

## COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by BMIT Technologies. (“**the Company**”) pursuant to the Listing Rules as issued by the Listing Authority.

### ***Quote***

The Board of Directors of the Company approved the attached Annual Report and Financial Statements for the financial year ended 31 December 2018 and resolved that these be submitted for the approval of the shareholders at the forthcoming Annual General Meeting.

The Board of Directors has also authorised for publication the 2018 Annual Report and Financial Statements, which will also be available for viewing on the Company’s website at

<https://www.bmittechnologies.com/wp-content/uploads/2019/04/2018-ANNUAL-REPORT.pdf>

### ***Unquote***



**Dr. Francis Galea Salomone LL.D.**  
**Company Secretary**

**30 April 2019**

BMIT TECHNOLOGIES p.l.c.

Annual Report and  
Consolidated Financial Statements

31 December 2018

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## Chairman's message

This is BMIT Technologies' first Annual Report since it was formally listed on the Malta Stock Exchange last February. This milestone in BMIT Technologies' history is the culmination of months of hard work and dedication, by an exceptional team of people who led a very successful IPO process, in record time.

I therefore write this message with great pride. I worked alongside this team and now I have the privilege of acting as Chairman of a company which I am very proud of, and one which I have been part of for a good number of years.

We are aware of the challenges we face to transform a private company to a public listed company, both operationally, and culturally. In this regard, my board and my management team are well engaged to execute a series of initiatives aimed at making this transition as smooth as possible, for the benefit of our shareholders and customers. I am confident that BMIT Technologies will yield even greater results and will continue to thrive in the years to come. There are several reasons for this.

Its past performance certainly augurs well for the future. It has the right mix of foresight, acumen and drive. Over the years, BMIT Technologies has invested heavily in its systems and people in order to provide innovative and bespoke IT services solutions to both local and foreign clients. This has allowed it to strengthen its core competence, as well as tap into emerging industries, with great success.

Today BMIT Technologies is reporting a profit for the year of €4.5 million.

BMIT Technologies went one step further when it decided to invest in Kinetix IT Solutions Limited (Kinetix) back in 2016, eventually fully acquiring it in early 2018. This acquisition means that BMIT Technologies is well positioned to provide one-stop-service solutions to upcoming businesses that are operating in an ever-more competitive environment. Such competence fully complemented BMIT Limited's (BMIT) suite of services and technical expertise.

Today, we are one of the leading go-to companies for a wide-range of IT solutions. Our data centre, hosting and cloud services are a benchmark for the local industry, and the services of choice for a growing number of local, and even global names. This did not happen by chance. It is the result of a strong strategic direction and clear vision to grow and evolve, and at the same time, add more value to our customers whilst enabling more and more knowledge-based customers, in Malta and beyond to achieve success and business longevity.

We are now positively gearing up and looking forward to the next challenges ahead. The Company is in a great place and advantageously positioned to capitalise on new opportunities as they arise. Being prepared means having the right set-up in place to welcome new collaborations that can take the business to the next level. I have no doubt that it will continue on this positive trajectory.

The success of any business is only possible because of the people behind it. The people that implement its strategy and vision. The people that invest their money and trust in it.

I therefore take this opportunity to first and foremost thank the teams at BMIT and Kinetix for their loyalty and dedication. I am sure that working together as one team will reap even greater results.

To my fellow Board Members, I look forward to the months ahead. I am confident that together we can now execute our strategy and vision for BMIT Technologies that will allow it to prosper and continue delivering value to the Maltese economy.

**Chairman's message** - continued

To you, our esteemed shareholders, I thank you for your trust and belief in BMIT Technologies. As we have stated in the IPO prospectus, we are aiming to strike a balance between ensuring the long-term success of your company while providing you with returns in the short term through our dividend distribution. Without you, we could not have embarked on this exciting journey.

Nikhil Patil  
Chairman

## Chief Executive Officer's review

2018 has been a year of major change for BMIT Technologies p.l.c. (BMIT Technologies), both in terms of company structure and operations. Two major milestones stand out: the acquisition of Kinetix IT Solutions Limited (Kinetix) and the transformation of BMIT Technologies into a public limited company following a hugely successful IPO process and the listing on the regulated market of the Malta Stock Exchange. These milestones are of course parallel to the continuous growth we continue to register in terms of customers as well as financial results.

In March 2018, we fully acquired Kinetix, bringing to a close a process that commenced back in 2016. Fully integrating the technical expertise and competence offered by Kinetix allows us to tap into new areas which were not previously covered by BMIT Limited (BMIT), therefore complementing our offering with the resultant increase in our customer base. Our next step will see BMIT and Kinetix operating as one organisation, positioning BMIT Technologies as a leading one-stop-shop for a range of services including data centre and hosting services, public and private cloud solutions, as well as a range of managed IT services.

The Company's listing on the Stock Exchange, subsequent to an IPO by GO p.l.c. of 49% of BMIT Technologies' shares, was the culmination of years of work by a team of professionals who built a successful organisation and, in a highly competitive market, continued to provide exceptional quality of service to customers, with sustained return to shareholders. Both BMIT and Kinetix have consistently delivered positive results. This did not happen by chance, but through the continuous innovation of our offering, whilst providing value for money to Maltese and international customers.

This is just one part of our transformation journey.

### A Transforming Organisation

BMIT Technologies' plans to maximise the synergies within its operational entities - BMIT and Kinetix - is a transformative one for the Company, for multiple reasons. Primarily it will better position us to serve our customers better and in turn help our customers achieve more through technology. It will allow us to offer a far wider range of IT services but more importantly, it will enable us to be always on the ready to deliver on emerging trends in the industry.

Data centre services remain a critical part of our offering – it is essentially where our story began. We already operate two data centres in Malta: one in Handaq and another one in SmartCity Malta. As already stated publicly, we are already in the advanced stages of developing a new data centre in Żejtun that promises to be the largest purpose built data centre facility on the island. This new data centre has been designed and is being built according to established international standards. Consequently, we expect it to be certified as a Tier 3 data centre from a leading international institution. In addition to new co-location and hosting capacity, we plan to offer enhanced cloud services as well as to roll-out new and advanced IT solutions. As a result, we expect the centre to be open for business during the first half of 2020.

Developing new services and solutions is critical to our operations if we are to remain ahead of the game. During 2018 we enhanced several offerings, as well as embarked on developing new solutions, mainly in the cloud and managed IT spheres. We also entered into a strategic partnership with Microsoft, which will enable us to jointly develop and commercialise a number of innovative solutions during 2019 and beyond. A first deliverable is the ability for customers to purchase Azure cloud services locally, directly from BMIT, therefore allowing for local access to and support for a global cloud offering.

Our customer mix is also evolving – whilst we are strengthening our position in established segments, we are also tapping into new, emerging markets. Online gaming is a key segment for us and is one that has grown exponentially over the past years. In fact, during 2018, whilst strengthening our relationships with existing customers, we also managed to grow this segment even further by acquiring new customers, including leading global operators. At the same time, we also continued to expand our business within the financial services sector, as well as in the professional services, logistics and transportation segments.

## **Chief Executive Officer's review** - continued

### **Financial Performance**

During 2018, BMIT Technologies generated revenues of €21 million, an increase of 8% over 2017. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by €0.7 million to €9 million, an increase of 8% over previous year. This robust performance incorporates the consolidated results of both BMIT and Kinetix.

Cost of sales, administration and related costs amounted to €14 million, an increase of 7% over 2017. This increase is a result of growth in business, in line with increase in revenue. It is also a result of continuous investment in our people, which enables us to continue offering excellent services and support, as well as of our suitably poised portfolio which caters for new customer requirements.

Profit before tax amounted to €7 million, an increase of 10%.

### **Looking Ahead**

We are looking ahead at 2019 and beyond with great optimism. We are implementing a strategy that should see us grow our business, develop new segments as well as identify new opportunities. We are also looking at expanding our reach further, through partnerships with key players in different segments, as well as further market expansion.

In fact, during 2019, we will continue to actively participate in both local and international fora so as to strengthen relationships with existing customers as well as to forge new relationships with potential new ones. We will continue to invest in new technologies, just as we will continue to invest in human talent, which latter resource is key to our continued growth and success.

We are of course well aware of the challenges ahead, including developing regulatory frameworks in key areas of operations, stronger competition from local operators and global players, as well as the ability to attract the right talent that can articulate and develop the right offerings to our customers. I am lucky enough to have a formidable team that is as professional, as they are dedicated to BMIT Technologies' vision. I am grateful for their continued drive and support in this regard.

Finally, I would like to thank existing and new shareholders for their trust in us, to all our employees for their dedication and hard work as well as to the Board of Directors

Christian Sammut  
Chief Executive Officer

## Directors' report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

### Principal activities

The Group offers its customers a range of data centre and hosting services, public, private and hybrid cloud services and managed IT services – which can be offered at customer premises, hosted at any of BMIT Technologies p.l.c. (BMIT Technologies) subsidiaries data centres, or integrated with services offered by other services providers - thereby scaling the solutions from the desktop to the data centre and into the cloud.

The Group proudly delivers its services to over 500 corporate customers from various industries including online gaming, financial services, ICT, manufacturing, media, transportation, retail and hospitality. BMIT Technologies Group's scale and range of customers, partnerships with leading technology players and its employees' technology certifications enable it to obtain a proficient understanding of the business, technology and also regulatory requirements, as and where applicable.

### Business review

A review of the business of the Group during the year under review, events which took place since the end of the accounting period and an indication of likely future developments are given in the Chief Executive Officer's Review on page 3.

### Review of financial performance

The Group generated revenue of €21.3 million (2017: €19.7 million), an increase of €1.6 million over the comparative year. Revenue is growing year on year across all categories, except for the resale of hardware and software. The most significant increases were in the sale of connectivity services (up by 23%) and colocation services (up by 11%). Cloud and managed services are also improving year on year with an increase of 9% between 2018 and 2017.

Cost of sales and administrative expenses amounted to €14.3 million (2017: €13.4 million). The main increase of €0.9 million is the result of the increase in sales activity which has driven up the cost of goods sold, increase in payroll and marketing costs, and a one-time impairment charge of €0.5 million for the Kinetix brand which use shall be discontinued in 2019.

Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) grew by 8% to €9.3 million, an increase of €0.7 million over the comparative year, representing underlying growth in the operating performance of the Group.

Profit before tax amounted to €7.0 million (2017: €6.4 million) resulting in an earnings per share of €0.397 (2017: €0.416). Despite an increase in profits, earnings per share decreased by 4.6% due to an increase in the weighted average number of shares in issue after the capitalisation of amounts due to its immediate parent.

Cash generated from operations amounted to €5.8 million (2017: €7.0 million), a decrease of €1.2 million compared to 2017 due to settlement of balances with the immediate parent. In 2018, the Group's investments in property, plant and equipment amounted to a cash outflow of €1.5 million (2017: €1.1 million), whereas BMIT Technologies' acquisition of the remaining 49% of the issued share capital of Kinetix IT Solutions Limited (Kinetix) resulted in a further cash outflow of €1.9 million. The first 51% was acquired in 2016 for a consideration of €1.2 million.



## **Directors' report** - continued

### **Review of financial performance** - continued

During the year, the Group paid dividends amounting to €4 million (2017: €4.9 million). The Group's cash and cash equivalents as at year end amounted to €0.7 million (2017: €2.2 million), a decrease of €1.5 million over prior year which was largely due to the cash outflow to fully acquire Kinetix.

### **Financial position**

As at 31 December 2018, the BMIT Technologies Group held property, plant and equipment with a net book value of €6.6 million, keeping the same value as the previous year. The value comprises data centre equipment with a carrying amount of €4.1 million, and office furniture and equipment with a carrying amount of €0.8 million, at BMIT Technologies Group's data centres in Handaq and SmartCity. The value of leased equipment, relating to computer hardware and software acquired by the Group and leased to its data centre clients, increased from €0.8 million as at 31 December 2017 to €1.2 million as at 31 December 2018 reflecting the increase in customers' demand in this area. Development of the new data centre in Zejtun continued during 2018 and other assets in the course of construction and improvements to premises amounted to €0.5 million as at the same date.

The estimated useful life of the data centre and infrastructure has been reviewed at the beginning of the year following management's reassessment of the duration for which the equipment will be useful to the business. The effect of this change in accounting estimate on the Group's financial results for the year under review and on the financial position as at the end of the reporting period was a decrease in the depreciation charge of €213,000 and an equivalent increase in net assets.

As at 31 December 2018, BMIT Technologies Group also held intangible assets with a value of €3.7 million (2017: €4.5 million) relating to the brand names ('BMIT' and 'Kinetix'), customer relations and goodwill arising upon the acquisitions of the subsidiary companies. The decrease of €0.8 million in the value of intangible assets includes €0.5 million impairment charge for the 'Kinetix' brand which shall be discontinued at some point during 2019.

The BMIT Technologies Group, through BM IT Limited, held a 40% shareholding in MIGS Limited, which in turn held a 40% shareholding in iGaming Idol Limited. BMIT Technologies Group's investment in these two companies is carried at €18k as at 31 December 2018 and 2017.

The Group's current assets amounted to €3.2 million (2017: €4.7 million) and are mainly represented by trade and other receivables of €2.3 million (2017: €2.2 million) and cash of €0.7 million (2017: €2.2 million). Total liabilities decreased from €18.9 million as at 31 December 2017 to €6.7 million as at 31 December 2018, following the capitalisation of the balances due to GO.

