



## COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by BMIT Technologies p.l.c. (“the “Company”) pursuant to the Listing Rules issued by the Listing Authority in accordance with the provisions of the Financial Markets Act (Chapter 345 of the Laws of Malta) as they may be amended from time to time.

### *Quote*

The Board of Directors of the Company approved the attached Annual Report and Financial Statements for the financial year ended 31 December 2019 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 attached 2019 Annual Report and Financial Statements, which will also be available for viewing on the Company’s website at [“https://www.bmit.com.mt/wp-content/uploads/2020/03/Financial-Statements-2019.pdf”](https://www.bmit.com.mt/wp-content/uploads/2020/03/Financial-Statements-2019.pdf)

The Board of Directors resolved to recommend that the Annual General Meeting approves the payment of a final dividend of €0.02net of taxation per share. The payment of this Net Dividend amounts to the total sum of €4.39 million.

The final dividend for the year ending 31<sup>st</sup> December 2019 will be paid on the 4<sup>th</sup> June 2020 to all shareholders who are on the shareholders’ register as at Wednesday 29<sup>th</sup> April 2020.

The Annual General Meeting will be held on Monday 1<sup>st</sup> June 2020 at the Malta Hilton, St. Julians.

*Unquote*

A handwritten signature in blue ink, appearing to read 'F. Galea Salomone', written over a horizontal line.

**Dr. Francis Galea Salomone LL.D.**  
**Company Secretary**  
**12<sup>th</sup> March 2020**

BMIT TECHNOLOGIES p.l.c.

Annual Report and  
Consolidated Financial Statements

31 December 2019

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## Chairman's message

As BMIT Technologies continues to emerge as a preferred IT services provider for leading local and global enterprises operating out of Malta, it is my privilege to write to you as we present our Annual Report for FY2019. This is my second message as Chairman of BMIT Technologies since our listing on the Malta Stock Exchange and I am delighted to report that 2019 was another positive year for BMIT Technologies. The BMIT Technologies Group continues to perform well, generating revenues of €22.4 million, an increase of 4.8% over 2018. EBITDA amounted to €10 million, whereas profit after tax amounted to €4.4 million.

In a solid capital market environment like Malta's, we are proud to have completed the listing of a tech company that was so well received by retail and institutional investors alike. Such a performance marks our future-readiness to continue to support and accelerate clients' digital transformation journey. During the past year BMIT Technologies has continued to go from strength to strength as a result of hard work and dedication driven by the exceptional team of people which make up our organisation.

Last year saw the completion of the acquisition of Kinetix IT Solutions Limited and the transition of BMIT Limited and Kinetix as one organisation from an operational perspective. Part of this change included a rebranding exercise which led to the launch of the BMIT Technologies brand name which brought about a new look-and-feel, and more importantly the launch of a new mission, vision and set of values which each employee of BMIT Technologies strives to live up to.

The past year also saw the announcement of the building of our newest new state of the art purpose-built facility in Zejtun, with works already well underway. This further reinforces our status as the leading multi-site data centre on the island. BMIT Technologies also continues to evolve from being a data centre and cloud provider to a full-suite hybrid IT organisation, which focuses on the service delivery within the data centre, on the cloud and at the clients' premises.

In our prospectus, issued in preparation for BMIT Technologies' listing, we stated our intention to retain a strong dividend pay-out ratio. We indicated that we expect to apply a dividend policy based on up to 90% of BMIT Technologies' free cash flows generated during the year, capped at 95% of distributable profits. I am pleased to note that our recommendation for this year's dividend is in line with these statements.

Together with my fellow directors I would like to extend our heartiest gratitude to our clients, who have believed in us and have given us an opportunity to be a part of their transformational journey. I would also like to express my appreciation and thanks to you our shareholders for the trust you have placed in BMIT Technologies. A heartfelt and personal thanks goes to the dedicated BMIT Technologies team for the dedication and unflinching commitment.

BMIT Technologies finds strength in its incredibly diverse, inclusive, and talented workforce which has enabled the Company to become a dynamically evolving tech organisation. We continue to invest our energies into cultivating a healthy culture that aligns itself to the expectations and needs of the business environment we operate in. While technology continues to drive our business, it is the power of the amazing humans behind it which is our key to success.

