

5. Administrative expenses (including exceptional items)

	2018 $'000	Restated* 2017 $'000
Audit fees	**277**	502
Non-audit fees - taxation	**516**	161
Accounting services	**108**	145
Consultancy and compliance services	**898**	529
Staff costs (excluding stock option expense – note 6)	**18,117**	17,264
Travel & entertainment	**1,072**	910
Rent and occupancy costs	**2,030**	1,869
Total IT, development and hosting	**1,777**	1,531
Total banking costs	**254**	273
Legal fees	**688**	651
Other costs including marketing, support & testing and other administration expenses*	**701**	632
Adj. Operating Expenses	**26,438**	24,466
Depreciation of property, plant and equipment	**213**	221
Amortisation of intangible assets	**2,581**	2,764
Loss on disposal of property, plant and equipment	**1**	-
Foreign exchange gains/(losses)	**279**	(428)
Exceptional items – impairment of investments	**164**	-
Exceptional items – restructuring costs	**910**	478
Exceptional items – IPO costs	**-**	2,166
Share – based expenses	**4,593**	1,480
	35,179	31,147

6. Staff costs

Total staff costs	2018 $'000	2017 $'000
Wages and salaries	**14,730**	13,782
Short-term benefits	**774**	785
Social security costs	**1,398**	1,467
Pension costs	**164**	140
Other staff costs	**1,051**	1,090
Total staff costs	**18,117**	17,264

* the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

Other staff costs include contractor costs, relocation, recruiting and training costs for the group.

Key management personnel compensation was made up as follows:

	2018 $'000	2017 $'000
Salaries	**1,849**	1,545
Short-term benefits	**39**	51
Social security costs	**160**	113
Pension costs	**6**	1
Total	**2,054**	1,710

Directors' remuneration included in staff costs:

	2018 $'000	2017 $'000
Salaries including bonuses	**989**	706
Short-term benefits	**4**	28
Total	**993**	734

Information regarding the highest paid director is as follows:

	2018 $'000	2017 $'000
Total remuneration paid	**459**	388

The average monthly number of employees during the period was as follows:

	2018	2017
Management	**4**	4
Operations & administration	**148**	140
Total	**152**	144

Notes to the Consolidated Financial Statements

7. Finance income and expenses

	2018 $'000	2017 $'000
Finance income		
Interest income from bank deposits	**53**	18
Total	**53**	18
Finance expenses		
Interest on bank loans & overdrafts	**234**	394
Interest on finance leases and hire purchase contracts	**9**	21
Other interest payable (including interest paid for factoring)	**380**	543
Amortisation of debt discount	**-**	89
Interest on convertible loan notes (note 17)	**8**	18,511
Total	**631**	19,558
Net finance expenses	**578**	19,540

8. Income tax

	2018 $'000	2017 $'000
Current tax		
US tax	**4**	28
Foreign tax	**349**	125
Total current tax	**353**	153
Deferred tax expense	**1,064**	
Origination and reversal of temporary differences	**(78)**	(24)
Total tax expense	**1,339**	129

The reasons for the difference between the actual tax charge for the period and the applicable rate of income tax of the US reporting entity applied to the result for the period are as follows:

	2018 $'000	Restated* 2017 $'000
Loss before tax	**(2,994)**	(28,540)
Tax rate	**21%**	34%
Loss before tax multiplied by the applicable rate of tax:	**(629)**	(9,703)
US state tax	**4**	28
Overseas tax	**1,129**	22
Expenses not deductible for tax purposes	**326**	7,278
Withholding taxes	**150**	34
Tax losses	**336**	2,470
Others	**23**	-
Total tax expense/(credit)	**1,339**	129

*the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs)

Deferred Tax

Details of the deferred tax liability, amounts recognized in profit or loss and amounts recognized in other comprehensive income are as follows:

	2018 $'000	2017 $'000
Net opening position	**714**	647
Arising from business combinations	**310**	310
(de-recognition) / recognition in the year	**(1,296)**	(334)
Foreign exchange revaluation	**(145)**	91
Net closing position	**(417)**	714

The net closing position is made up of:

- A deferred tax liability of $671k. This constitutes tax positions connected with the Group's German subsidiary in relation to available losses and the deferred tax liability associated with intangible assets acquired as part of the legacy business combination with the group's now German business.
- The deferred asset of $254k. This relates to certain non-US and non-German subsidiaries which will be realised as management is expecting these subsidiaries to be profitable as a result of intercompany transfer pricing agreements.

A deferred tax asset (liability) has not been recognized for the following:

	2018 $'000	2017 $'000
Non- deductible Reserves	**103**	55
Accrued Compensation	**68**	75
Stock Based Compensation	**1,144**	1,375
Other temporary and deductible differences	**852**	298
Accelerated Capital Allowances	**(22)**	(201)
Unused tax credits	**189**	189
Unused tax losses	**24,497**	27,316
Total deferred tax assets offset by valuation allowance	**26,831**	29,107

Notes to the Consolidated Financial Statements

8. Income tax (continued)

The Group has carried forward losses and accelerated timing differences at the reporting date as shown below. In respect of its UK subsidiary, these can be carried forward and offset against UK taxable income indefinitely. In respect of its US entities, net operating loss carryforwards can be carried forward and offset against taxable income for 20 years for losses incurred up to and including 31 December 2018. Utilisation of net operating loss or tax credit carryforwards may be subject to annual limitations if an ownership change had occurred pursuant to the section 382 Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of net operating loss and tax credit carryforwards before utilisation. As the timing and extent of taxable profits are uncertain, the deferred tax asset arising on these losses and accelerated timing differences below has not been recognised in the financial statements.