Shareholders' funds as at year end amounted to €6.9 million compared to a negative €3.1 million as at 31 December 2017. The accumulated negative retained earnings balance of €9.4 million as at 31 December 2018 (2017: €9.9 million) is the result of dividends which are based on the profits available for distribution from the subsidiaries before taking into consideration the amortisation of intangible assets arising upon consolidation. The negative reserves of €4.1 million (2017: €3.0 million) is due to the excess of consideration over the carrying amount of the non-controlling interests acquired on the investment of the subsidiaries.

On 25 October 2018, BMIT Technologies capitalised an amount of €11.2 million due to GO in exchange for the issue and allotment of new shares to GO in BMIT Technologies. This amount related to funds advanced by GO to BMIT Technologies to complete the acquisition of the BM companies and Kinetix. As a result of this transaction, the issued share capital of BMIT Technologies increased from €9.1 million to €20.4 million, thereby eliminating the negative equity reserves of the BMIT Technologies Group.

## Directors' report - continued

### Our principal risks and uncertainties

#### *Security and resilience*

The Group's commercial success is dependent upon the resilience of its data centres and IT systems. Our infrastructure and systems face a variety of risks that could cause significant interruptions to the delivery of our services. If the Group experiences any significant failure of its infrastructure or systems, the impact could be considerable and include significant financial loss besides reputational damage that could jeopardise future revenue. The Group manages this risk by having significantly invested in the resiliency of its key infrastructure and systems wherever this is possible and feasible. Furthermore, the Group adopts a robust control framework that focuses on prevention supported by tried-and-tested recovery capabilities.

#### *Customer data processing*

On a daily basis, the Group processes personal data of its significant client base. The Group recognises the importance of adhering to data privacy laws and wants its customers to feel confident that the Group acts properly and protects the data they share with it. Failure to abide by all relevant data protection and privacy laws could result in reputational damage for the Group as well as regulatory action and fines. The Group manages this risk by having in place a robust governance and monitoring framework. This framework defines roles and responsibilities of employees who have access to personal data, provides training and awareness to these employees and includes monitoring, reporting and audit to ensure compliance with various policies and procedures aimed to protect customer data and privacy.

#### *Competition*

The BMIT Technologies Group faces competition from other local or international providers of similar and competing products and services. Recent entrants in the local data centre market may pursue an aggressive price reduction strategy to secure new customers. Leading international cloud providers, coupled with the growth in the demand for cloud-based services in the local market, may attract new entrants that will hinder the Group's forecasted growth. This could result in the loss of existing or new customers, and consequently will result in the need to counter such moves accordingly. As a result, the forecast growth of the Group may be adversely affected.

#### *Ability to grow*

The Group operates in a highly developed market characterised by extensive competition, as mentioned above, pressure on pricing and technology substitution. The Group strives to maintain its ability to grow revenues in spite of this adverse environment as failure to do so will impact profitability and the Group's ability to maintain its investment programme. The Group mitigates this risk by identifying opportunities to diversify its product portfolio and invest in new markets. The Group also pursues innovative product bundling and extends to its customer new technologies soon after these become available whilst working hard to become a leaner organisation.

#### *i-gaming industry*

The *i-gaming* industry has grown to become one of Malta's main economic pillars. BMIT Technologies Group is a major supplier of technology and services to operators working out of Malta and any negative impact on the ability of the industry to retain its significant presence in Malta will impact the Group's profitability. Aware of this risk the Group is augmenting its range of services to include a holistic ICT experience targeted at the Group's large business client base, thereby reducing the Group's reliance on the *i-gaming* industry.

#### *Demand for data centre services*

The markets for the data centre services the BMIT Technologies Group offers, as well as certain of the industries in which its customers operate, are characterised by rapidly changing technology, evolving industry trends and changing customer demands. As a result, the infrastructure at the Company's data centres may become less marketable due to demand for new processes and technologies. In addition, new technologies have the potential to replace or provide lower cost alternatives to the Company's services.

## Directors' report - continued

### *Financial risk management*

The Group's activities potentially expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management, covering risk exposures for all subsidiaries, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the respective company's financial performance. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Accordingly, the Company's Board of Directors provides principles for overall Group risk management, as well as risk management policies covering risks referred to above and specific areas such as investment of excess liquidity. A detailed review of the risk management policies employed by the Group is included in Note 3 to the financial statements.

The Statement of Compliance with the Principle of Good Corporate Governance in this Annual Report, describes the non-financial key performance indicators relevant to the Group, including information relating to environmental and employee matters.

In terms of environmental matters, the Group is cognisant of the impact its operations has on the environment as a result of the level of energy it consumes. In this respect, the Group has been successful in its efforts at reducing its carbon footprint. This is a result of consistent and extensive investment in new technologies and equipment, which are more efficient in terms of energy consumption. This is particularly visible in our choice of technologies deployed in our data centres. Data centres, by their very nature, consume considerable energy, and through our initiatives in this area, we are seeking to maintain our environmental impact as low as possible. Efforts have also been extended to increasing the necessary awareness and encouraging best practice internally. Specific initiatives on waste management and recycling have been also implemented. All employees are strongly encouraged to recycle, not only waste generated at work, but also electronic waste at home through the provision of proper disposal facilities within the Company's main offices including collection points for e-waste.

Further information in respect of these matters is disclosed within the Directors' Report in the Annual Report and Financial Statements of the Company's parent, GO p.l.c.

## Board of Directors

The Directors who served on the Board during the year under review or up to the date of this report are listed hereunder. None of the Directors in office during the year or at the balance sheet date held an executive appointment with the Company or its subsidiaries.

Nikhil Patil (appointed 9 April 2018)  
Arthur Galea Salomone (appointed 1 November 2018)  
Charmaine Farrugia (appointed 3 October 2018)  
Reuben Zammit (appointed 3 October 2018)  
Saviour sive Sonny Portelli (appointed 1 November 2018)  
Attila Keszeg (resigned 30 March 2018)  
Mohamed Fadhel Kraiem (resigned 3 October 2018)

In terms of Article 98 of the Articles of Association, the term of appointment of the Directors still in office expires at the forthcoming Annual General Meeting.

Of the Directors of the Company, Nikhil Patil was acting as Director of *BM IT Limited, Bellnet Limited and BM Support Services Limited* as from 9 April 2018, whereas Charmaine Farrugia and Reuben Zammit were appointed Directors of these subsidiaries on 25 January 2019. Nikhil Patil was also appointed Director of *Kinetix IT Solutions Limited* on 9 April 2018.

None of the Directors has service contracts with either the Company or its subsidiaries.

## **Directors' report** - continued

### **Remuneration committee and corporate governance**

During the period under review, the functions of the Remuneration Committee were carried out by the Board of Directors in view of the fact that the remuneration of Directors is not performance related.

### **Directors' responsibilities**

The Directors are required by the Companies Act (Cap. 386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Company as at the end of each reporting period and of the profit and loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying consistently suitable accounting policies;
- making accounting judgements and estimates that are reasonable; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining such internal control, as they deem necessary for the preparation of financial statements that are free from financial misstatements, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). 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 financial statements of BMIT Technologies for the year ended 31 December 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and may be made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

### **Information provided in accordance with *Listing Rule 5.70.1***

The Company is not party to any contract, not being a contract entered into in the Company's ordinary course of business, giving rise to an obligation or entitlement which is material to the Company as at the date of this report.

### **Going concern**

The Directors, as required by the Listing Rule 5.62, have considered the Company's operating performance, the balance sheet at year-end, as well as the business plan for the coming year, and they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, in preparing the financial statements, they continue to adopt the going concern basis in preparing the financial statements.

## Directors' report - continued

### Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office. A resolution to re-appoint the auditors and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

### Information provided in accordance with *Listing Rule 5.64*

The authorised share capital of the Company is thirty million euro (€30,000,000) divided into three hundred million (300,000,000) shares of ten euro cents (€0.10) each share.

The issued share capital of the Company is twenty million, three hundred and fifty nine thousand and five hundred and thirty one euro (€20,359,531) divided into two hundred and three million, five hundred and ninety five thousand and three hundred and ten (203,595,310) ordinary shares of ten euro cent (€0.10) each share, which have been subscribed for, allotted and fully paid up. The issued shares of the Company consist of one class of ordinary shares with equal voting rights attached.

The Company modified the structure of its share capital during the year as follows:

- it increased its authorised share capital to 300,000,000 shares of €1 each and its issued share capital to 203,595,310 shares of €1 each;
- it increased its issued share capital by issuing and allotting 11,249,531 shares of €1 each by way of capitalisation of amounts due to its immediate parent GO, amounting to €11,249,531;
- it redesignated its shares from having a nominal value of €1 each into shares with a nominal value of €0.10 each.

The Directors confirm that as at 31 December 2018, only GO held a shareholding in excess of 5% of the total issued share capital.

The Chairman of the Board of Directors shall be elected by the Directors by a simple majority from among the Directors of the Company.

The rules governing the appointment of Board members are contained in Clause 96 of the Company's Articles of Association as follows:

The Directors shall be appointed at each annual general meeting (or an Extraordinary General Meeting convened for the purposes of electing directors). Voting shall take place on the basis that every member shall have one vote in respect of each ordinary share held by him. A member may use all his votes in favour of one candidate or may split his votes in any manner he chooses among any two or more candidates. The Chairman of the meeting shall declare elected those candidates who obtain the greater number of votes on that basis.

Any amendment to the Company's Memorandum and Articles of Association has to be made in accordance with the Companies Act (Cap. 386).

The Company may, subject to the applicable restrictions, limitations and conditions contained in the Companies Act (Cap. 386), acquire its own shares and or Equity Securities.

Pursuant to Listing Rules 5.64.2, 5.64.4, 5.64.5, 5.64.6, 5.64.7 and 5.64.10 it is hereby declared that, as at 31 December 2018, none of the requirements apply to the Company.

**Directors' report** - continued

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on 7 March 2019 and signed on its behalf by:



Nikhil Patil  
Chairman



Charmaine Farrugia  
Director

Registered address:

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SmartCity Malta  
Ricasoli, Kalkara, SCM 1001  
Malta

7 March 2019

## **Corporate governance - Statement of compliance**

### **A. Introduction**

Pursuant to the Malta Financial Services Authority Listing Rules, BMIT Technologies p.l.c. ('the Company' or BMIT Technologies) whose equity securities are listed on a regulated market should endeavour to adopt the Code of Principles of Good Corporate Governance ('the Code') as contained in Appendix 5.1 to Chapter 5 of the Listing Rules. In terms of the Listing Rules, the Company is hereby reporting on the extent of its adoption of the Code.

The Company acknowledges that the Code does not prescribe mandatory rules but recommends principles to provide proper incentives for the Board of Directors ('the Board') and the Company's management to pursue objectives that are in the interests of the Company and its shareholders. Good corporate governance is the responsibility of the Board, and in this regard, the Board has carried out a review of the Company's compliance with the Code during the period under review, and hereby provides its report thereon.

As demonstrated by the information set out in this statement, the Company believes that it has, save as indicated herein the section entitled Non-Compliance with the Code, throughout the period under review, applied the principles and complied with the provisions of the Code.

### **B. Compliance**

#### **Principle 1: The Board**

The Board, the members of which are appointed by the shareholders, is primarily tasked with the overall direction, administration and management of the Company in such a way as to enhance the prosperity of the business over time, and therefore the value of the shareholders' investment. The Board is composed of five Directors (one of whom is the Chairman) all of whom are non-executive Directors.

The Board is in regular contact with the Chief Executive Officer and is continuously informed of any decisions taken in order to ensure an effective contribution to the decision making process, whilst at the same time exercising prudent and effective controls. Directors, individually and collectively, are of appropriate calibre, with the necessary skill and experience to assist them in providing leadership, integrity and judgement in directing the Company towards the maximisation of shareholder value.

The Board delegates specific responsibilities to a number of committees, notably the Audit Committee, which operates under formal terms of reference approved by the Board.

Further detail in relation to the Audit Committee and the responsibilities of the Board is found in paragraph 'Principles 4 and 5' of this statement.

#### **Principle 2: Chairman and Chief Executive Officer**

The roles of Chairman and Chief Executive Officer are filled by separate individuals, and the Chief Executive Officer is appointed by the Board for a definite period of time. During the period under review, Christian Sammut was the Chief Executive Officer.

The responsibilities and roles of the Chairman and the Chief Executive Officer are clearly established and agreed to by the Board of Directors.

## **Corporate governance - Statement of compliance** - continued

### **Principle 2: Chairman and Chief Executive Officer** - continued

The Chairman is responsible to lead the Board and set its agenda. The Chairman ensures that the Board is in receipt of precise, timely and objective information and also encourages active engagement by all members of the Board for discussion of complex and contentious issues.

### **Principle 3: Composition of the Board**

In accordance with the provisions of the Company's Articles of Association, the appointment of Directors to the Board is exclusively reserved to the Company's shareholders, except in so far as appointment is made to fill a casual vacancy on the Board, and which appointment would expire at the Company's Annual General Meeting following appointment. Any vacancy among the Directors may be filled by the co-option of another person to fill such vacancy. Such co-option shall be made by the Board of Directors.

The Board has the overall responsibility for the activities carried out within the Company and the Group and thus decides on the nature, direction, strategy and framework of the activities and sets the objectives for the activities.

The Board of Directors is currently chaired by Nikhil Patil and comprises five (5) non-executive Directors. The following Directors served on the Board during the period under review:

Nikhil Patil (appointed 9 April 2018)  
Arthur Galea Salomone (appointed 1 November 2018)  
Charmaine Farrugia (appointed 3 October 2018)  
Reuben Zammit (appointed 3 October 2018)  
Saviour sive Sonny Portelli (appointed 1 November 2018)  
Attila Keszeg (resigned 30 March 2018)  
Mohamed Fadhel Kraiem (resigned 3 October 2018)

For the purposes of the Code, the non-executive Directors are independent. The Company deems that, although Nikhil Patil, Charmaine Farrugia and Reuben Zammit have employment with the controlling shareholder, in terms of Supporting Principle 3(vii) of the Code of Principles of Good Corporate Governance such relationship is not considered to create a conflict of interest such as to jeopardise exercise of their free judgement.