I look forward to a journey which will continue to be equally exciting and rewarding as we move ahead together.

Thank you



Nikhil Patil  
Chairman

## Chief Executive Officer's review

I am pleased to report another year of revenue and profitability growth for BMIT Technologies p.l.c., during a time when we are bringing to fruition several initiatives aimed at further developing our business.

February 2019 marked BMIT Technologies' listing on the main market of the Malta Stock Exchange, a proud milestone for us as an organisation and the start of a new journey as a publicly traded company. As our ownership base now runs into thousands, our team is well geared to deliver on our promises in terms of performance and returns to you, our shareholders.

### A New Brand

Following the completion of the acquisition of Kinetix IT Solutions Limited ("Kinetix") in 2018, we took the decision to operate BMIT Limited and Kinetix as one organisation from an operational perspective. This transition was completed in the first half of 2019, with only one organisation now being customer-facing. As part of this change, we launched a new brand and we now only operate under the BMIT Technologies brand name. As you may note in this report, not only did this re-branding bring about a new look-and-feel, more importantly, it marked the launch of new mission and vision statements and a set of values which each employee of BMIT Technologies strives to live up to.

Our mission statement "Harnessing technology to power businesses" clearly positions us as a technology company focused on giving value to our clients, with our vision further clarifying this, as it states that we will "combine our infrastructure and talent to enhance business potential through the application of technologies".

### Investment in Infrastructure and Facilities

Our ability to continue delivering value to you in the long term is also dependent on our infrastructure and facilities. During 2019 we continued to invest in this area, with three investments being of major importance:

- The promise of sale to acquire a property in Ħandaq Malta, which hosts our MTH data centre. The acquisition was finalised in January 2020. This investment is very important to BMIT Technologies from an operational perspective and also mitigates against risks related to moving customers out of our Ħandaq data centre;
- The complete replacement of the cooling system at our MTH data centre in Ħandaq with a new more energy-efficient plant. We are already benefiting from lower power bills as a result of this investment, and our projections show that we will be able to fully recover such investment from such savings over a three-year period;
- The continued development of our new data centre – MTZ – in Żejtun, Malta. This project is developing as per plans and we expect to go live very early in 2021. As already stated in the listing prospectus, we have already secured GO p.l.c. as an anchor client for this state-of-the-art data centre which will be certified as a Tier III facility.

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

### **A Hybrid IT Offering**

Our customers are increasingly asking us to help them in their journey to adopt the right IT solutions for their businesses. In support of this journey, we have transformed our product and service offering into a more comprehensive hybrid IT one. As a result, we are now able to advise on, build and support IT solutions that can span different technologies, systems, as well geographical boundaries. We no longer see our data centre, connectivity and cloud services as distinct services, but rather as components and building blocks for a complete solution for our customers.

During 2020 we will continue to enhance our portfolio and services to further strengthen our hybrid IT offering. This will be supported by improvements to our operational capabilities, processes and a thorough review of our systems.

### **Financial Performance**

2019 was a positive year for BMIT Technologies, with good operational performance and further evidence of our strategy starting to deliver results. BMIT Technologies generated revenues of €22.4 million, an increase of 4.8% over 2018. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) amounted to €10 million. These results incorporate the consolidated results of all the subsidiary companies within the BMIT Technologies Group.

Cost of sales, administration and related costs amounted to €15.1 million, an increase of 4.8% over 2018. This increase reflects our growth in business and additional obligations arising from our status as a publicly traded organisation. Investment in employees continued to increase, also a reflection of our changing service offering which is increasingly focused on providing complete managed solutions to our customers. Profit before tax amounted to €7.2 million, an increase of around 3%.

### **The Next Steps**

2020 presents new challenges and opportunities for BMIT Technologies. We have started implementing a number of strategic initiatives and during 2020 we will be accelerating on a number of others. Market expansion remains a top priority for us and although we are evaluating options on how to achieve this, we need to ensure that any commitments result in the best returns for you, our shareholders.