	2018 $'000	2017 $'000
US losses and tax credit – federal and states	**134,947**	135,811
Non-US losses	**2,867**	15,972
Total	**137,814**	151,783

The unused tax losses as of 31 December 2018, must be utilised by various dates. U.S. Federal tax losses of $107,069k and U.S. State tax losses of $27,878k expire in various dates through 2027. German tax losses of $1,499k must be used before 2022. Other unused losses of ($1,368k) do not expire.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 34% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017

At 31 December 2017, the Group made adjustments to reduce its deferred tax assets and liabilities based on the reduction of the U.S. federal corporate tax rate from 34% to 21% and assessed the realizability of its deferred tax assets. As of 31st December 2018, the Group completed its assessment of the impact of the Act and determined no additional adjustments are required. In addition, the deferred tax assets in other territories have been re-assessed based on country specific tax legislation developments.

9. Loss per share

	2018	Restated* 2017
Loss attributable to shareholders on the Company ($'000)	**(4,333)**	(28,669)
Weighted average number of common shares	**217,069,055**	150,316,262
Basic loss per share	**(0.02)**	(0.19)

* the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

Loss per share is calculated based on the share capital of Boku, Inc. and the earnings of the Group.

Due to the loss resporting period, the effect of the share options was considered anti-dilutive and hence diluted loss per share is the same as the basic loss per share in 2017 and 2018.

10. Property, plant and equipment

	Computer equipment & software $'000	Office equipment and fixtures and fittings $'000	Leasehold improvement $'000	Total $'000
COST				
At 1 January 2017	665	530	93	1,288
Additions	148	75	-	223
Disposals	(36)	(1)	-	(37)
Exchange adjustment	-	1	2	3
At 31 December 2017	777	605	95	1,477
Additions	84	2	5	91
Disposals	(2)	(61)	-	(63)
Exchange Adjustment	(17)	(12)	(2)	(31)
As at December 2018	**842**	**534**	**98**	**1,474**
DEPRECIATION				
At 1 January 2017	511	221	41	773
Charge for the year	110	98	13	221
Disposals	(37)	-	-	(37)
Exchange adjustment	33	75	2	110
At 31 December 2017	617	394	56	1,067
Charge for the year	104	93	16	213
Disposals	(1)	(61)	-	(62)
Exchange adjustment	(13)	(15)	(2)	(31)
At 31 December 2018	**707**	**411**	**70**	**1,188**
NET BOOK VALUE				
At 1 January 2017	154	309	52	515
At 31 December 2017	160	211	39	410
At 31 December 2018	**135**	**123**	**28**	**286**

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

Cost	**2018 $'000**	**2017 $'000**
Furniture	**134**	192
Computer Hardware	**17**	37
Total	**151**	229
Depreciation charge		
Furniture	**57**	57
Computer Hardware	**17**	20
Total	**74**	77
Net book Value		
Furniture	**78**	134
Computer Hardware	**0**	17
Total	**78**	151

Notes to the Consolidated Financial Statements

11. Intangible assets

	Domain name $'000	Developed technology $'000	Merchant relationships $'000	Trade marks $'000	Goodwill $'000	Internally developed software $'000	Total $'000
COST							
At 1 January 2017	140	1,906	8,504	110	16,602	4,973	32,235
Additions	-	-	-	-	-	97	97
Exchange adjustment	-	(37)	1,101	-	2,013	133	3,210
At 31 December 2017	140	1,869	9,605	110	18,615	5,203	35,542
Additions	-	-	-	-	-	238	238
Exchange adjustment	-	(13)	(417)	-	(762)	(53)	(1,245)
	140	1,856	9,188	110	17,853	5,388	34,535
AMORTISATION							
At 1 January 2017	140	1,890	2,908	-	-	1,636	6,574
Charge for period	-	27	1,252	-	-	1,485	2,764
Exchange adjustment	-	(48)	409	-	-	44	405
At 31 December 2017	140	1,869	4,569	-	-	3,165	9,743
Charge for the period	-	30	1,280	-	-	1,271	2,581
Exchange adjustment	-	(43)	(194)	-	-	(18)	(255)
At 31 December 2018	**140**	**1,856**	**5,655**	**-**	**-**	**4,418**	**12,069**
NET BOOK VALUE							
At 1 January 2017	-	16	5,596	110	16,602	3,337	25,661
At 31 December 2017	-	-	5,036	110	18,615	2,038	25,799
At 31 December 2018	**-**	**-**	**3,533**	**110**	**17,853**	**970**	**22,466**

While there are separate geographical locations for contractual or legal purposes, all of the operations are centralized, and assets and resources cannot be separately distinguished from the group's single operations and cash inflows are not largely independent from other assets or group of assets. Therefore, the carrying value of the goodwill and other intangibles are assessed in total as part of the overall Boku group (one CGU). At the year-end date an impairment test has been undertaken by comparing the carrying values of goodwill with the recoverable amount of the Group's one cash generating unit (CGU) which is the provision of a mobile payment platform for the payment processing of virtual goods and digital goods purchases to which the goodwill has been allocated. The recoverable amount of the cash generating unit is based on value-in-use calculations. These calculations use cash flow projections covering a two-year period based on financial budgets and a calculation of the terminal value, for the period following these formal projections. Furthermore, the carrying amount of the CGU has been compared to the recoverable amount of the CGU which indicated no impairment losses.

The key assumptions used for value-in-use calculations are those regarding growth rates, increases in costs and discount rates. The discount rate is reviewed annually to take into account the current market assessment of the time value of money and the risks specific to the cash generating units and rates used by comparable companies. The discount rate has been calculated as the weighted average cost of capital. The pre-tax discount rate used to calculate value-in-use is 27% (2017: 28.1%). Growth rates for forecasts take into account historic experience and current market trends. Costs are reviewed and increased for inflation and other cost pressures. The terminal value calculation for 2018 was based on growth rate of post-tax free cashflow of 2% (2017: 2%) for the CGU.