## **Corporate governance - Statement of compliance - continued**

### **Principles 4 and 5: The Responsibilities of the Board and Board Meetings**

The Board has a formal schedule of matters reserved to it for decisions, but also delegates specific responsibilities to Board committees and sub-committees, the most prominent being the Audit Committee. Directors receive Board and committee papers in advance of meetings and have access to the advice and services of the Company Secretary. Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Directors are fully aware of their responsibility always to act in the best interests of the Company and its shareholders as a whole, irrespective of whoever appointed or elected them to serve on the Board. As delegated and monitored by the Board, the Company Secretary keeps detailed records of all dealings by Directors and senior executives of the Company and its subsidiaries in the Company's shares and all minutes of meetings of the Board and its sub-committees.

The Company became listed on 15 February 2019 and there was one board meeting held from that date to the date of signing of this report.

On joining the Board, a Director is provided with a presentation on the activities of the Company and its subsidiaries.

The Board has the responsibility to ensure that the activities are organised in such a way that the accounts, management of funds and financial conditions in all other respects are controlled in a satisfactory manner and that the risks inherent in the activities are identified, defined, measured, monitored and controlled in accordance with external and internal rules, including the Articles of Association of the Company. The Board of Directors, continuously assesses and monitors the Company's operational and financial performance, assesses and controls risk, and monitors competitive forces in all areas of operation. It also ensures that both the Company and its employees maintain the highest standards of corporate conduct.

### **Board Committees**

#### ***Audit Committee***

The Audit Committee supports the work of the Board in terms of quality control of the Group's financial reports and internal controls. The Audit Committee is currently chaired by Sonny Portelli, with the other members being Dr Arthur Galea Salomone and Reuben Zammit. The Audit Committee is independent and is constituted in accordance with the requirements of the Listing Rules, with Reuben Zammit being chosen as the member competent in accounting and/or auditing in view of his experience in the field. The Chief Finance Officer and the external auditors of the Company attend the meetings of the Committee by invitation. Other executives are requested to attend when required. The Company Secretary also acts as Secretary to the Audit Committee.

The Committee scrutinises and monitors related party transactions. It considers the materiality and the nature of the related party transactions carried out by the Company to ensure that the arm's length principle is adhered to at all times.

The Audit Committee is a sub-committee of the Board constituted to fulfil an overseeing role in connection with the quality and integrity of the Company's financial statements. In performing its duties, the Audit Committee is to maintain effective working relationships with the Board of Directors, management and the external auditors of the Company. The Committee shall also consider the arm's length nature of related party transactions that the Company carries out.

## **Corporate governance - Statement of compliance** - continued

### **Principles 4 and 5: The Responsibilities of the Board and Board Meetings** - continued

The primary purposes of the Audit Committee shall be to protect the interests of the Company's shareholders as well as to assist the Board in fulfilling its obligations and effectively discharging its responsibilities in connection with the following matters:

- a. ensuring that the Company adopts, maintains and, at all times, applies appropriate accounting and financial reporting processes and procedures;
- b. monitoring of the audit of the Company's annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26 (6) of the Statutory Audit Regulation;
- c. facilitating the independence of the external audit process and addressing issues arising from the audit process;
- d. reviewing of the systems and procedures of internal control implemented by management and of the financial statements, disclosures and adequacy of financial reporting;
- e. making of recommendations to the Board in relation to the appointment of the external auditors and the approval of the remuneration and terms of engagement of the external auditors, following the relative appointment by the shareholders in the annual general meeting;
- f. monitoring and reviewing of the external auditors' independence and, in particular, the provision of additional services to the Company;
- g. considering and evaluating the arm's length nature of related party transactions that the Company carries out to ensure that the execution of any such transactions are, indeed, at arm's length and on a sound commercial basis and ultimately in the best interests of the Company; and
- h. ensuring that the Company, at all times, maintains effective risk management and internal control systems, including compliance functions.

As part of its duties, the Committee receives and considers the audited statutory financials statements of all companies comprising the Group.

### **Principle 6: Information and Professional Development**

The Board is responsible for the appointment of the Chief Executive Officer. The Chief Executive Officer, although responsible for the recruitment and selection of senior management, consults with the Board on the appointment of senior management.

On joining the Board, Board members are informed in writing by the Company Secretary of the Directors' duties and obligations, relevant legislation as well as rules and bye-laws. In addition, Directors have access to the advice and services of the Company Secretary and the Board is also advised directly, as appropriate, by its legal advisors. Directors are also provided with a presentation on the activities of the Company and subsidiaries. On a regular basis, the Directors receive periodic information on the Group's financial performance and position. The Company Secretary ensures effective information flows within the Board, committees and between senior management and Directors, as well as facilitating professional development. The Company Secretary advises the Board through the Chairman on all governance matters. Directors may, in the course of their duties, take independent professional advice on any matter at the Company's expense. The Company will provide for additional individual Directors' training on a requirements basis.

## **Corporate governance - Statement of compliance - continued**

### **Principle 7: Evaluation of the Board's Performance**

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of its role, as the Board's performance is evaluated on an ongoing basis by, and is subject to the constant scrutiny of, the Board itself, the Company's shareholders, the market and the rules by which the Company is regulated as a listed company.

### **Principle 8: Committees**

The Company has opted not to set up a Remuneration Committee and a Nomination Committee. Further explanation is provided under the section entitled Non-Compliance with the Code of this Statement.

### **Principles 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders**

The Company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The Company also communicates with its shareholders through the Company's Annual General Meeting ('AGM'). The Chairman of the Board ensures that all Directors attend the AGM and that both the Chairman of the Board and the Chairman of the Audit Committee are available to answer questions.

Both the Chairman and Chief Executive Officer also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns.

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Financial Statements and also through the Company's website ([www.bmittechnologies.com](http://www.bmittechnologies.com)) which also contains information about the Company and its business, including an Investor Relations section.

In addition, the Company holds meetings with major stockbrokers and financial intermediaries, which meetings usually coincide with the publication of financial statements.

The office of the Company Secretary maintains regular communication between the Company and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year, and are given the opportunity to ask questions at the AGM or to submit written questions in advance.

As provided by the Companies Act (Cap. 386) minority shareholders may convene Extraordinary General Meetings.

### **Principle 11: Conflicts of Interest**

The Directors are fully aware of their responsibility always to act in the best interests of the Company and its shareholders as a whole irrespective of whoever appointed or elected them to serve on the Board.

On joining the Board and regularly thereafter, the Directors are informed of their obligations on dealing in securities of the Company within the parameters of law, including the Listing Rules, and Directors follow the required notification procedures. None of the Directors held any shares in the Company or any disclosable interest in any contracts or arrangements either subsisting at the end of the last financial year or entered into during this financial year.

## **Corporate governance - Statement of compliance** - continued

### **Principle 12: Corporate Social Responsibility**

The Directors also seek to adhere to accepted principles of corporate social responsibility in their management practices of the Company in relation to the Company's workforce and the community in general.

### **C. Non-compliance with the code**

#### **Principle 3: Executive and Non-Executive Directors on the Board**

As explained in Principle 3 in Section B, the Board is composed entirely of non-executive Directors. Notwithstanding this, it is considered that the Board, as composed, provides for sufficiently balanced skills and experience to enable it to discharge its duties and responsibilities effectively. In addition, no cases of conflict of interest are foreseen.

#### **Principle 4: Succession Policy for the Board (code provision 4.2.7)**

This Code Provision recommends 'the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility'.

In the context of the appointment of Directors being a matter reserved exclusively to the Company's shareholders (except where the need arises to fill a casual vacancy) as explained under Principle 3 in Section B, considering that every Director retires from office at the AGM and on the basis of the Directors' non-executive role, the Company does not consider it feasible to have in place such a succession policy.

#### **Principle 6: Succession Plan for Senior Management**

Although the Chief Executive Officer is responsible for the recruitment and appointment of senior management, the Company has not established a formal succession plan.

#### **Principle 8 B: Remuneration Committee and Nomination Committee**

The Board deems that the setting up of a Remuneration Committee is not necessary within the context of the size, nature and operations of the Company. Its function is carried out by the Board of Directors.

Pursuant to the Company's Articles of Association, the appointment of Directors to the Board is reserved exclusively to the Company's shareholders. Within this context, the Board believes that the setting up of a Nomination Committee is currently not suited to the Company since it will not be able to undertake satisfactorily its full functions and responsibilities as envisaged by the spirit of the Code.

## **Corporate governance - Statement of compliance - continued**

### **Principle 9: Conflicts between Shareholders (code provision 9.3)**

Currently there is no established mechanism disclosed in the Company's Memorandum and Articles of Association to trigger arbitration in the case of conflict between the minority shareholders and the controlling shareholders. In any such cases should a conflict arise, the matter is dealt with in the appropriate fora, including in Board meetings, wherein the minority shareholders are represented. There is also an open channel of communication between the Company and the minority shareholders via the office of the Company Secretary.

#### **D. Internal controls**

The key features of the Group's system of internal controls are as follows:

##### **Organisation**

The Group operates through boards of directors of subsidiaries with clear reporting lines and delegation of powers. The Company's Chairman is also the chairman of the board of directors of the Company's subsidiaries.

##### **Control environment**

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives. Lines of responsibility and delegation of authority are documented.

The Group and the individual companies comprising it have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties and reviews by management and the external auditors.

##### **Risk identification**

Group management is responsible together with each of the subsidiary companies' management, for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

##### **Information and communication**

Group companies participate in periodic strategic reviews, which include consideration of long-term financial projections and the evaluation of business alternatives.

##### **Monitoring and corrective action**

There are clear and consistent procedures in place for monitoring the system of internal financial controls. The Audit Committee plans to meet regularly during the year and, within its terms of reference as approved by the Listing Authority, reviews the effectiveness of the Group's systems of internal financial controls. The committee receives reports from management and the external auditors.

## **Corporate governance - Statement of compliance** - continued

### **E. General meetings**

Shareholders' influence is exercised at the Annual General Meeting (AGM), which is the highest decision-making body of the Company. All shareholders, registered in the Shareholders' Register, have the right to participate in the Meeting and to vote for the full number of their respective shares. A shareholder who cannot participate in the Meeting can be represented by proxy.

Business at the Company's AGM will cover the Annual Report and Financial Statements, the declaration of dividends, election of Directors and the approval of their remuneration, the appointment of the auditors and the authorisation of the Directors to set the auditors' fees. Shareholders' meetings are called with sufficient notice to enable the use of proxies to attend, vote or abstain. The Company clearly recognises the importance of maintaining a regular dialogue with its shareholders in order to ensure that its strategies and performance are understood. It communicates with the shareholders through the AGM by way of the Annual Report and Financial Statements and by publishing its results on a regular basis during the year. This is done through the Investor Relations Section on the Company's internet site, the office of the Company Secretary, and Company announcements to the market in general. Regular meetings are planned to be held with financial intermediaries and stockbrokers.



## *Independent auditor's report*

To the Shareholders of BMIT Technologies p.l.c.

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- BMIT Technologies p.l.c.'s Group and Parent Company's financial statements (the 'financial statements') give a true and fair view of the Group and the Parent Company's financial position as at 31 December 2018, and of the Group and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

#### **What we have audited**

BMIT Technologies p.l.c.'s financial statements, set out on pages 29 to 83, comprise:

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

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Parent Company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

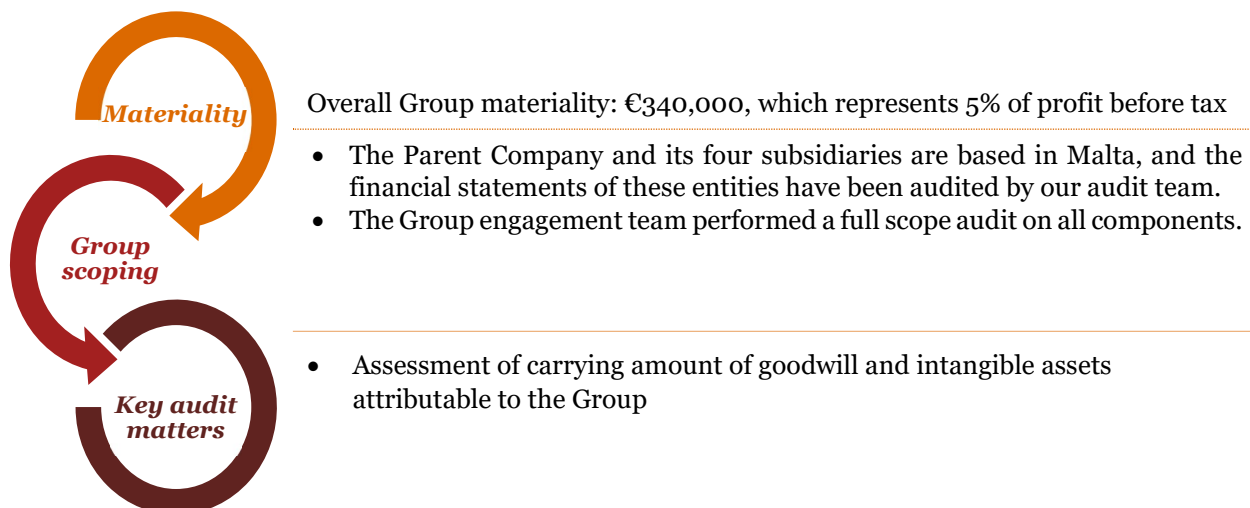
The non-audit services that we have provided to the Group and its subsidiaries, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 17 to the financial statements.