Our participation in local and international fora will continue, with the objective of identifying new opportunities and developing new relationships. Similarly, our investment programme will also carry on, with the prime objective being growth in business and sustained, long-term return to our shareholders.

Regulatory challenges across the various markets we currently operate in and serve, will continue to persist. We therefore need to find new ways to ensure that we deliver value to our customers, irrespective of whether they are based in Malta or in other jurisdictions. I am very optimistic that together with my team, we will manage to take BMIT Technologies through its next phase of growth and successful development.

Finally, I would like to thank all 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 2019.

### Principal activities

The BMIT Technologies 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 2.

### Review of financial performance

The Group generated revenue of €22.4 million (2018: €21.4 million), an increase of €1.0 million over the comparative year. Revenue is growing year on year across the main categories, with revenue derived from colocation and connectivity services improving by 11% over 2018. However, there was a decline of 11% in managed services. This type of service is especially dependent on the time availability of our technical staff. Given the current situation in the labour market, in the past year, the Group faced challenges in recruiting additional technical resources for managed services to grow. The Group is doing its utmost to invest in its current employees and to attract new ones.

Cost of sales and administrative expenses amounted to €15.1 million (2018: €14.4 million). The main increase of €0.7 million is the result of the increase in sales activity which has driven up the cost of goods sold. Other administration expenses which were on the rise in 2019 were marketing costs as result of our rebranding and listing fees as a result of the listing on the Malta Stock Exchange in February 2019. Expenses also include an depreciation charge of €0.71 million (2018: €nil) for leased assets, as required by IFRS 16 which came into effect from 1 January 2019. Prior to the adoption of IFRS 16, rental costs amounted to €0.65 million.

Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) amounted to €10 million.

Profit before tax amounted to €7.2 million (2018: €7.0 million) resulting in an earnings per share of €0.02 (2018: €0.04). The modifications in share capital which occurred during 2018 because of the capitalisation of the amounts owed to GO p.l.c.. resulted in a lower weighted average number of shares in 2018 (109,849,218 shares) compared to a fixed number of shares in 2019 (203,595,310 shares).

## Directors' report - continued

### Financial position

As at 31 December 2019, the BMIT Technologies Group held property, plant and equipment with a net book value of €6.5 million, keeping relatively the same value as the previous year. The value comprises data centre and other equipment and furniture with a carrying amount of €6.1 million which are located in the Group's data centres and offices in Handaq and SmartCity. Development of the new data centre in Zejtun continued during 2019 and other assets in the course of construction amounted to €0.4 million as at the same date.

Following the adoption of IFRS 16, on 1 January 2019 the Group recognised right-of-use assets and lease liabilities of €5.1m. The carrying amount of the right-of-use assets and lease liabilities as at year-end amounted to €4.5m and €4.6m respectively.

As at 31 December 2019, BMIT Technologies Group also held intangible assets with a value of €3.4 million (2018: €3.7 million) relating to customer relations and goodwill arising upon the acquisitions of the subsidiary companies.

The Group's current assets amounted to €8.5 million (2018: €3.2 million) and are mainly represented by trade and other receivables of €2.9 million (2018: €2.3 million) and cash and cash equivalents of €5.3 million (2018: €0.7 million). Total liabilities increased from €6.7 million as at 31 December 2018 to €11.8 million as at 31 December 2019, mainly as a result of the implementation of IFRS 16 and the recognition of lease liabilities.

Shareholders' funds as at year end amounted to €11.3 million compared to €6.9 million as at 31 December 2018. This increase is attributable to profits of the Group for the year.

Cash and cash equivalents as at 31 December 2019 amounted to €5.3 million, of which net cash from operating activities amounted to €7.7 million (2018: €5.0 million), an increase of €2.7 million compared to 2018 mainly as a result of the optimisation of the Group's working capital. In 2019, the Group's investment in property, plant and equipment amounted to a cash outflow of €1.7 million which is slightly more than prior year (2018: €1.5 million). In 2018, BMIT Technologies p.l.c. acquired the remaining 49% of Kinetix IT Solutions for a cash outflow of €1.9 million.