The impairment test resulted in a decision not to impair the intangible assets at 31 December 2018 nor at 2017 year end.

Sensitivity to changes in assumptions

Management has identified two key assumptions for which if any of the following changes were made to these key assumptions individually, this would cause the carrying amount to equal to the recoverable amount of the goodwill for the CGU for the year ended 31 December 2018:

	2018	2017
Projected post tax free cashflow used for terminal value reduced by	**92%**	96%
Terminal growth rate reduced from	**2% to -175.7%**	2% to -344%

12. Subsidiaries

The principal subsidiaries of the Company, all of which have been included in the consolidated financial information, are as follows:

The proportion of share capital directly held by the parent company in each subsidiary is 100%.

Name	Principal activity	Parent	Location
Boku Payments Inc.	Holding Company	Boku Inc.	USA
Boku Network Services Inc.	Holding Company	Boku Inc.	Delaware, USA
Boku Account Services Inc.	Holding Company	Boku Inc.	Virginia, USA
Boku Network Services AG	Holding Company	Boku Inc.	Germany
Paymo Brazil Servicios de Pagamentos Ltd	Mobile payment solutions	Boku Network Services Inc. (Delaware)	Brazil
Boku Network Services UK, Ltd	Mobile payment solutions	Boku Network Services Inc. (Delaware)	UK
Boku Network Services AU Pty Ltd	Mobile payment solutions	Boku Network Services Inc. (Delaware)	Australia
Boku Network Services IN Privates Limited	Mobile payment solutions	Boku Network Services Inc. (Delaware)	India
Boku Network Services Japan Branch Office	Mobile payment solutions	Boku Network Services Inc. (Delaware)	Japan
Boku Network Services Taiwan Branch Office	Mobile payment solutions	Boku Network Services Inc. (Delaware)	Taiwan
Boku Account Services UK, Ltd.	Mobile payment solutions	Boku Account Services Inc. (Virginia)	UK
Mindmatics Labs SRL**	Mobile payment solutions	Boku Network Services AG (Germany)	Romania
Mopay AG Beijing Representative Branch	Mobile payment solutions	Boku Network Services AG (Germany)	China
Mobileview Italia S.r.l	Mobile payment solutions	Boku Network Services AG (Germany)	Italy

** Closed in February 2018

In March 2018 the Company acquired 5% of Phronesis for an amount of $164,000 which has been accounted as a cost method investment. As at 31 December 2018 this investment was fully impaired.

13. Trade and other receivables

	31 December 2018 $'000	31 December 2017 $'000
Trade receivables - gross	**17,612**	36,710
Accrued income	**33,325**	21,060
Accounts receivable - gross	**50,937**	57,770
Less: provision for impairment	**(1,958)**	(1,410)
Accounts receivable - net	**48,979**	56,360
Other receivables	**45**	48
Deposits held	**255**	151
Taxes receivable	**972**	1,117
Note receivable from a shareholder	**793**	793
Total financial assets classified as loans and receivables	**51,044**	58,469
Prepayments	**614**	646
Total	**51,658**	59,115

Provision for impairment

	31 December 2018 $'000	31 December 2017 $'000
Opening balance	**1,410**	715
Utilised during the period	**(34)**	(111)
Increase during the period	**619**	806
Foreign exchange movement	**(37)**	-
Closing balance	**1,958**	1,410

In adopting IFRS9, the Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates that take into account and forecast credit conditions as opposed to relaying on past default rates. In adopting IFRS 9, the Group has applied the Simplified Approach, applying a provision matrix based on the number of days past due to measure lifetime expected credit losses and after taking into account customer sectors with different credit risk profiles and current and forecast trading conditions.

14. Cash and cash equivalents and restricted cash

	31 December 2018 $'000	31 December 2017 $'000
Cash and cash equivalents	**31,073**	18,741
Restricted cash	**1,251**	1,439

The restricted cash primarily includes e-money received but not yet paid to merchants (in transit), cash held in the form of a letter of credit to secure a lease agreement for the Company's San Francisco office facility and a certificate of deposit held at a financial institution to collateralise Company credit cards.

15. Derivative financial instruments

	31 December 2018 $'000	31 December 2017 $'000
Derivative financial assets (liabilities)		
Derivatives designated as hedging instruments		
Forward foreign exchange swaps	**3**	(24)

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position

The Group's objective in using derivatives is to hedge the variability of cash flows associated with monthly Aggregator payments and to manage its exposure to foreign currency movements or other identified risks. To accomplish this objective, the Company primarily uses foreign currency contracts as part of its cash flow hedging strategy.

The notional principal amounts of outstanding forward foreign exchange rate swaps at 31 December 2018 were $141,783 (2017: $1,004,306). Their fair value in 2018 is $2,646 asset (2017: $23,865 liability).

The hedged transactions denominated in various foreign currencies are expected to occur at various dates within the next 12 months. The change in net unrealised gains and losses on the fair value of these forward foreign exchange swaps are recognised in the hedging reserve in equity at year ended December 2018 of $27,000 gain (2017: loss $38,000). The realised gains of these swaps re-cycled from the hedging reserve to profit or loss were 2018: $150,515 (2017: $56,641).