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### *Our audit approach*

#### **Overview**

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.





## Independent auditor's report - continued

To the Shareholders of BMIT Technologies p.l.c.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<b>Overall Group materiality</b>	€340,000
<b>How we determined it</b>	5% of profit before tax
<b>Rationale for the materiality benchmark applied</b>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above €17,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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 our audit addressed the Key audit matter
<p><i>Assessment of carrying amount of goodwill and intangible assets attributable to the Group</i></p> <p>Goodwill with a carrying amount of €3.2 million and intangible assets having a carrying amount of €0.5 million as at 31 December 2018, have arisen from a number of acquisitions effected during the preceding financial years. An assessment is required annually to establish whether goodwill and intangible assets that have an indefinite useful life should continue to be recognised, or if any impairment is required. The assessment was performed at the lowest level at which the Group could allocate and assess goodwill, which is referred to as a cash generating unit (CGU). Goodwill and intangible assets arising from acquisitions have been allocated to the Group's only CGU - Data Centre Services.</p>	<p>We evaluated the suitability and appropriateness of the impairment methodology applied and the discounted cash flow model as prepared by management.</p> <p>We assessed the methodology and assumptions used by utilising our independent valuation experts. The calculations used in the model were re-performed to check accuracy and the key inputs in the model were agreed to approved sources.</p> <p>Management's cash flow forecasts used in the model were assessed by:</p>



## Independent auditor's report - continued

To the Shareholders of BMIT Technologies p.l.c.

Key audit matter	How our audit addressed the Key audit matter
<p>The impairment assessment relied on the calculation of a value in use for the CGU. This calculation was based on estimated future cash flows for the CGU, including assumptions around revenue growth, margins and EBITDA levels, discounted at an appropriate weighted average cost of capital. The Group used its business plan as the basis for the first 5 years of cash flows and then extrapolated returns into perpetuity using a terminal growth factor.</p> <p>The assumptions supporting the underlying forecast cash flows reflect significant judgements as these are affected by unexpected future market or economic conditions. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires judgement. The extent of judgement and the size of the goodwill and intangible assets, resulted in this matter being identified as an area of audit focus.</p> <p>Relevant references in the Annual Report and Financial Statements:</p> <ul style="list-style-type: none"> <li>• Accounting policy : Note 1.6, Note 3.3</li> <li>• Note on intangible assets: Note 7</li> <li>• Critical accounting judgements and estimates: Note 4.1</li> </ul>	<ul style="list-style-type: none"> <li>• testing that the forecasts agreed to the most recent business plan which had been approved by the Board of Directors;</li> <li>• considering current year performance against plan and the reasons for any deviation also through discussion with management; and</li> <li>• assessing historical forecasting accuracy through back-testing by reviewing the historical achievement of the business plan given the uncertainties in forecasting, comparing the actual historical cash flow results with previous forecasts, including forecast profit margins to historical margins.</li> </ul> <p>We also focused on understanding and challenging management's future plans for the CGU and understanding the manner in which the related cash flow forecasts were drawn up. We benchmarked key assumptions in management's forecasts in respect of revenue growth, gross margins and EBITDA margins, to the extent practicable, to relevant economic and industry indicators, where possible.</p> <p>Our independent valuation experts critically assessed the discount rate and terminal growth rates used in the discounted cash flow models.</p> <p>The challenge of our valuation experts was focused on the methodology used to determine the discount rates used by reference to the overall calculated cost of capital for the Group, and on which benchmarks were the most appropriate in determining the terminal growth rate of cash flows. We independently calculated a weighted average cost of capital by making reference to market data and benchmarked the long-term growth rates to market data. We concluded that the parameters utilised by the Group were reasonable, given historic results, economic outlook, industry forecasts and other market data.</p>



## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

Key audit matter	How our audit addressed the Key audit matter
	<p>Our discussions with the Audit Committee in respect of this key audit matter focused on the key assumptions, both individually and when combined together. During these discussions, management confirmed their view that the forecast for the CGU remained appropriate and that the key assumptions were subject to oversight.</p> <p>We assessed the sufficiency of the sensitivity analysis performed by management.</p> <p>Independent sensitivity analysis was performed, making adjustments to a number of modelled assumptions simultaneously. We critically assessed whether or not a reasonably possible change to the assumptions could result in an impairment considering the sensitivity of the valuation to these assumptions. The deterioration in performance or long-term growth rates which would need to occur, or the increase in discount rate which would need to be applied to the model, that may lead to impairment in the CGU is significant in view of the comfortable level of headroom with respect to the CGU carrying value. We determined that a movement in those key assumptions of this extent is unlikely. The value in use of the CGU remains in excess of the carrying amount by a comfortable headroom.</p> <p>The appropriateness of disclosures made in relation to goodwill and intangible assets was also reviewed.</p>

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We have no key audit matters to report with respect to our audit of the parent company financial statements.



## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

### **How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's accounting process is structured around a Group finance function at its head office. The Group audit engagement team in Malta carried out a full scope audit on all components located in Malta, accounting for 100% of Group revenues and 100% of Group profit before tax.

The Group audit team performed all of this work by applying the overall Group materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

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### *Other information*

The Directors are responsible for the other information. The other information comprises the *Directors' Report*, the *Chairman's Message* and the *Chief Executive Officer's Review* but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.



## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

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### *Responsibilities of the Directors and those charged with governance for the financial statements*

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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### *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 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.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.



## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on other legal and regulatory requirements*

#### *Report on the statement of compliance with the Principles of Good Corporate Governance*

The Listing Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 12 to 19 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.



## *Independent auditor's report - continued*

To the Shareholders of BMIT Technologies p.l.c.

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### *Other matters on which we are required to report by exception*

We also have responsibilities:

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
  - Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
  - The financial statements are not in agreement with the accounting records and returns.
  - We have not received all the information and explanations we require for our audit.
  - Certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.
- under the Listing Rules to review the statement made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

We have nothing to report to you in respect of these responsibilities.

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### *Appointment*

We were first appointed as auditors of the Company on 17 May 2010. Our appointment has been renewed annually by resolution representing a total period of uninterrupted engagement appointment of 8 years. The Company became listed on a regulated market on 15 February 2019.

#### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta

A handwritten signature in blue ink that reads 'FAxisa'.

Fabio Axisa  
Partner

7 March 2019

## Statements of financial position

		As at 31 December			
		Group		Company	
		2018	2017	2018	2017
ASSETS	Notes	€'000	€'000	€'000	€'000
<b>Non-current assets</b>					
Property, plant and equipment	6	6,554	6,555	-	-
Intangible assets	7	3,690	4,535	-	-
Investment in subsidiaries	8	-	-	20,359	18,487
Investment in associate	9	18	18	-	-
Trade and other receivables	11	161	213	-	-
Total non-current assets		10,423	11,321	20,359	18,487
<b>Current assets</b>					
Inventories	10	208	229	-	-
Trade and other receivables	11	2,306	1,983	865	3,590
Cash and cash equivalents	12	667	2,244	-	-
Total current assets		3,181	4,456	865	3,590
<b>Total assets</b>		13,604	15,777	21,224	22,077



**Statements of financial position** - continued

		<b>As at 31 December</b>			
		<b>Group</b>		<b>Company</b>	
		<b>2018</b>	2017	<b>2018</b>	2017
		<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>EQUITY AND LIABILITIES</b>	Notes				
<b>Equity</b>					
Share capital	13	<b>20,360</b>	9,110	<b>20,360</b>	9,110
Other reserves		<b>(4,097)</b>	(2,964)	-	-
Accumulated losses/retained earnings		<b>(9,390)</b>	(9,917)	<b>4</b>	1
<b>Capital and reserves attributable to owners of the Group</b>					
		<b>6,873</b>	(3,771)	<b>20,364</b>	9,111
Non-controlling interest		-	692	-	-
<b>Total equity</b>		<b>6,873</b>	(3,079)	<b>20,364</b>	9,111
<b>Non-current liabilities</b>					
Trade and other payables	15	<b>194</b>	-	-	-
Deferred tax liabilities	14	<b>508</b>	646	-	-
Total non-current liabilities		<b>702</b>	646	-	-
<b>Current liabilities</b>					
Trade and other payables	15	<b>5,846</b>	18,156	<b>860</b>	12,966
Current tax liabilities		<b>183</b>	54	-	-
Total current liabilities		<b>6,029</b>	18,210	<b>860</b>	12,966
<b>Total liabilities</b>		<b>6,731</b>	18,856	<b>860</b>	12,966
<b>Total equity and liabilities</b>		<b>13,604</b>	15,777	<b>21,224</b>	22,077

The notes on pages 35 to 83 are an integral part of these consolidated financial statements.

The financial statements on pages 29 to 83 were authorised for issue by the Board on 7 March 2019 and were signed on its behalf by:



Nikhil Patil  
Chairman



Charmaine Farrugia  
Director

## Statements of comprehensive income

		<b>As at 31 December</b>			
		<b>Group</b>		<b>Company</b>	
	Notes	<b>2018</b>	2017	<b>2018</b>	2017
		<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Revenue</b>	16	<b>21,274</b>	19,717	-	-
Cost of sales	17	<b>(11,721)</b>	(10,573)	-	-
<b>Gross profit</b>		<b>9,553</b>	9,144	-	-
Administrative expenses	17	<b>(2,580)</b>	(2,784)	<b>(3)</b>	(2)
Investment income	19	-	-	<b>6,162</b>	6,697
<b>Profit before tax</b>		<b>6,973</b>	6,360	<b>6,159</b>	6,695
Tax expense	20	<b>(2,477)</b>	(2,309)	<b>(2,156)</b>	(2,344)
<b>Profit for the year</b>		<b>4,496</b>	4,051	<b>4,003</b>	4,351
<b>Attributable to</b>					
Owners of the Company		<b>4,487</b>	3,795	<b>4,003</b>	4,351
Non-controlling interest		<b>9</b>	256	-	-
<b>Profit for the year</b>		<b>4,496</b>	4,051	<b>4,003</b>	4,351
<b>Earnings per share (€)</b>	21	<b>0.04</b>	0.04		

The notes on pages 35 to 83 are an integral part of these consolidated financial statements.

## Statements of changes in equity

### Group

	Notes	Attributable to the owners of the Company					Total equity €'000
		Share capital €'000	Other reserves - adjustment relating to non- controlling interest €'000	Accumulated losses €'000	Total €'000	Non- controlling interest €'000	
Balance at 1 January 2017		9,110	(2,964)	(9,362)	(3,216)	1,011	(2,205)
<b>Comprehensive income</b>							
Profit for the year		-	-	3,795	3,795	256	4,051
<b>Transactions with owners</b>							
Dividends	22	-	-	(4,350)	(4,350)	(575)	(4,925)
<b>Balance at 31 December 2017</b>		<b>9,110</b>	<b>(2,964)</b>	<b>(9,917)</b>	<b>(3,771)</b>	<b>692</b>	<b>(3,079)</b>
Balance at 1 January 2018 – as originally reported		9,110	(2,964)	(9,917)	(3,771)	692	(3,079)
<i>Impact of changes in accounting policies</i>							
Transition adjustment upon adoption of IFRS 9 on 1 January 2018	2	-	-	40	40	38	78
Balance at 1 January 2018 – as restated		9,110	(2,964)	(9,877)	(3,731)	730	(3,001)
<b>Comprehensive income</b>							
Profit for the year		-	-	4,487	4,487	9	4,496
<b>Transactions with owners</b>							
<i>Changes in ownership interest that do not result in loss of control</i>							
Acquisition of non-controlling interest in subsidiary	8	-	(1,133)	-	(1,133)	(739)	(1,872)
<i>Contribution by owners:</i>							
Issue of ordinary shares	13	11,250	-	-	11,250	-	11,250
<i>Distributions to owners:</i>							
Dividends	22	-	-	(4,000)	(4,000)	-	(4,000)
Total transactions with owners		11,250	(1,133)	(4,000)	6,117	(739)	5,378
<b>Balance at 31 December 2018</b>		<b>20,360</b>	<b>(4,097)</b>	<b>(9,390)</b>	<b>6,873</b>	<b>-</b>	<b>6,873</b>

**Statements of changes in equity** - continued

<b>Company</b>	Notes	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2017		9,110	-	9,110
<b>Comprehensive income</b>				
Profit for the year		-	4,351	4,351
<b>Transactions with owners</b>				
Dividends	22	-	(4,350)	(4,350)
<b>Balance at 31 December 2017</b>		<b>9,110</b>	<b>1</b>	<b>9,111</b>
Balance at 1 January 2018		9,110	1	9,111
<b>Comprehensive income</b>				
Profit for the year		-	4,003	4,003
<b>Transactions with owners</b>				
Issue of ordinary shares	13	11,250	-	11,250
Dividends	22	-	(4,000)	(4,000)
Total transactions with owners		11,250	(4,000)	7,250
<b>Balance at 31 December 2018</b>		<b>20,360</b>	<b>4</b>	<b>20,364</b>

The notes on pages 35 to 83 are an integral part of these consolidated financial statements.