During the year, the Group paid the dividend which was still due to GO p.l.c. for 2018 amounting to €0.8 million (2018: €3.2 million). The Group closed the year with a substantial amount of funds amounting to €5.3 million (2018: €0.7 million), an increase of €4.6 million over prior year, and which partly we will gladly distribute as a return to our shareholders.

The Directors recommend that at the forthcoming Annual General Meeting, the shareholders approve the payment of a net dividend of €0.02 per share (after tax), resulting in a net dividend payment of €4,391,000.

### Our principal risks and uncertainties

#### *Security and resilience*

The Group's commercial success continues to be 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 and documented process that focus on prevention supported by tried-and-tested recovery capabilities.



## **Directors' report** - continued

### **Our principal risks and uncertainties** - continued

#### *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 local or international providers of similar and competing products and services. Recent entrants in the Maltese 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 continue attracting existing or new customers that will hinder the Group's forecasted growth. This could 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, with increasing pressure on pricing and the availability of substitute technologies. 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 continues to pursue innovative product bundling and extends to its customers new technologies whilst working hard to become a more efficient organisation.

#### *iGaming industry*

The iGaming industry continues to remain 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 different market segments, thereby reducing the Group's reliance on the iGaming 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.

#### *Reputational risk*

Malta has over the years successfully attracted a number of industries as a result of its ability to develop a fiscal and regulatory framework specifically targeted at customers and service providers alike. The island's success in this respect, coupled with political stability and strong economic growth were all key to Malta's reputation as a leading business destination over the past years. Any adverse impact on Malta's reputation would result in a negative outlook and possibly reduce Malta's attractiveness for existing operators and new ones alike. Aware of this risk, the Group is continuously seeking to diversify its product and service portfolio, whilst also seeking to enter new markets both in Malta and internationally.

## **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 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  
Arthur Galea Salomone  
Charmaine Farrugia  
Reuben Attard (appointed 2 October 2019)  
Saviour sive Sonny Portelli  
Reuben Zammit (resigned 2 October 2019)

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 was appointed Director of these subsidiaries on 25 January 2019 and Reuben Attard on 2 October 2019 to replace Reuben Zammit who resigned on the same date. Nikhil Patil was also appointed Director of *Kinetix IT Solutions Limited* on 9 April 2018.

None of the Directors have 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 2019 are included in the Annual Report 2019, 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 Directors confirm that as at 31 December 2019, only GO p.l.c. and Rizzo Farrugia & Co. (stk) Ltd. 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, 5.64.10 and 5.64.11 it is hereby declared that, as at 31 December 2019, 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 12 March 2020 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

12 March 2020

## **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  
Arthur Galea Salomone  
Charmaine Farrugia  
Reuben Attard (appointed 2 October 2019)  
Saviour sive Sonny Portelli  
Reuben Zammit (resigned 2 October 2019)

For the purposes of the Code, the non-executive Directors are independent. The Company deems that, although Nikhil Patil, Charmaine Farrugia and Reuben Attard 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.

### **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, 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.

## Corporate governance - Statement of compliance - continued

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

The Company became listed on 15 February 2019 and there were eight board meetings held during the year under review. Attendance by Board members was as follows:

	Attended
Nikhil Patil	8
Arthur Galea Salomone	7
Charmaine Farrugia	8
Reuben Attard (appointed 2 October 2019)	2
Saviour sive Sonny Portelli	8
Reuben Zammit (resigned 2 October 2019)	7

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.

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.

At the time of the initial public offering and of the listing of the Company's shares, continuity was assured in the salaries payable to senior management after these were reviewed by the Board and judged appropriate in the context of the responsibilities and experience of the individuals concerned. These salaries were reflected in the business results and forecasts published by the Group at the time.

Senior management salaries are reviewed annually by the Board to ensure that they remain commensurate with the performance of the individuals concerned and in line with the market.

The remuneration of the non-executive directors for the year ended 31 December 2019 was approved by the shareholders at a fixed aggregate sum of €200,000.

#### *Emoluments of directors and senior management paid during the year*

	Fixed remuneration	Variable remuneration	Others
Directors	€83,918	None	None
Senior management	€726,611	€1,000	None



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

### **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 Attard, who replaced Reuben Zammit during October 2019. The Audit Committee is independent and is constituted in accordance with the requirements of the Listing Rules, with Reuben Attard 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. 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.