Notes to the Consolidated Financial Statements

16. Trade and other payables

Current	31 December 2018 $'000	Restated* 31 December 2017 $'000
Trade payables	**69,064**	64,275
Accruals	**6,402**	7,641
Total financial liabilities classified as financial liabilities measured at amortised cost	**75,466**	71,916
Other taxes and social security costs	**350**	2,203
Accrued tax on issued stock options	**811**	533
Deferred revenue	**747**	862
Total	**77,374**	75,514
Non-current		
Deferred rent	**86**	86
Accrued taxes on issued stock options	**21**	38
Total	**107**	124

*the restatement relates to a change in accounting policy to employer taxes for share options (and RSUs).

Contract liabilities are included within 'trade payables' and 'accruals' depending if the merchant payable is just accrued or already invoiced. The carrying values of trade and other payables approximate to fair values.

17. Loans and borrowings

	31 December 2018 $'000	31 December 2017 $'000
Current		
Bank loans (secured)	**2,150**	2,400
Obligations under finance lease and hire purchase contracts	**43**	82
Total	**2,193**	2,482
Non-current		
Obligations under finance lease and hire purchase	**-**	43
Total	**-**	43

Principal terms and the debt repayment schedule of the Group's loan and borrowings are as follows:

In November 2013, the Company entered into a Loan and Security Agreement (the Agreement) with a financial institution that allows for borrowings of up to $15,000,000 under a revolving line of credit through to February 2015. This was extended first, through to March 2017 and subsequently through to March 2019. However, the amounts borrowed under this Agreement were partially repaid after the IPO and a further $0.25m during 2018; the balance outstanding at year end was $2.2m (2016: $2.4m).

The line of credit is secured by the Company's trade receivables and allows for borrowings of up to (a) 80% of outstanding eligible trade receivables from United States or Western Europe debtors plus (b) sixty-five percent (65.0%) of outstanding eligible trade receivables from debtors other than those from the United States or Western Europe plus (ii) 50% of outstanding eligible accrued income provided that (a) aggregate advances secured by trade receivables due from Aggregators does not exceed $7,500,000 at any time and (b) aggregate advances secured by eligible accrued receivables does not exceed $7,500,000 at any time. The Agreement requires a minimum monthly interest payment of $12,500 should interest paid on outstanding borrowings be less than $12,500 in any given month. Advances under the line of credit bear interest at prime plus 3.25% or prime plus 1.75%, depending on the net cash balances held with the financial institution (2017:7.50%; 2016: 6.50%). Outstanding borrowings under the line of credit at each year-end are as disclosed in the above table.

Reconciliation of liabilities arising from financing activities

	2017	Cash flows	Non-cash changes			**2018**
			Converted to shares	Foreign Exchange Movement	Fair Value Changes	
Short-term borrowings	2,400	(250)	-			**2,150**
Lease liabilities	125	(82)				**43**
Total liabilities from financial activities	**2,525**	**(332)**	**-**	**-**	**-**	**2,193**

Notes to the Consolidated Financial Statements

18. Share capital

The Company's issued share capital is summarised in the table below:

	31 December 2018		31 December 2017	
	Number of shares issued and fully paid '000	$'000	Number of shares issued and fully paid '000	$'000
Common stock of $0.0001 each				
Opening balance	213,582	**21**	27,559	3
Preference shares converted to common shares	-	**-**	112,596	11
New shares issued on IPO	-	**-**	25,424	3
Shares issued for conversion of loan notes	-	**-**	44,052	4
Shares issued for warrants	544	**-**	594	-
Exercised stock options	9,650	**1**	3,357	-
Re-purchase of shares	-	**-**	-	-
Closing balance	223,776	**22**	213,582	21

Common Stock

At December 31, 2018, the Company had 223,775,735 (2017: 213,582,467) common shares issued and outstanding, of which 1,150,000 (2017: 1,150,000) were unpaid.

Convertible preferred shares

At December 31, 2018, the Company had no (2017: Nil) convertible preferred shares issued or outstanding as they have all been converted into common stock pari-passu upon the admission to AIM.

The Company did not repurchase any shares in 2018 or 2017 which is related to the Company's right to repurchase shares that were issued following early exercise of options prior to vesting. There were no shares subject to repurchase in 2018 or 2017.

19. Reserves

The share premium disclosed in the consolidated statement of financial position represents the difference between the issue price and nominal value of the shares issued by the Company.

Retained earnings are the cumulative net profits in the consolidated income statement.

Foreign exchange reserve is foreign exchange translation gains and losses on the translation of the financial statements from the functional to the presentation currency.

Cash flow hedging reserve is changes in unrealised gains or losses on the valuation of derivatives designated as cash flow hedges at year-end.

Movements on these reserves are set out in the consolidated statement of changes in equity.

20. Share-based payment

The Group operates the following equity-settled share-based remuneration schemes for employees, directors and non-employees:

1. 2009 equity incentive plan (2009 Plan) for the granting of stock options (incentive or non-qualified), restricted stock awards (RSA) and restricted stock units (RSU). No options are available to be issued under this plan as at 31 December 2018.
2. 2009 equity UK sub-plan (2009 UK plan) under the terms of the above plan for the granting of stock options and restricted stock units for qualifying participants who are resident in the United Kingdom. No options are available to be issued under this plan as at 31 December 2018.
3. 2009 non-plan (not part of the above 2009 plan) for the granting of share options to purchase 897,000 (2017: 897,000) common shares at $0.022(2016: $0.022) per share. These options vest with terms ranging from being fully vested at grant date to vesting over four years with a one-year cliff, where 25% of the options vest. The options expire in April 2019. The shares have been exercised in full during the year and there are no options outstanding as at 31 December 2018.
4. 2009 BNS options (not part of the above 2009 plan) for the granting of share options to purchase 182,000 (2017: 182,000) common shares at $0.207 (2016: $0.207) per share in connection with the acquisition of BNS in June 2009. The options expire in June 2019.
5. 2017 Equity Incentive Plan (new plan started on the 7th November 2017) for the granting of stock options and restricted stock units (RSUs). The Group has reserved ten million shares of common stock for issue under the plan. The activity under this plan will be presented separately from the rest of the plans. There are 5,567,552 options and RSUs outstanding as at 31 December 2018.