## Statements of cash flows

		As at 31 December			
		Group		Company	
Notes		2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Cash flows from operating activities</b>					
	23	<b>8,309</b>	9,551	<b>1,866</b>	(3)
		-	-	<b>6,162</b>	6,697
		<b>(2,486)</b>	(2,524)	<b>(2,156)</b>	(2,344)
		<b>5,823</b>	7,027	<b>5,872</b>	4,350
<b>Cash flows from investing activities</b>					
	6	<b>(1,528)</b>	(1,050)	-	-
	8	<b>(1,872)</b>	-	<b>(1,872)</b>	-
		<b>(3,400)</b>	(1,050)	<b>(1,872)</b>	-
<b>Cash flows from financing activities</b>					
	22	<b>(4,000)</b>	(4,925)	<b>(4,000)</b>	(4,350)
		<b>(4,000)</b>	(4,925)	<b>(4,000)</b>	(4,350)
		<b>(1,577)</b>	1,052	-	-
		<b>2,244</b>	1,192	-	-
	12	<b>667</b>	2,244	-	-

The notes on pages 35 to 83 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. Summary of significant accounting policies

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

#### 1.1 Basis of preparation

The consolidated financial statements include the financial statements of BMIT Technologies and its subsidiaries and are prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Maltese Companies Act (Cap. 386). They have been prepared under the historical cost convention. Unless otherwise stated, all financial information presented has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

##### *Financial position of the Group*

As at 31 December 2018, the Group's current liabilities exceeded its current assets by €2.8 million (2017: €13.8 million). The Group envisages that a significant level of earnings will be generated throughout the forthcoming financial year, through its cash generating unit, which will enable the Group to manage effectively its forecasted cash flows and liquidity needs.

##### *Standards, interpretations and amendments to published standards effective in 2018*

In 2018, the Group adopted amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2018. The adoption of these revisions to the requirements of IFRSs as adopted by the EU resulted in changes to the Group's accounting policies impacting the Group's financial performance and position. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9, 'Financial Instruments', and
- IFRS 15, 'Revenue from Contracts with Customers'.

The new accounting policies are disclosed in Note 1 below. The impact of the adoption of these standards is disclosed in Note 2 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 January 2018. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU, and the Company's Directors are of the opinion that, except as disclosed below, there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application.

## 1. Summary of significant accounting policies - continued

### 1.1 Basis of preparation - continued

#### **IFRS 16, 'Leases'**

IFRS 16 was published in January 2016 and will be effective from 1 January 2019, replacing IAS 17 'Leases'.

The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The accounting for lessors will not significantly change.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of €1,485,000. Of these commitments, approximately €5,000 relate to short-term leases and to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately €4,527,000 on 1 January 2019 and lease liabilities of €4,527,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately €170,000 lower at 31 December 2019 and net current assets will be €687,000 lower due to the presentation of a portion of the liability as a current liability. The Group expects that net profit before tax will decrease by approximately €170,000 for 2019 as a result of adopting the new requirements. Adjusted EBITDA used to measure results is expected to increase by approximately €704,000, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately €704,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 1. Summary of significant accounting policies - continued

### 1.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where, for instance the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of acquiring the investment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

#### (b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests, where the acquisition or disposal of partial interests in a subsidiary has no impact on the Group's ability to control the subsidiary's financial and operating policies, as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the identifiable net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.



**1. Summary of significant accounting policies - continued**

**1.2 Consolidation - continued**

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the Company's separate financial statements, investments in associates are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of the associate are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

## 1. Summary of significant accounting policies - continued

### 1.2 Consolidation - continued

#### (e) Business combinations involving entities under common control

Business combinations involving entities under common control are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. The key feature of a transaction among entities under common control is that there is no change in the ultimate control of the combining entities as a result of the transaction. Control could be exercised by a group of individuals that are all part of the same close family group when they have the collective power to govern the financial and operating policies of the entity.

The Company has chosen to apply the pooling of interests method or predecessor accounting to account for transactions involving entities under common control. The Company accounts for business combinations involving entities under common control by recording:

- the transaction as if it had already taken place at the beginning of the earliest period presented;
- the assets and liabilities of the acquired entity using predecessor book values from the consolidated financial statements of the controlling party; and
- the difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity as an adjustment to equity.

When the controlling party does not prepare financial statements, the book values from the financial statements of the acquired entity are used.

### 1.3 Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Board of Directors, which is the Group's chief operating decision-maker in accordance with the requirements of IFRS 8 'Operating Segments'.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision-maker.

### 1.4 Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All foreign exchange gains and losses are presented in the income statement within 'other income' or 'other expenses'.

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Land and buildings are shown at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged to profit or loss, and then reflected in other comprehensive income and shown as a revaluation reserve.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment - continued

The rates of depreciation used for the current and comparative periods are as follows:

	%
Improvements to premises	6 - 10
Office equipment	10 - 25
Other equipment	6 - 20
Computer equipment	25
Generators	5 - 10
Motor vehicles	20

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.8).

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

When revalued assets are sold, the amounts included in the revaluation reserve relating to the asset are transferred to retained earnings.

### 1.6 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill that is recognised separately within 'intangible assets' is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and also whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment losses on goodwill are not reversed.

#### (b) Brand names

Brand names acquired in a business combination are recognised at fair value at the acquisition date. These assets have a finite useful life and are carried at cost less accumulated amortisation, which amortisation is calculated using the straight-line method over the expected life of the brand. The fair value of the brand names acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned.

## 1. Summary of significant accounting policies - continued

### 1.6 Intangible assets - continued

#### (c) Customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationships. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

#### *Amortisation*

Amortisation is calculated using the straight-line method to allocate the cost of the intangible assets to their residual value over their estimated useful lives as follows:

	Years
Brand names	10
Customer relationships	5

The assets' residual values and useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

### 1.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Goodwill that forms part of the carrying amount of an investment in a joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in a joint venture is tested for impairment as a single asset when there is objective evidence that the investment in a joint venture may be impaired.

### 1.8 Financial assets

#### 1.8.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

## 1. Summary of significant accounting policies - continued

### 1.8 Financial assets - continued

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held-for-trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

#### 1.8.2 Recognition and derecognition

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

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which an asset is delivered to or by the Group. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership or has not retained control of the asset.

#### 1.8.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.

## 1. Summary of significant accounting policies - continued

### 1.8 Financial assets - continued

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

#### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### **1.8.4 Impairment**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see Note 1.10 for further details).

### 1.9 Inventories

#### *Goods held for resale and other inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average cost method, and comprises the invoiced value of goods, including transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 1.10 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less credit loss allowances.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

## **1. Summary of significant accounting policies - continued**

### **1.11 Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### **1.12 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

### **1.13 Financial liabilities**

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative contracts, are classified as financial liabilities measured at amortised cost, i.e. which are not at fair value through profit or loss. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

### **1.14 Trade and other payables**

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

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

### **1.15 Borrowings**

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### **1.16 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **1.17 Current and deferred tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.



## **1. Summary of significant accounting policies - continued**

### **1.17 Current and deferred tax - continued**

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### **1.18 Provisions for legal and other claims**

Provisions for legal and other claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### **1.19 Revenue recognition**

Revenues include all revenues from the ordinary business activities. Ordinary activities do not only refer to the core business but also to other recurring sale of goods or rendering of services. Revenues are recorded net of value added tax.

#### *Sale of goods*

Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

Sales are recognised when control of the products has been transferred, being when the products are delivered to the buyer, the buyer has full discretion over the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## 1. Summary of significant accounting policies - continued

### 1.19 Revenue recognition - continued

#### *Sale of services*

Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of hardware, revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

#### *Financing*

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

#### *Interest income*

Interest income is recognised using the effective interest method.

#### *Dividend income*

Dividend income is recognised when the right to receive payment is established.

### 1.20 Contract costs

Contract costs comprise the incremental costs of obtaining a contract (mainly sales commission paid to employees and third-party resellers) and the costs to fulfill a contract. These must be capitalised if it can be assumed that the costs will be compensated by future revenue from the contract. Incremental costs of obtaining a contract are additional costs that would have not been incurred had the contract not been concluded. Costs to fulfill a contract are costs relating directly to a contract that are incurred after contract inception and serve the purpose of fulfilling the contract but are incurred prior to fulfillment and cannot be capitalised under any other standard. The Group makes use of the option to immediately recognise contract costs as an expense if the amortisation period of the asset it would have recognised in respect of them, would not have exceeded a year.

The costs of obtaining service contracts are capitalised and released to profit or loss on a straight-line basis over the enforceable contract term or over the estimated period of the customer relationship, if shorter.

## 1. Summary of significant accounting policies - continued

### 1.20 Contract costs - continued

Costs to fulfill a contract, when they qualify as non-distinct from the performance obligation, are capitalised and costs incurred are recorded on a time-apportioned basis over the effective period of the contract. The assumptions underlying the period over which the costs of fulfilling a contract are expensed are periodically reviewed and adjusted in line with observations; termination of the contractual relationship with the customer results in the immediate expensing of the remaining deferred costs. Where the carrying amount of deferred costs exceeds the remaining consideration expected to be received for the transfer of the related goods and services, less expected costs relating directly to the transfer of these goods and services still to be incurred, the excess amount is similarly immediately expensed.

### 1.21 Customer contract assets and liabilities

The timing of revenue recognition may differ from customer invoicing. Trade receivables presented in the statement of financial position represent an unconditional right to receive consideration (primarily cash), i.e. the services and goods promised to the customer have been transferred.

By contrast, contract assets mainly refer to amounts allocated per IFRS 15 as compensation for goods or services provided to customers for which the right to collect payment is subject to providing other services or goods under that same contract. Contract assets, like trade receivables, are subject to impairment for credit risk. The recoverability of contract assets is also verified, especially to cover the risk of impairment should the contract be interrupted.

Contract liabilities represent amounts paid by customers before receiving the goods and/or services promised in the contract. This is typically the case for advances received from customers or amounts invoiced and paid for goods or services not transferred yet, such as contracts payable in advance or prepaid packages (previously recognised in deferred income).

### 1.22 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or a series of payments, the right to use an asset for an agreed period of time.

#### (a) Operating leases

##### *The Group is the lessee*

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

##### *The Group is the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position and are accounted for in accordance with Note 1.5. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the lease term.

## 1. Summary of significant accounting policies - continued

### 1.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

The Company measures a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. Upon settlement of the dividend payable the Company recognises the difference between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable in profit or loss.

### 1.24 Borrowing costs

Borrowing costs which are incurred for the purpose of acquiring or constructing qualifying property, plant and equipment are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway, during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. All other borrowing costs are expensed. Borrowing costs are recognised for all interest-bearing instruments on an accrual basis using the effective interest method. Interest costs include the effect of amortising any difference between initial net proceeds and redemption value in respect of the Group's interest-bearing borrowings.

### 1.25 Accounting policies applicable until 31 December 2017

#### 1.25.1 Financial assets

##### *Classification*

The Group classifies its financial assets (other than investment in subsidiaries in the Company's case) in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, i.e. financial assets acquired principally for the purpose of selling in the short-term. A financial asset is also classified in this category if, on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

##### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables principally comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 1.10 and 1.11).

**1. Summary of significant accounting policies - continued**

**1.25 Accounting policies applicable until 31 December 2017 - continued**

**1.25.1 Financial assets - continued**

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale financial assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months of the end of the reporting period.

*Recognition and measurement*

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the settlement date, which is the date on which an asset is delivered to or by the Group.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. The other changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income directly in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

## 1. Summary of significant accounting policies - continued

### 1.25 Accounting policies applicable until 31 December 2017 - continued

#### 1.25.1 Financial assets - continued

##### Recognition and measurement - continued

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

##### *Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

##### (a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade receivables is described in Note 1.10.

##### (b) Assets classified as available-for-sale

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss) is reclassified from equity to profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

**1. Summary of significant accounting policies - continued**

**1.25 Accounting policies applicable until 31 December 2017 - continued**

**1.25.2 Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'administrative expenses'. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in profit or loss.

**1.25.3 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is recognised upon delivery of products or performance of services. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Products and services may be sold separately or in bundled packages (multiple element arrangements). In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met:

- (i) the deliverable has value to the customer on a stand-alone basis; and
- (ii) there is evidence of the fair value of the item.

The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value.

**(a) Sale of goods**

Sale of goods is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

**1. Summary of significant accounting policies - continued**

**1.25 Accounting policies applicable until 31 December 2017 - continued**

**1.25.3 Revenue recognition - continued**

(b) Sale of services

Revenue from services rendered is recognised in profit or loss when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue and the associated costs can be measured reliably. Revenue from contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided that is accrued at the end of each period and unearned revenue from services to be provided in future periods that is deferred.

**2. Changes in accounting policies**

This note explains the impact of the adoption of IFRS 9, 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on the Group's financial statements.

(a) Impact on the financial statements

As a result of the changes in the Group's accounting policies and as explained in Note 2(b) and Note 2(c) below, IFRS 9 and IFRS 15 were adopted without restating comparative information. The reclassifications and the adjustments arising from the new requirements are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.



**2. Changes in accounting policies - continued**

	1 January 2018		
	Based on 31 December 2017 - as originally reported	Impact of adoption of IFRS 9	Restated
	€'000	€'000	€'000
<b>Statement of financial position (extract)</b>			
<b>ASSETS</b>			
<b>Current assets</b>			
Trade and other receivables	1,363	78	1,441
Total current assets	4,456	78	4,534
<b>Total assets</b>	15,777	78	15,855
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Retained earnings	(9,917)	40	(9,877)
Non-controlling interest	692	38	730
Total equity	(3,079)	78	(3,001)

(b) IFRS 9, 'Financial Instruments' - impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9, 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 1.8. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

**2. Changes in accounting policies - continued**

The total impact on the Group's equity as at 1 January 2018 is as follows:

	Retained earnings €'000	Non- controlling interest €'000
As originally reported – based on 31 December 2017 figures	(9,917)	692
Adjustment to equity upon adoption of IFRS 9 on 1 January 2018: Decrease in impairment allowances on trade and other receivables	40	38
	(9,877)	730
As restated		

Non-controlling interest as at 1 January 2018 was impacted by an amount of €38,000 reflecting the decrease in impairment allowances on trade and other receivables attributable to non-controlling interest.

*(i) Classification and measurement*

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. No reclassification adjustments were deemed necessary such that the measurement basis of the financial assets are unchanged, prior to application of impairment requirements.

*(ii) Impairment of financial assets*

The Group's financial assets that are subject to IFRS 9's new expected credit loss model include trade receivables for sales of services and contract assets.

The Group was required to revise its impairment methodology under IFRS 9. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in Note (a) above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss allowance was insignificant.

## 2. Changes in accounting policies - continued

### Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows:

As at 1 January 2018	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	+150 days past due	Total
Expected loss rate (weighted average)	1%	2%	3%	15%	30%	100%	
Gross carrying amount (€'000)	633	434	143	107	118	234	1,669
Loss allowance (€'000)	<b>6</b>	<b>6</b>	<b>3</b>	<b>10</b>	<b>35</b>	<b>168</b>	<b>228</b>
							€'000
Loss allowance at 31 December 2017 - utilising IAS 39 principles							306
Amounts reflected through restatement of opening retained earnings and opening non-controlling interest as at 1 January 2018							78
Opening impairment loss allowance as at 1 January 2018 - utilising IFRS 9 principles							228

The impairment loss allowances decreased by €57,000 for trade receivables during the current year.

### (c) IFRS 15, 'Revenue from Contracts with Customers' – Impact of adoption

The Group has adopted IFRS 15, 'Revenue from Contracts with Customers' from 1 January 2018 which did not result in changes in accounting policies and adjustments to the amounts recognised in the financial statements, except for the separate presentation of contract assets and contract liabilities in the statement of financial position.

The impact of the changes in accounting policies on the Company's financial statements do not differ substantially from those presented for the Group.

### 3. Financial risk management

#### 3.1 Financial risk factors

The Group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's Board of Directors provides principles for overall Group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity. The Group did not make use of derivative financial instruments to hedge certain risk exposures during the current and preceding financial years.

(a) Market risk

(i) *Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency, which would be considered a foreign currency. The Group's revenues, purchases and operating expenditure, financial assets and liabilities, including financing, are mainly denominated in euro, and therefore foreign exchange risk is not considered significant.

(ii) *Cash flow and fair value interest rate risk*

The Group has no significant interest-bearing assets except for mainly cash and cash equivalents. Assets earning interest at variable rates expose the Group to cash flow interest rate risk whereas assets earning interest at fixed rates expose the Group to fair value interest rate risk.

Management does not consider cash flow and fair value interest rate risk to be significant in view of the nature and terms of the instruments highlighted above. Accordingly, a sensitivity analysis for this risk disclosing how profit or loss and equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

(iii) *Price risk*

The Group is not exposed to equity securities price risk.

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### (b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, loans and receivables, as well as credit exposures to customers, including outstanding receivables and committed transactions. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Carrying amounts</b>				
Trade and other receivables (Note 11)	<b>1,732</b>	1,363	<b>805</b>	3,554
Cash and cash equivalents (Note 12)	<b>667</b>	2,244	-	-
	<b>2,399</b>	3,607	<b>805</b>	3,554

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The Group does not hold any significant collateral as security in this respect. The figures disclosed in the table above in respect of trade and other receivables exclude prepayments.

##### Trade and other receivables

The Group assesses the credit quality of its trade customers, the majority of which are unrated, taking into account financial position, past experience and other factors. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. It has policies in place to ensure that sales of services are effected to customers with an appropriate credit history. Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the Group's standard payment and service delivery terms and conditions are offered. The creditworthiness analysis for new customers includes a review through external creditworthiness databases when available. The Group monitors the performance of its trade and other receivables on a regular basis to identify incurred collection losses, which are inherent in the Group's debtors, taking into account historical experience in collection of accounts receivable.

In view of the nature of the Group's activities and the market in which it operates, a limited number of customers account for a certain percentage of the Group's trade and other receivables. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk with respect to contractual debts, these material exposures are monitored and reported more frequently and rigorously. These customers trade frequently with the respective Group undertaking and are deemed by management to have positive credit standing, usually taking cognisance of the performance history without defaults.

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The Group's trade and other receivables, which are not impaired financial assets, are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect significant losses from non-performance by these customers.

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### *Impairment of trade and other receivables*

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group adjusts the historical loss rates based on expected changes in these factors. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (upon adoption of IFRS 9) was determined for the Group as follows:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	121 to 150 days past due	+ 151 days past due	Total
<b>31 December 2018</b>							
Expected loss rate	1%	2%	3%	15%	30%	100%	
Gross carrying amount - trade receivables (€'000)	1,263	198	113	65	84	180	1,903
<b>Loss allowance (€'000)</b>	<b>12</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>12</b>	<b>134</b>	<b>171</b>
<b>1 January 2018</b>							
Expected loss rate	1%	2%	3%	15%	30%	100%	
Gross carrying amount - trade receivables (€'000)	633	434	143	107	118	234	1,669
<b>Loss allowance (€'000)</b>	<b>6</b>	<b>6</b>	<b>3</b>	<b>10</b>	<b>35</b>	<b>168</b>	<b>228</b>

Disclosure of the Company's expected loss rates do not differ substantially from those presented for the Group in the table above.

**3. Financial risk management - continued**

**3.1 Financial risk factors - continued**

Credit loss allowances include specific provisions against credit impaired individual exposures with the amount of the provisions being equivalent to the balances attributable to credit impaired receivables. The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
<i>Trade and other receivables</i>		
Balance at 1 January - as originally reported	<b>306</b>	449
Transition adjustment upon adoption of IFRS 9	<b>(78)</b>	-
	<hr/>	<hr/>
Balance at 1 January - as restated	<b>228</b>	449
Decrease in loss allowance recognised in profit or loss during the year	<b>(57)</b>	(143)
	<hr/>	<hr/>
Balance at 31 December	<b>171</b>	306
	<hr/>	<hr/>

The Group established an allowance for impairment that represented its estimate of expected credit losses in respect of trade and other receivables. The individually credit impaired trade receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. Hence, provisions for impairment in respect of credit impaired balances with corporate trade customers relate to entities which are in adverse trading and operational circumstances. Reversals of provisions for impairment of credit impaired receivables arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The Group and the Company do not hold any significant collateral as security in respect of the credit impaired assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

*Previous accounting policy for impairment of trade and other receivables*

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. Receivables which were not considered specifically impaired under the incurred loss model, were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

#### Cash and cash equivalents

The Group principally banks with local and European financial institutions with high quality standing or rating.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was insignificant.

#### Amounts due from subsidiaries

The Company's receivables include amounts owed by subsidiaries (Note 11). The Company monitors intra-group credit exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall Group liquidity management. Since these balances are repayable on demand, expected credit losses are based on the assumption that repayment of the balance is demanded at the reporting date. Accordingly, the expected credit loss allowance attributable to such balances is insignificant.

The Company assesses the credit quality of these related parties taking into account financial position, performance and other factors. The Company takes cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default.

#### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise trade and other payables (Note 15). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations.

Management monitors liquidity risk by reviewing expected cash flows through cash flow forecasts, and ensures that no additional financing facilities are expected to be required over the coming year. This is performed at a central treasury function, which controls the overall liquidity requirements of the Group within certain parameters. The Group ensures that it has sufficient cash on demand, within pre-established benchmarks, to meet expected operational expenses and servicing of financial obligations over specific short-term periods, excluding the potential impact of extreme circumstances that cannot reasonably be predicted. The Group's liquidity risk is actively managed taking cognisance of the matching of cash inflows and outflows arising from expected maturities of financial instruments, together with the Group's committed borrowing facilities and other financing that it can access to meet liquidity needs. In this respect, management does not consider liquidity risk to the Group as significant taking into account the liquidity management process referred to above.



### 3. Financial risk management - continued

#### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may issue new shares or adjust the amount of dividends paid to shareholders.

The Group monitors the level of capital on the basis of the ratio of aggregated net debt to total capital. Net debt is calculated as total borrowings (as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the respective statement of financial position, plus net debt.

The Group manages the relationship between equity injections and borrowings, being the constituent elements of capital as reflected above, with a view to managing the cost of capital. The level of capital, as reflected in the consolidated statement of financial position, is maintained by reference to the Group's respective financial obligations and commitments arising from operational requirements. In view of the nature of the Group's activities and the extent of debt, the capital level at the end of the reporting period determined by reference to the consolidated financial statements is deemed adequate by the Directors.

#### 3.3 Fair values of instruments not carried at fair value

##### *Fair values of financial instruments not carried at fair value*

At 31 December 2018 and 2017, the carrying amounts of certain financial instruments not carried at fair value comprising cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

### 4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

#### 4. Critical accounting estimates and judgements - continued

##### 4.1 Impairment testing

IFRSs require management to undertake an annual test for impairment of goodwill and non-financial assets having an indefinite useful life, and require management to test for impairment if events or changes in circumstances indicate that the carrying amount of a non-financial asset having a finite useful life may not be recoverable. For the purposes of assessing impairment, non-financial assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Group also assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets or cash-generating units can be supported by the net present value of future cash flows derived from such assets or cash-generating units using cash flow projections, which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, in particular those derived from the Group's cash-generating units, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of growth in earnings before interest, taxation, depreciation and amortisation (EBITDA); developments in number of customers; long-term growth rates; and the selection of discount rates to reflect the risks involved. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

##### 4.2 Business combinations

The definition of control encompasses three distinct principles, which, if present, identify the existence of control by the Group over an investee, hence forming a parent-subsidiary relationship: power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. When the Group assesses whether it has power over an investee, it needs to assess whether any rights it has are protective (rather than substantive), whether rights held by other investors are protective, or whether other parties have substantive rights that can prevent the Group from directing the relevant investee's activities (for example, veto rights). Protective rights are different to substantive rights. Protective rights are considered as rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate. Given that power is required to control an investee, if the Group only has protective rights it will not control the investee.

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price. The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. Allocation of the purchase price affects the results of the Group as intangible assets with a finite life are amortised, whereas intangible assets with an indefinite life and goodwill are not amortised. Identifiable intangible assets may include licences, customer bases and brands. The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exist. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

#### 4. **Critical accounting estimates and judgements - continued**

##### 4.3 **Estimation of useful life**

The useful life used to amortise intangible assets relates to the future performance of the assets acquired and management's judgement of the period over which economic benefit will be derived from the asset. The useful lives and residual values of the Group's property, plant and equipment are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

##### **Assessment of matters referred to above**

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these consolidated financial statements, which have been highlighted above, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

The Directors also draw attention to the fact that there are no assumptions and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### 5. **Segment information**

##### 5.1 **Operating segments**

The Group's internal reporting organisation and structure is such that its services within the Data Centre Services business line are treated as one business segment taking cognisance of segment technology, market dynamics and consumer demand. The operations within the *Data Centre Services* comprise the Group's data centre facilities and provision of ICT solutions in Malta.

Cash flows generated and returns secured from the different services are significantly interdependent, also in the context of commonality of risks to which the Group is exposed as a result of the provision of these services and in the context of commonality of customer base. Management of these service lines has been adapted to reflect the factors mentioned above, with a view to achieving synergies and to approach the business market in a manner focusing on the evolution of customer demands.

The Group's internal reporting to the Board of Directors and Senior Management is analysed accordingly, and the Board of Directors reviews internal management reports at least on a monthly basis.

##### 5.2 **Information about geographical segments**

The Group's revenues are derived predominantly from operations carried out in Malta. However, it also derives revenue from companies operating out of Malta. Considering the nature of the Group's activities, its non-current assets are predominantly located in Malta.

##### 5.3 **Information about major customers**

The Group does not have any particular major customer, as it largely derives revenue from a significant number of customers availing of its services. Accordingly, the Group does not deem necessary any relevant disclosures in respect of reliance on major customers.

## 6. Property, plant and equipment

Group	Improvements to premises €'000	Data centre equipment €'000	Leased equipment €'000	Office furniture & equipment €'000	Payments on account €'000	Total €'000
<b>At 1 January 2017</b>						
Cost	614	9,497	1,915	3,729	-	15,755
Accumulated depreciation	(516)	(4,276)	(1,112)	(2,423)	-	(8,327)
Net book amount	98	5,221	803	1,306	-	7,428
<b>Year ended 31 December 2017</b>						
Opening net book amount	98	5,221	803	1,306	-	7,428
Additions	89	218	453	293	-	1,053
Disposals	-	-	(34)	(1)	-	(35)
Depreciation charge	(59)	(935)	(405)	(524)	-	(1,923)
Depreciation released on disposals	-	-	32	-	-	32
Closing net book amount	128	4,504	849	1,074	-	6,555
<b>At 31 December 2017</b>						
Cost	703	9,715	2,334	4,021	-	16,773
Accumulated depreciation	(575)	(5,211)	(1,485)	(2,947)	-	(10,218)
Net book amount	128	4,504	849	1,074	-	6,555
<b>Year ended 31 December 2018</b>						
Opening net book amount	128	4,504	849	1,074	-	6,555
Additions	40	229	746	215	319	1,549
Disposals	(3)	(21)	-	(4)	-	(28)
Depreciation charge	(29)	(570)	(424)	(506)	-	(1,529)
Depreciation released on disposals	-	4	-	3	-	7
Closing net book amount	<b>136</b>	<b>4,146</b>	<b>1,171</b>	<b>782</b>	<b>319</b>	<b>6,554</b>
<b>At 31 December 2018</b>						
Cost	740	9,923	3,080	4,232	319	18,294
Accumulated depreciation	(604)	(5,777)	(1,909)	(3,450)	-	(11,740)
Net book amount	<b>136</b>	<b>4,146</b>	<b>1,171</b>	<b>782</b>	<b>319</b>	<b>6,554</b>

**6. Property, plant and equipment - continued**

*Depreciation charge*

The depreciation charge for the year is recognised in profit or loss as follows:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
Cost of sales	<b>1,023</b>	1,399
Administrative expenses	<b>506</b>	524
	<b>1,529</b>	1,923

*Change in estimated useful life*

The estimated useful life of the data centre equipment and leased equipment has been reviewed at the beginning of the year following management's reassessment of the duration for which the equipment will be useful to the business. The remaining useful life was revised primarily from 10 to 15 years. The effect of this change in accounting estimate on the Group's financial results for the year under review and on the financial position as at the end of the reporting period was a decrease in the depreciation charge of €213,000 and an equivalent increase in net assets. The resultant decreased depreciation charge has been included in the determination of the financial results for the applicable financial year in accordance with the requirements of IAS 8. The change in accounting estimate affects the depreciation charge in each period during the remaining useful life of the assets and this impact will be recognised in future periods accordingly.