Options under the 2017 Plan

Options under the 2009 Plan and UK plan may be outstanding for periods of up to ten years following the grant date. Outstanding options generally vest over four years and may contain a one-year cliff, where 25% of the options vest. Stock options with graded vesting is based on the graded vesting attribution approach, whereby, each instalment of vesting is treated as a separate stock option grant, because each instalment has a different vesting period.

RSUs under the 2017 Plan

RSUs under the 2017 Plan may be outstanding for periods of up to ten years following the grant date. Outstanding RSU grants generally vest over three years in three equal portions.

Performance-based Restricted stock units (RSU)

Performance-based RSUs vest upon the earlier of the completion of a specified service period and the achievement of certain performance targets, which may include individual and Company measures, and are converted into common stock upon vesting.

Share-based expense for RSUs is based on the fair value of the shares underlying the awards on the grant date and reflects the estimated probability that the performance and service conditions will be met. The share-based expense is adjusted in future periods for subsequent changes in the expected outcome of the performance related conditions until the vesting date. Performance-based RSUs vest after three years of issue, in one event, only if the performance conditions are met.

Restricted stock awards (RSA)

RSAs are subject to repurchase based upon the terms of the individual restricted stock purchase agreements. These repurchase rights lapse over the vesting term of the individual award, generally over three to four years.

Options under the 2009 Plan and 2009 UK plan

Options under the 2009 Plan and UK plan may be outstanding for periods of up to ten years following the grant date. Outstanding options generally vest over four years and may contain a one-year cliff, where 25% of the options vest.

Stock options with graded vesting is based on the graded vesting attribution approach, whereby, each instalment of vesting is treated as a separate stock option grant, because each instalment has a different vesting period.

Notes to the Consolidated Financial Statements

20. Share-based payment (continued)

2009 non-plan options

The 2009 non-plan options vest with terms ranging from being fully vested at grant date to vesting over four years with a one-year cliff. The options expire in April 2019. Share-based expense in connection with the grant of Non-Plan options was not material in 2016 and 2017. In 2018 all options were exercised. The are no outstanding options at 31 December 2018.

BNS plan options

In connection with the acquisition of BNS in June 2009, the Company granted options to purchase 182,000 common shares at a weighted-average exercise price of $0.207 per share (BNS Options). These options granted were separate from the 2009 Plan. The options expire in June 2019.A small amount of options were cancelled in 2018. There was no stock option activity related to these options in 2017. At 31 December 2018 35,424 (2017: 37,029) options were outstanding at a weighted-average exercise price of $0.197 (2017: $0.203) per share. At December 31, 2017 and 2018 all BNS Options were fully vested and exercisable.

The options activity under the 2009 Plan (including RSA and RSU) are as follows:

	Options available for grant – All plans	2009 Plan (including UK plan, (excluding RSA & RSU)		RSA		RSU*	Non-Plan Options		BNS plan options		Total
	Number of options ‘000	Number of options ‘000	WAEP1	Number of options ‘000	WAEP1	Number of options ‘000	Number of options ‘000	WAEP1	Number of options ‘000	WAEP1	**Number of options ‘000**
At 1 January 2016	**2,677**	**18,312**	**$0.610**	**7,206**	**$0.30**	**4,649**	**196**	**$0.022**	**37**	**$0.203**	**30,400**
Authorised	8,206	-	-	-	-	-	-	-	-	-	**-**
Granted	(12,668)	7,599	$0.266	-	-	5,068	-	-	-	-	**12,667**
Exercised	-	(203)	$0.367	-	-	-	-	-	-	-	**(203)**
Cancelled	1,785	(1,619)	$0.537	-	-	(166)	(146)	$(0.022)	-	-	**(1,931)**
At 1 January 2017	**-**	**24,089**	**$0.511**	**7,206**	**$0.30**	**9,551**	**50**	**$0.022**	**37**	**$0.203**	**40,933**
Authorised	10,000	-	-	-	-	-	-	-	-	-	
Granted	-	4,052	$0.370	-	-	700	-	-	-	-	**4,752**
Exercised	-	(3,357)	$0.512	(7,206)	$0.30	-	-	-	-	-	**(10,563)**
Cancelled	-	(4,175)	$0.298	-	-	(712)	-	-	-	-	**(4,887)**
At 31 December 2017	**10,000**	**20,609**	**$0.470**	**-**	**-**	**9,539**	**50**	**$0.022**	**37**	**$0.203**	**30,235**
Authorised	-	-	-	-	-	-	-	-	-	-	**-**
Granted	-	-	-	-	-	-	-	-	-	-	**-**
Exercised	-	(2,130)	$0.247	-	-	(7,580)	(50)	$0.022	(2)	-	**(9,762)**
Cancelled	**(10,000)**	(728)	$0.269	-	-	-	-	-	-	$0.35	**(728)**
At 31 December 2018	**-**	**17,751**	**$0.444**	**-**	**-**	**1,959**	**-**	**-**	**35**	**$0.202**	**19,745**

[1]WAEP – weighted average exercise price

*RSUs are always granted at zero exercise price

2009 Plan	December 2018	December 2017
Outstanding options at reporting end date:		
- total number of options (including RSA & RSU)	**19,745**	30,235
- weighted average remaining contractual life (all except 2017 Plan)		
(excluding RSU and RSA)	**4.46**	6.15
- weighted average remaining contractual life - RSU	**5.58**	6.68
- weighted average remaining contractual life - RSA	**-**	6.78
Vested and exercisable ('000):	**15,106**	12,856
- weighted average exercise price	**$0.369**	$0.374
- weighted average remaining contractual life – all plans		
(excluding RSU and RSA)	**5.71**	5.56
Weighted average share price exercised during the period (excluding RSA and RSA)	**$0.324**	$0.349
Weighted average fair value of each option granted during the period (excluding RSA and RSU)	**-**	0.165
Vested and exercisable – RSU and RSA	**7,154**	8,880
Share-based expense for the period ('000)	**$1,233**	$1,481

In October 2016, the Company's Board of Directors repriced the exercise price of certain outstanding stock options. This repricing was accounted for as a modification of all outstanding options. The Company calculated the fair value of the original options immediately prior to the modification and again after the modification occurred using the Black-Scholes option pricing model. The fair value of the modified options, less the fair value of the original options immediately before the modification, will be recorded over the remaining vesting period. For options that were fully vested as of the modification date, the Company recorded all of the incremental share-based expense as of that date. A total of 14,254,000 options were modified in 2016 resulting in incremental value of $771,000, of which $665,000 was recognised and included in share-based expenses in 2016. The remainder will be recognised over a weighted-average requisite service period of 0.864 years.

The following information is relevant in the determination of the fair value of options (excluding RSA and RSU) granted during the period under the equity- settled share-based remuneration schemes operated by the Group.

2009 Plan	December 2017
Option pricing model used	Black-Scholes
Weighted average share price at grant date (dollar)	$0.370
Exercise price (options only)	$0.370
Weighted average contractual life (years)[1]	5.82(E*+ NE*)
Weighted expected volatility [2]	45% (E*+ NE*)
Expected dividend growth rate	0%
Weighted average Risk-free interest rate[3]	1.9% (E*+ NE*)

[1]Weighted average contractual life represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behaviour.
[2]Expected volatility is based on historical volatilities of public companies operating in the Company's industry.
[3]The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.
*E – employees NE – non-employees

Notes to the Consolidated Financial Statements

20. Share-based payment (continued)

The fair value of each option has been estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected terms ranging from 4.99 to 6.89 years; risk-free interest rates ranging from 0.73% to 3.05%; expected volatility of 58%; and no dividends during the expected term (2017: expected terms ranging from 5.04 to 6.01 years; risk-free interest rates ranging from 1.87% to 1.92%; volatility of 45%; and no dividends during the expected term).
The options activity under the 2017 Plan (including options and RSU) are as follows:

	Options available '000	Options '000	WAEP1	RSUs '000	WAEP1	Total '000
At 1 January 2018	**-**	**-**	**-**	**-**	**-**	**-**
Authorised	10,000	-	-	-	-	-
Granted		1,459	$1.205	4,299	$2.24	5,758
Exercised			-	-	-	-
Cancelled		(73)	$1.205	(117)	$2.24	(190)
At 31 December 2017	10,000	1,386	$1.205	4,182	$2.24	5,568

2017 Plan	**December 2018**
Outstanding options at reporting end date:	
- total number of options (including RSUs) ('000)	**1,386**
- weighted average remaining contractual life (excluding RSUs) (years)	**9.05**
- weighted average remaining contractual life – RSUs (years)	**6.06**
Vested and exercisable ('000):	**113**
- weighted average exercise price	**$1.205**
- weighted average remaining contractual life (excluding RSU) (years)	**8.92**
Weighted average share price exercised during the period (excluding RSUs)	**-**
Weighted average fair value of options granted during the period (excluding RSU)	**$0.44**
Vested and exercisable – RSUs	**-**
Share-based expense for the period ('000)	**$2,103**

The following information is relevant in the determination of the fair value of options (excluding RSU) granted during the period under the equity- settled share-based remuneration schemes operated by the Group.

2017 Plan	**December 2018**
Option pricing model used	**Black-Scholes**
Weighted average share price at grant date (dollar)	**$1.205**
Exercise price (options only)	**$1.205**
Weighted average contractual life (years)[1]	**9.05 years**
Weighted expected volatility [2]	**32.66%**
Expected dividend growth rate	**0%**
Weighted average Risk-free interest rate[3]	**2.49%**

[1]Weighted average contractual life represents the period of time options are expected to be outstanding and is estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behaviour.
[2]Expected volatility is based on historical volatilities of public companies operating in the Company's industry.
[3]The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.
*E – employees NE – non-employees

Warrants for ordinary shares

February 2013 Warrant

In February 2013, in connection with a financing arrangement with SVB bank, the Company issued a warrant to purchase 872,093 common shares at an exercise price of $0.86 per share. The warrant was immediately exercisable and expires in February 2023. As the fair value of the warrant cannot be estimated reliably relating to the financing arrangement, the Company determined the fair value of the warrant to be $392,000 using the Black-Scholes option pricing model, assuming a contractual life of 10 years, risk free rate of 1.88%, volatility of 60% and no dividends. The fair value of the warrant was recorded within other receivables and the corresponding amount in share premium. The fair value was amortized to interest expense over 2 years by 2015, which was the term of the agreement. This warrant was exercised in September 2018 when it was converted into 543,760 common shares. As at 31 December 2018 there is nothing outstanding under this warrant.

Reconciliation of share based payment expense

	December 2018 $'000	December 2017 $'000
2009 Plan		
Options	**564**	570
RSUs	**683**	339
2017 Plan		
Options	**310**	-
RSUs	**1,792**	-
Total share based expense (excluding national insurance)	**3,349**	909
National insurance (see Note 2)	**1,244**	572
Total share based payment charge	**4,593**	1,481

21. Commitments

Operating leases

The Company leases office facilities under several non-cancelable operating lease agreements, which expire at various dates through 2021. In addition to the base rent, the Company is responsible for certain maintenance expenses under the leases. Certain lease agreements contain scheduled net increases over the lease term. The related rent expenses for these leases are calculated on a straight-line basis with the difference recorded as deferred rent. Rent expense was $1,268,564 in 2018 (2017: $1,494,593).