*Recoverability of the data centre infrastructure*

At 31 December 2018, the Group's data centre infrastructure together with other related tangible and intangible assets, were carried at a total of €5,870,000. No impairment indicators were identified by management in respect of this CGU as at the end of the reporting period (Note 1.8).

## 7. Intangible assets

Group	Brand names, customer relationships and related assets €'000	Goodwill €'000	Total €'000
<b>At 1 January 2017</b>			
Cost	11,427	3,203	14,630
Accumulated amortisation	(9,756)	-	(9,756)
Net book amount	1,671	3,203	4,874
<b>Year ended 31 December 2017</b>			
Opening net book amount	1,671	3,203	4,874
Amortisation charge	(339)	-	(339)
Closing net book amount	1,332	3,203	4,535
<b>At 31 December 2017</b>			
Cost	11,427	3,203	14,630
Accumulated amortisation	(10,095)	-	(10,095)
Net book amount	1,332	3,203	4,535
<b>Year ended 31 December 2018</b>			
Opening net book amount	1,332	3,203	4,535
Amortisation charge	(338)	-	(338)
Impairment charge	(507)	-	(507)
Closing net book amount	<b>487</b>	<b>3,203</b>	<b>3,690</b>
<b>At 31 December 2018</b>			
Cost	11,427	3,203	14,630
Accumulated amortisation and impairment charges	(10,940)	-	(10,940)
Net book amount	<b>487</b>	<b>3,203</b>	<b>3,690</b>

### *Goodwill*

The Group's business activities comprise one cash generating unit. The recoverable amount of the Group's cash-generating unit has been estimated by management on the basis of value in use (VIU) reflecting the net present value of future cash flows derived from such cash-generating unit. The net present value of the future cash flows is based on the five year cash flow forecast within the operational plan approved by the Board of Directors and the extrapolation of the cash flow forecast beyond the five year period through the estimation of terminal values.

The key assumptions in the determination of the recoverable amount of the CGU are the levels of forecast EBITDA, the terminal value growth rates applied to the estimated cash flows beyond the explicit forecast period and the discount rate.

The Group's internal reporting to the Board of Directors and Senior Management is analysed by one segment: the Data Centre Services. This is treated as the Group's cash generating unit (CGU). It comprises the Group's data centre facilities and provision of ICT solutions in Malta.

The operations and activities of Kinetix, a subsidiary acquired during 2016, have been allocated to this service line.

## 7. Intangible assets - continued

Forecast EBITDA levels are based on past experience, adjusted for market developments and industry trends, in particular the following factors over a five year period:

- forecast overall growth in turnover over the five year period, considering a projected decline in initial years of the explicit period, taking advantage of the Group's competitive position in this respect and the introduction of new revenue streams; and
- expected increase in EBITDA margins mainly due to the fixed nature of certain key elements in the cost base of the CGU.

The estimated terminal value growth rates and post-tax discount rates for the CGU, applied as at 31 December 2017 and 2018 are disclosed in the table below:

	Terminal value growth rate %	Post-tax discount rate %
Data Centre Services CGU	2.0	13.4

These parameters have been principally based on market observable data.

Management's estimation of the VIU indicates that there is significant headroom between the estimated recoverable amount and the carrying amount of the CGU. Accordingly, management's views are that there appear to be no reasonable possible changes in key assumptions on which it has based its determination of the CGU's recoverable amount that would cause the carrying amount to exceed VIU.

### *Brand names and customer relationships acquired in business combinations*

Brand names and customer relationships acquired in business combinations are as follows:

	Brand names			Customer relationships		
	Acquisition date fair value	Year-end carrying amount		Acquisition date fair value	Year-end carrying amount	
	€'000	<b>2018</b> €'000	2017 €'000	€'000	<b>2018</b> €'000	2017 €'000
Business combination						
Kinetix IT Solutions Limited	507	-	507	1,123	<b>448</b>	672
Others	1,141	<b>39</b>	153	8,656	-	-

Brand names acquired through business combinations have been valued using the Relief From Royalty method (RFR). Customer relationships have been generally valued using the Multi-Period Excess Earnings method (MEEM).

The brand name acquired through the acquisition of Kinetix with an acquisition date fair value of €507,000 and a carrying amount of €507,000 was deemed to be impaired as at 31 December 2018, since the Directors envisage a high probability that the use of this brand name will be discontinued during 2019.

## 7. Intangible assets - continued

The RFR method assumes that the intangible asset has a fair value based on royalty income attributable to it. The royalty rate represents hypothetical savings enjoyed by the entity that owns the intangible asset, because that entity is relieved from having to license that intangible asset from another owner and pay royalties to use the intangible asset. In the valuation of the Kinetix brand, the cash flows were derived from the projected total revenues in conjunction with a royalty rate of 1.75%. A discount rate of 10% was used for the valuation of the brand and the residual value was based on a terminal growth rate of 2%. An indefinite useful life was deemed appropriate for the Kinetix brand.

The MEEM method was used to value Kinetix's customer relationships. In valuing the customer relationships, the total cash flows for the acquired customers were based on an estimate of historical customer retention rates and the projected revenues and operating margins going forward. The MEEM is used as a basis for the fair value of an intangible asset based on a residual notion. The principle behind the MEEM is that the fair value of an intangible asset can be determined by estimating the cash flows that are expected to be generated by several assets in combination and deducting the cash flows attributable to all of the other assets that contribute to the cash flows (contributory charges). The 'excess' cash flows are ascribed to the intangible assets and the fair values based on the present value of those cash flows attributable only to the intangible assets. It is presumed that the contributory assets are leased from a third party. All considerations refer to the attributable fair value of the relevant asset. The applied contributory asset charges (CACs - sometimes referred to as 'economic rents') consider the return of the asset and the return on the asset with the latter comprising a reasonable interest on the capital invested.

In respect of the valuation of customer relationships, total projected revenue attributable to existing customer relationships was estimated on the basis of:

- Existing number of customers by service line;
- Projected revenue growth (before churn) for existing customer relationships;
- Projected ARPU by service line;
- Projected churn rate by service line for existing customer relationships.

EBIT margins were assumed to be equal to the EBIT margin of the overall business operations of Kinetix, adjusted for the royalty of the brand amounting to 1.75% of the revenue attributable to existing relationships. CACs as a percentage of revenue have been applied including principally a 'return-of' and a 'return-on' contributory asset charge for depreciable assets. The 'return-on' contributory asset charge reflects the required rate of return on depreciable assets.

A discount rate for the valuation of the customer relationships intangible asset of 10.5% was utilised after considering the relatively higher level of risk for the customer relationships as compared to the overall business operations of Kinetix. The residual reflects excess earnings attributable to beyond the explicit period, extrapolated assuming an ARPU growth rate and churn rate which are held constant at end of explicit period levels. The useful life of the retail customer relationships intangible asset was estimated at five years.



**8. Investment in subsidiaries**

<b>Company</b>	<b>2018</b>	2017
	<b>€'000</b>	€'000
<b>Cost and carrying amount</b>		
At 1 January	<b>18,487</b>	18,487
Acquisition of further interest	<b>1,872</b>	-
At 31 December	<b>20,359</b>	18,487

The carrying amount of the investments at 31 December 2018 and 2017 is equivalent to the cost of the investments.

The principal subsidiaries of the Group all of which are unlisted are shown below:

<b>Subsidiaries</b>	<b>Registered office</b>	<b>Class of shares</b>	<b>Percentage of shares held</b>	
			<b>2018</b>	2017
BM IT Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	<b>100%</b>	100%
Bellnet Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.33 each	<b>100%</b>	100%
BM Support Services Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	<b>100%</b>	100%
Kinetix IT Solutions Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	<b>100%</b>	51%

The companies provide co-location and internet services, technical assistance and leasing of plant and equipment, and IT solutions.

*Acquisition of non-controlling stake in subsidiary*

In January 2016, BMIT Technologies finalised the acquisition of 51% of the issued share capital of Kinetix for a consideration of €1,200,000. Kinetix is principally engaged in providing managed IT services, a service offering that subsidiaries of BMIT Technologies had been developing in the preceding years and that was also ancillary to the services provided by the other subsidiaries.

**8. Investment in subsidiaries - continued**

*Acquisition of non-controlling stake in subsidiary - continued*

On 1 March 2018, the Group exercised its option to acquire the remaining 49% of the issued share capital of Kinetix for a purchase consideration of €1,872,000. As at the date of this transaction, the carrying amount of the non-controlling interests in this subsidiary was €739,000. The purchase consideration exceeded the amounts attributable to the non-controlling interests as at that date by €1,133,000, which difference was recognised in equity. The Company now holds 100% of the equity share capital of the subsidiaries.

The effect of changes in the ownership interest in Kinetix on the equity attributable to owners of the Group is summarised as follows:

	<b>2018</b> <b>€'000</b>
Carrying amount of non-controlling interests acquired	<b>739</b>
Consideration paid to non-controlling interests	<b>(1,872)</b>
	<b>(1,133)</b>
Excess of consideration paid recognised in parent's equity	<b>(1,133)</b>

*Payments for acquisition of non-controlling stake in subsidiary*

The amounts presented in the statement of cash flows for the year ended 31 December 2018 comprise the payments referred to above amounting to €1,872,000 for 49% stake in Kinetix.

**9. Investment in associate**

	<b>Group €'000</b>
<b>Years ended 31 December 2018 and 2017</b>	
Opening and closing cost and net book amount	18
<b>As at 31 December 2018, 31 December 2017 and 1 January 2017</b>	
Closing cost and net book amount	18

The associate at 31 December 2018 and 2017 is shown below:

<b>Associate</b>	<b>Registered office</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>	
			<b>2018</b>	<b>2017</b>
MIGS Limited	Level 1, Suite 5 Tower Business Centre Tower Street Swatar Birkirkara Malta	Ordinary shares	<b>40%</b>	40%

MIGS Limited is a private limited company.

Summarised financial information of the associate as per most recent financial statements is as follows:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
Capital and reserves at 31 December	7	9
Loss for the year	2	2

**10. Inventories**

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
Operating spares and consumables	127	192
Goods held for resale	81	37
	208	229

## 11. Trade and other receivables

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Non-current</b>				
Costs incurred to fulfill contracts	161	-	-	-
Prepayments and accrued income	-	213	-	-
Total non-current trade and other receivables	<b>161</b>	213	-	-
<b>Current</b>				
Trade receivables - gross	1,903	1,669	-	-
Expected credit loss allowances	(171)	(306)	-	-
Trade receivables - net	<b>1,732</b>	1,363	-	-
Amount due from subsidiaries	-	-	<b>805</b>	3,554
Costs incurred to fulfill contracts	119	-	-	-
Prepayments and accrued income	455	620	<b>60</b>	36
Total current trade and other receivables	<b>2,306</b>	1,983	<b>865</b>	3,590
Total trade and other receivables	<b>2,467</b>	2,196	<b>865</b>	3,590

Amount due from subsidiaries are unsecured, repayable on demand and interest free.

Upon adoption of the requirements of IFRS 15 on 1 January 2018, the following reclassifications have been effected:

- Costs incurred to fulfill contracts not yet recognised in profit or loss as at 31 December 2017 included within 'prepayments and accrued income' at that date, are presented separately subsequent to implementation to IFRS 15, reclassified from 'prepayments and accrued income'. No remeasurement was deemed necessary.
- Liabilities previously recognised in respect of deposits received in advance from customers (presented within 'accruals and deferred income' at 31 December 2017) have been reclassified to 'Contract liabilities' (refer to Note 15). No remeasurement was deemed necessary.

The assumptions underlying the period over which the costs to fulfill contracts are expensed are periodically reviewed and adjusted in line with observations; termination of the contractual relationship with the customer results in the immediate expensing of the remaining deferred costs. Where the carrying amount of deferred costs exceeds the remaining consideration expected to be received for the transfer of the related goods and services, less expected costs relating directly to the transfer of these goods and services still to be incurred, the excess amount is similarly immediately expensed.