The total value of minimum lease payments due until the next lease break is payable as follows:

	2018 $'000	2017 $'000
Not later than one year	**1,811**	872
Later than one year and not later than five years	**2,497**	2,093
Later than five years	**-**	-
Total	**4,308**	2,965

Finance leases

During 2015 the Company entered into several capital lease agreements with leasing companies for the financing of equipment purchases of $400,000. The lease payments expire at various dates through December 2019.

2018	**Minimum lease payments**	**Interest**	**Present value**
Within one year	**45**	**2**	**43**
Between one and five years	**-**	**-**	**-**
Total	**45**	**2**	**43**

2017	**Minimum lease payments**	**Interest**	**Present value**
Within one year	91	9	82
Between one and five years	45	2	43
Total	136	11	125

Notes to the Consolidated Financial Statements

22. Dividends

No dividends were declared or paid in any of the periods.

23. Cash used in/generated from operations

	Year ended 31 December 2018 $'000	Restated* Year ended 31 December 2017 $'000
Loss after tax	**(4,333)**	(28,669)
Add back:		
Tax expense	**1,339**	129
Amortisation of intangible assets	**2,581**	2,764
Depreciation of property, plant and equipment	**213**	221
Amortisation of prepaid warrants	**-**	-
Loss on disposal of property, plant and equipment	**1**	-
Finance income	**(53)**	(18)
Finance expense	**631**	19,558
Exchange (gain)\loss	**2,376**	(3,251)
Impairment of intangible assets	**164**	-
Share based payment expense	**3,610**	1,481
Operating loss before working capital changes	**6,529**	(7,785)
Decrease in trade and other receivables	**4,336**	(18,751)
Decrease in trade and other payables	**2,877**	19,717
Cash (used in) /generated from operations	**13,742**	(6,819)

*the restatement relates to a change in accounting policy to employeer taxes for share options (and RSUs).

24. Related party transactions

In 2018, the Company has been remitted $168,713,114 (2017: $111,458,148 from 3 suppliers) in net payments from 4 suppliers who are shareholders of the Company. At December 31, 2018, the Company had receivables of $22,699,237 (2017: $20,899,203) due from these companies.

A director issued a full recourse promissory note in the amount of $793,000 for the purchase of 1,150,000 common shares at $0.69 per share in Dec 2013. This is disclosed as 'note receivable from a shareholder' in note 13 - trade and other receivables in 31 December 2018 and 2017.

25. Ultimate controlling party

There is no ultimate controlling party of the Company.

26. Contingent liabilities

In the normal course of business, the Group may receive inquiries or become involved in legal disputes regarding possible patent infringements. In the opinion of management, any potential liabilities resulting from such claims, if any, would not have a material adverse effect on the Group's consolidated statement of financial position or results of operations.

From time to time, in its normal course of business, the Group may indemnify other parties, with whom it enters into contractual relationships, including customers, Aggregators, MNOs, lessors and parties to other transactions with the Group. The Company has also indemnified its directors and executive officers, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or executive officer. The Group believes the estimated fair value of any obligation from these indemnification agreements is minimal; therefore, this consolidated financial information do not include a liability for any potential obligations at 31 December 2018 and 2017.

27. Post balance sheet events

Boku Inc completed the acquisition of 100% of the outstanding shares of Danal Inc on 1 January 2019 following the announcement of the deal on 6 December 2018. Subsequent to the completion of the acquisition, Danal Inc was renamed Boku Identity Inc.

Headquartered in San Jose, California, Danal Inc is a provider of mobile identity and authentication solutions through real-time connections to mobile operator networks and data. It has employees in the US and Ireland. In Europe it operates through a subsidiary Danal Mobile Solutions Ireland Ltd (renamed to Boku Mobile Solutions Ireland Ltd).

The purchase consideration included the following: 26.7 million Boku shares (10.7% of the total Boku Inc shares) valued at 1 Jan 2019 share price, $1.0m in cash, a five year warrant exercisable at $1.8352 share price, and an additional deferred consideration of up to $64 million in shares payable in shares and warrants depending on Danal's future performance as follows (and only if the Danal's revenue exceeds $10 million in the audited 2019 results):

The Earn-Out may be paid in either shares or cash at Boku's discretion:

a. If revenue is between $10 million and $14 million, the earn-out is (Revenue-$10 million) x 3=$12m maximum;

b. If Revenue is greater than $14 million and less than or equal to $16 million, the earn-out is (Revenue-$14 million) x 7+12 million=$26m maximum ;

c. If Revenue is greater than $16 million and less than or equal to $18 million, the earn-out is (Revenue-$16 million) x 8+$26 million=$42m maximum ;

d. If Revenue is greater than $18 million, the earn-out is (Revenue-$18 million) x10+$42 million= 62m maximum;

If shares are used to settle the Earn-Out consideration, the value of the shares will be the Volume Weighted Average Share Price for the 30 trading days preceding the fifth trading day prior to the date that such consideration is finalised, provided that the shares are valued at no more than GBP 1.70 and no less than GBP 1.20.