## 11. Trade and other receivables - continued

The following table reflects an analysis of costs attributable to contract assets following the adoption of IFRS 15:

<b>Contract assets</b>	As at 1 January 2018 – based on 31 December 2017 – as originally reported €'000	Reclassification €'000	As at 1 January 2018 – as restated €'000	Originations €'000	Recognition in profit or loss €'000	<b>As at 31 December 2018 €'000</b>
<b>Non-current</b>						
Costs incurred to fulfil contracts	-	213	213	68	(119)	<b>161</b>
Prepayments and accrued income	213	(213)	-	-	-	-
<b>Current</b>						
Costs incurred to fulfil contracts	-	124	124	119	(124)	<b>119</b>
				Business related variations €'000		
Prepayments and accrued income	620	(124)	496	(41)		<b>455</b>

## 12. Cash and cash equivalents

For the purposes of the statements of cash flows, the cash and cash equivalents at the end of the reporting period comprise the following:

	<b>Group</b>	
	<b>2018 €'000</b>	2017 €'000
Cash at bank and in hand	<b>667</b>	2,244

## 13. Share capital

	<b>Group</b>		<b>Company</b>	
	<b>2018 €'000</b>	2017 €'000	<b>2018 €'000</b>	2017 €'000
<b>Authorised:</b>				
300,000,000 Ordinary shares of €0.10 each (2017: 10,000,000 of €1 each)	<b>30,000</b>	10,000	<b>30,000</b>	10,000
<b>Issued and fully paid:</b>				
203,595,310 Ordinary shares of €0.10 each (2017: 9,110,000 of €1 each)	<b>20,360</b>	9,110	<b>20,360</b>	9,110

By virtue of an extraordinary general meeting held on 3 October 2018, the Company modified the structure of its share capital by increasing its authorised share capital to 30,000,000 shares of €1 each.

### 13. Share capital - continued

By virtue of an extraordinary general meeting held on 25 October 2018, the Company modified the structure of its share capital as follows:

- it increased its issued share capital by issuing and allotting 11,249,531 shares of €1 each by way of capitalisation of amounts due to its immediate parent, GO p.l.c., amounting to €11,249,531;
- it redesignated its shares from having a nominal value of €1 each into shares with a nominal value of €0.10 each;
- it increased its authorised share capital to 300,000,000 shares of €0.10 each and its issued share capital to 203,595,310 shares of €0.10 each.

### 14. Deferred taxation

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2017: 35%).

The balance as at 31 December represents temporary differences attributable to:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
Property, plant and equipment	<b>(398)</b>	(287)
Intangible assets	<b>(170)</b>	(466)
Credit loss allowances on trade receivables	<b>60</b>	107
<b>At end of year</b>	<b>(508)</b>	(646)

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period.

The movement in the deferred tax liability is as follows:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
At beginning of year – as originally reported	<b>646</b>	678
Credit to profit or loss (Note 20)	<b>(138)</b>	(32)
<b>At end of year</b>	<b>508</b>	646

## 15. Trade and other payables

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Non-current</b>				
Contract liabilities	194	-	-	-
Total non-current trade and other payables	194	-	-	-
<b>Current</b>				
Trade payables	1,150	2,495	-	-
Amounts due to immediate parent	972	13,019	860	12,929
Amounts due to related parties	4	613	-	-
Indirect taxes and social security	771	648	-	-
Contract liabilities	2,044	-	-	-
Accruals and deferred income	905	1,381	-	37
Total current trade and other payables	5,846	18,156	860	12,966
Total trade and other payables	6,040	18,156	860	12,966

Amounts due to immediate parent and related parties are unsecured, repayable on demand and interest free.

The following table reflects an analysis of 'Contract liabilities', following the adoption of IFRS 15:

### Contract liabilities

	As at 1 January 2018 – based on 31 December 2017 - as originally reported €'000	Reclassification €'000	As at 1 January 2018 – as restated €'000	Business related variations €'000	As at 31 December 2018 €'000
<b>Non-current</b>					
Contract liabilities:					
Prepaid and deferred income	-	-	-	194	194
<b>Current</b>					
Deposits received in advance from customers	-	1,256	1,256	543	1,799
Trade payables	2,495	(1,256)	1,239	(89)	1,150
Contract liabilities:					
Prepaid and deferred income	-	322	322	(77)	245
Accruals and deferred income	1,381	(322)	1,059	(154)	905

## 16. Revenue

The Group derives revenue from the transfer of goods and services, in Malta, over time and at a point in time as follows:

### Group

	2018 €'000	2017 €'000
<b>By class of business</b>		
Data centre and related services	18,073	16,052
Sale of hardware and licenses	3,201	3,665
	21,274	19,717

	Data centre and related services		Sale of hardware and licenses	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Timing of revenue recognition</b>				
At a point in time	808	893	3,201	3,665
Over time	17,265	15,159	-	-
	18,073	16,052	3,201	3,665

### *Unfulfilled performance obligations*

The following table presents the transaction price assigned to unfulfilled performance obligations as at 31 December 2018. Unfulfilled performance obligations are the services that the Group is obliged to provide to customers during the remaining fixed term of the contract. As allowed by the simplification procedure in IFRS 15, these disclosures are only related to performance obligations with an initial term greater than one year.

On the allocation of the total contract transaction price to identified performance obligations, a portion of the total transaction price can be allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period. As outlined previously, the Group has elected to apply certain available practical expedients when disclosing unfulfilled performance obligations, including the option to exclude expected revenues from unsatisfied obligations of contracts with an original expected duration of one year or less.

	Group 31 December 2018 €'000
Less than one year	12,577
After more than one year	3,693
	16,273



**17. Expenses by nature**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Cost of hardware and licences sold	<b>2,730</b>	3,166	-	-
Cost of data centre and related services	<b>5,620</b>	5,101	-	-
Depreciation of property, plant and equipment (Note 6)	<b>1,529</b>	1,923	-	-
Amortisation of intangible assets (Note 7)	<b>845</b>	339	-	-
Employee benefit expense (Note 18)	<b>2,397</b>	1,885	-	-
Property rentals	<b>654</b>	616	-	-
Other expenses	<b>526</b>	327	<b>3</b>	2
<b>Total cost of sales and administrative expenses</b>	<b>14,301</b>	13,357	<b>3</b>	2

Auditor's fees

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2018 and 2017 relate to the following:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Annual statutory audit	<b>14</b>	14	<b>1</b>	1
Other non-assurance services	-	3	-	-
Tax advisory and compliance services	<b>3</b>	3	<b>1</b>	1
	<b>17</b>	20	<b>2</b>	2

Other non-assurance services include:

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
Advice on financial reporting matters	-	3
	-	3

**18. Employee benefit expense**

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€'000</b>	€'000
Wages and salaries	<b>2,285</b>	1,767
Social security costs	<b>112</b>	118
	<b>2,397</b>	1,885

**18. Employee benefit expense - continued**

Average number of full-time equivalent employees during the year was as follows:

	<b>Group 2018</b>	2017
Direct	37	34
Administration	22	24
	<b>59</b>	58

**19. Finance income**

	<b>Company 2018</b>	2017
	<b>€'000</b>	€'000
Investment income from group companies	<b>6,162</b>	6,697

**20. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Current tax expense	2,615	2,341	2,156	2,344
Deferred tax credit (Note 14)	(138)	(32)	-	-
Tax expense	<b>2,477</b>	2,309	<b>2,156</b>	2,344

The tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Profit before tax	6,973	6,360	6,159	6,695
Tax on profit at 35%	2,440	2,226	2,156	2,344
Tax effect of:				
Expenses not deductible for tax purposes	55	41	-	-
Others	(18)	42	-	-
Tax expense	<b>2,477</b>	2,309	<b>2,156</b>	2,344

## 21. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of shares in issue during the year has been computed taking into account the capitalisation of amounts due to the parent during 2018. The denomination has been restated for both years to reflect the impact of the redenomination in share capital that occurred during 2018 as if the redenomination had already occurred on 1 January 2017 (refer to Note 13).

	<b>Group</b>	
	<b>2018</b>	2017
Profit attributable to equity holders of the Company (€'000)	<b>4,487</b>	3,795
Weighted average number of shares in issue (thousands) (Note 13)	<b>109,849</b>	restated 91,100
Earnings per share (€)	<b>0.04</b>	0.04

The Company has no instruments or arrangements which give rise to potential ordinary shares and accordingly diluted earnings per share is equivalent to basic earnings per share.

## 22. Dividends

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Net dividends on ordinary shares	<b>4,000</b>	4,350	<b>4,000</b>	4,350
Dividends per share (€)	<b>0.02</b>	0.05	<b>0.02</b>	0.05

The dividends share presented in the table above have been computed on the basis of the number of shares in issue upon declaration of dividends. The denomination for 2017 has been restated to reflect the redenomination in share capital (refer to Note 13).

## 23. Cash generated from/(used in) operations

Reconciliation of operating profit before tax to cash generated from/(used in) operations:

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Profit before tax	6,973	6,360	6,159	6,695
Adjustments for:				
Depreciation of property, plant and equipment (Note 6)	1,529	1,923	-	-
Amortisation of intangible assets (Note 7)	845	339	-	-
Expected credit loss allowances on trade receivables	(57)	-	-	-
Investment income	-	-	(6,162)	(6,697)
Changes in working capital:				
Inventories	21	(10)	-	-
Trade and other receivables	(136)	(363)	2,725	361
Trade and other payables	(866)	1,302	(856)	(362)
Cash generated from/(used in) operations	<b>8,309</b>	9,551	<b>1,866</b>	(3)

### *Non-cash transactions*

The Group's non-cash transactions during the financial year ended 31 December 2018 comprised the conversion of loan payable to the immediate parent into equity amounting to €11,249,531.

## 24. Commitments

	Group		Company	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
<b>Operating lease commitments - where the Company is the lessee</b>				
Non-cancellable operating lease rentals are payable as follows:				
Within one year	605	590	-	-
Between one and five years	762	1,216	-	-
Over five years	118	216	-	-
	<b>1,485</b>	2,022	-	-
<b>Capital expenditure commitments</b>				
Authorised and contracted for	<b>768</b>	-	-	-

## 25. Contingencies

- (a) A guarantee for a maximum amount of €67,500,000 (2017: €67,500,000) was issued by the Company, together with its subsidiaries, in favour of the immediate parent's bankers for facilities provided.
- (b) At the end of the reporting period, the Group had a contingent liability arising from an overseas court judgement requiring that a Group company implements measures to prevent a specific client from providing certain services. The company was ordered to pay for the costs of the court proceedings and to pay a fine of €100,000 per day subsequent to service of the said judgement, unless and until the company complies with it. On the basis of legal advice obtained by the Group, the company has not yet been correctly served with the judgement and, additionally, the judgement can be enforced in Malta only in the event that it is declared enforceable by the Courts in Malta. This legal advice obtained by the Group highlights serious doubts on the enforceability of the overseas court judgement in Malta and accordingly no provision has been recognised as the Directors are of the opinion that a cash outflow is not probable.

Another overseas court proceeding has been instituted against the same Group company with respect to similar claims in relation to services provided to another client. Until the date of authorisation for issue of these financial statements, no judgement has been delivered by the court. No provision for expected losses was deemed necessary by the Directors as at the end of the reporting period taking cognisance of legal advice received.

## 26. Related party transactions

The Company and its subsidiaries have a related party relationship with Société Nationale des Télécommunications, the Company's ultimate parent (Note 28), related entities ultimately controlled by Société Nationale des Télécommunications, together with the Company's Directors (key management personnel). The Company's immediate parent, GO p.l.c. (GO), is controlled by Société Nationale des Télécommunications. Dubai Holding LLC (GO's former ultimate parent) and all entities ultimately controlled by it are also considered to be related parties, in view of Dubai Holding LLC's interest in and significant influence on Société Nationale des Télécommunications.

The following transactions were carried out with related parties:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Transactions with immediate parent</b>				
Services provided by	<b>830</b>	1,600	-	-
Services provided to	<b>1,806</b>	1,329	-	-
Dividends paid to	<b>4,000</b>	4,350	<b>4,000</b>	4,350

The Group has not entered into material transactions with key management personnel which would warrant disclosure thereof for the purpose of understanding the Group's financial results or its financial position. Also, the Group has not entered into material transactions with entities in which the Group's key management personnel directly or indirectly have an interest or over which they have direct or indirect influence. Any such transactions would constitute normal operating transactions under normal market and commercial terms relating to provision of operational services by the Group, and would not comprise financing transactions.

Year-end balances with related parties, arising principally from the above transactions, are disclosed in Notes 11 and 15 to these financial statements.

## **27. Events after the end of the reporting period**

During the latter part of the financial year ended 31 December 2018, the Company's immediate parent, GO, announce its intentions to dispose of up to 49% of its shareholding in BMIT Technologies by means of an initial public offering of the shares at an offer price of 49 euro cents per share. By virtue of an extraordinary general meeting on 3 December 2018, the shareholders' resolution to authorise GO's board of directors to execute the disposal transaction referred to, was approved. GO, announced that application had been made to the Listing Authority for all the ordinary shares of BMIT Technologies, to be admitted to listing on a regulated market and a prospectus for the initial public offering of up to 49% of the ordinary shares has been approved on 7 January 2019.

On 7 February 2019, GO announced that the offer for sale of 99,761,701 ordinary shares in BMITT at the offer price of 49 euro cents per share was oversubscribed and accordingly GO was disposing of 49% of its shareholding in BMITT, thus retaining control over the subsidiary.

The ordinary shares of the Company were admitted to listing on the Official List of the Malta Stock Exchange on 15 February 2019, whereas trading commenced as from 18 February 2019.

## **28. Statutory information**

BMIT Technologies p.l.c. is a limited liability company and is incorporated in Malta. The Company's immediate parent is GO with its registered address at GO Fra Diegu Street, Marsa, Malta, and its ultimate parent is Société Nationale des Télécommunications (Tunisie Telecom), the registered office of which is situated at Tunisie Telecom Building, 1053 Jardins du Lac II, Tunis, Tunisia, which owns 65.4% of GO's shares. GO's immediate parent is TT ML Limited, a fully owned subsidiary of Tunisie Telecom, established as a special purpose vehicle for holding GO's shares. The Tunisian Government holds a 65% shareholding in Tunisie Telecom, and Emirates International Telecommunications (EIT), a subsidiary of Dubai Holding LLC, owns the other 35%.