Earn-out paid in warrants:

Earn-out warrants to purchase an additional number of Boku shares (calculated as follows) at an exercise price of $1.8352:

a. If Revenue is between $10 million and $14 million, the number of warrants is (Revenue-$10million) ÷ $4 million x $0.5 million ÷GBP1.45= $0.5 million (in shares at £1.45/$1.8352)

b. If Revenue is greater than $14 million and less than or equal to $16 million, the number of shares is [(Revenue-$14million) ÷ $2 million x $0.5 million + $0.5 million] ÷GBP1.45= $1.0 million (in shares at £1.45/$1.8352)

c. If Revenue is greater than $16 million and less than or equal to $18 million, the number of shares is [(Revenue-$16million) ÷ $2 million x $0.5 million + $1.0 million] ÷GBP1.45= $1.5 million (in shares at £1.45/$1.8352)

d. If Revenue is greater than $18 million, the number of shares is [(Revenue-$18million) ÷ $2 million x $0.5 million + $1.5 million] ÷GBP1.45= $2.0 million (in shares at £1.45/$1.8352)

Total maximum number of shares that can be obtained under the warrant at £1.45 ($1.8352) are $2.0 million (in shares at £1.45/$1.8352)

The graph below illustrates the earn-out payable for all scenarios above.

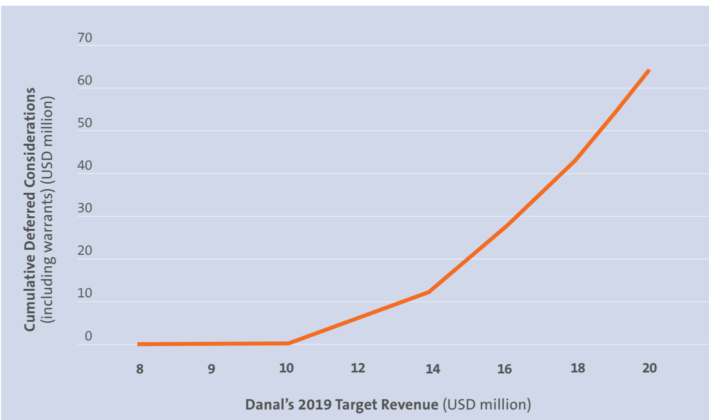


Table 1. Danal 2019 earn-out schedule

Notes to the Consolidated Financial Statements

27. Post balance sheet events (continued)

Purchase consideration and valuation

1. The 26.7m shares have been valued as at 1 January 2019, using the market value of Boku's shares (£0.7045/$0.8982) at $23.4m.
2. The 5-year warrant has been valued at $1.5m. The valuation was done using the Binomial Lattice Model which employs a nominal tree to show different paths the price of the underlying asset may take over the derivative's life. The model takes into account expected changes in various parameters such as volatility over the life of the options, providing more accurate estimates of options prices than the Black Scholes model.
3. The earn-out paid in shares have been provisionally valued at $37,544 using the Monte Carlo simulation with the following inputs and discounting back at the WACC of 17.5%:
   a. Term 1 year
   b. FY2018 revenue: $5,249,873
   c. Expected annual volatility: used 5-year comparable companies revenue volatilities from Capital IQ (27.3%)
   d. Forecasted revenue growth: one-year US risk free rate (2.63%)

   For the Monte Carlo valuation a random value is selected for each of the tasks, based on the range of estimates. The model is calculated based on this random value. The result of the model is recorded, and the process is repeated. A typical Monte Carlo simulation calculates the model hundreds of thousands of times, each time using different randomly selected values. The results are used to describe the likelihood, or probability, of reaching various results in the model.

4. The earn-out warrants have been provisionally valued at $2,009. The warrants have been valued in two steps: the first step was using the Monte Carlo simulation in order to determine the number of shares that can be purchased under the warrants using a price per share of $1.8482 equivalent with £1.45 at a USD/GBP exchange rate of 1.2746 determined in accordance with the Merger Agreement using Capital IQ rather than the Financial Times (the difference between the two sources was expected). The first step is determined with the same inputs at point 3 above. Using the results from the first step, we have performed a warrant valuation using a binomial lattice model using the following inputs:
   a. Term: 5 years
   b. Starting Stock price: we determine the 1 year forward stock price.
   c. Expected annual volatility: used 5-year comparable companies equity volatilities from Capital IQ (26.6%)
   d. Risk free rate: 1 year forward risk-free rate (2.63%)
   e. Strike price: $1.8352

Therefore, the total purchase consideration (including all deferred consideration) for the Danal Inc group is provisionally valued at $26.5 million.

19,067,093 common shares have been issued for Danal Inc acquisition on 31st January 2019.

4,631,648 Common Shares and the Warrants to Danal Company Ltd. ("Danal Korea"), the parent company of Danal Inc prior to the Acquisition, have been withheld. Danal Company Ltd. is currently obligated to repay to Citibank (USA) a loan of US$8,500,000 and funds from Danal Korea to guarantee this loan are currently being held in escrow with Citibank Korea and will be transferred to Boku following receipt of the regulatory approvals required under Korean law, at which point the Common Shares and Warrants will be issued to Danal Korea. Boku expects this loan to be cleared and the shares and warrants to be payable to Danal Korea before the end of June 2019. Danal Korea is paying the interest costs on the loan until such date until the loan is repaid.

In addition, 2,724,499 Common Shares are currently subject to holdback for 12 months to satisfy any potential indemnification claims.

With the exception of 1,930,414 Common Shares which are subject to an Orderly Marketing Arrangement, fifty percent of the Common Shares issued as part of the Initial Consideration are subject to a lock-in until 30 June 2019 and fifty percent are subject to a lock-in until 31 December 2019. Following the Acquisition, Jon Prideaux, Mark Britto and Paul McGuire will also be subject to the same lock-in terms in respect of their entire Boku shareholdings with the exception of any share sale which may be required to meet income tax liabilities on the vesting of Restricted Stock Units.

There are no other post balance sheet events to report.

Boku, Inc.
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