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

### **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.

### **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 through the Company's website ([www.bmit.com.mt](http://www.bmit.com.mt)) 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.

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

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

The Directors are fully aware of their responsibility to always act in the best interests of the Company and its shareholders 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 during this financial year.

### **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 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 enough 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 2019, 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 28 to 81, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2019;
- 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.

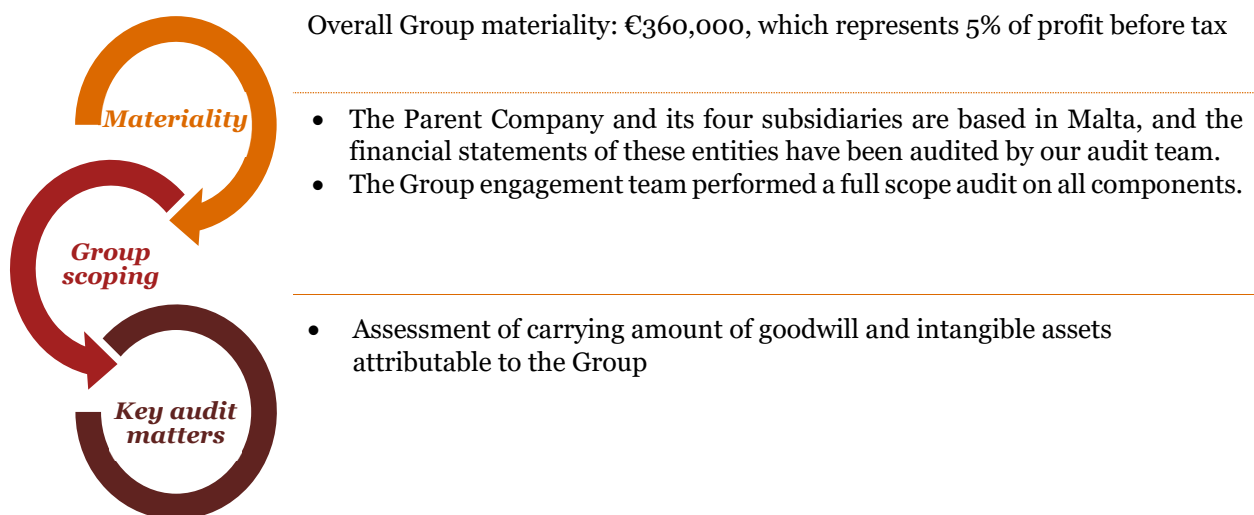
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Parent Company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the 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 2019 to 31 December 2019, are disclosed in Note 20 to the financial statements.

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### *Our audit approach*

#### **Overview**



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>	€360,000
<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 thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €18,000 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.

<b>Key audit matter</b>	<b>How our audit addressed the Key audit matter</b>
<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 €0.2 million as at 31 December 2019, 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 Data Centre Services CGU.</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 and 1.8</li><li>• Note on intangible assets: Note 8</li><li>• Critical accounting estimates and judgements: 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 utilised 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 CGU carrying values. 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 *Chairman's Message*, the *Chief Executive Officer's Review*, and the *Directors' Report* (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 11 to 18 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 a shareholders' resolution representing a total period of uninterrupted engagement appointment of 10 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, appearing to read 'F Axisa'.

Fabio Axisa  
Partner

12 March 2020

## Statements of financial position

		As at 31 December			
		Group		Company	
		2019	2018	2019	2018
ASSETS	Notes	€'000	€'000	€'000	€'000
<b>Non-current assets</b>					
Property, plant and equipment	6	6,477	6,554	-	-
Right-of-use assets	7	4,504	-	-	-
Intangible assets	8	3,428	3,690	-	-
Investment in subsidiaries	9	-	-	20,359	20,359
Investment in associate	10	18	18	-	-
Trade and other receivables	12	224	161	-	-
Total non-current assets		14,651	10,423	20,359	20,359
<b>Current assets</b>					
Inventories	11	187	208	-	-
Trade and other receivables	12	2,926	2,306	5,835	865
Cash and cash equivalents	13	5,346	667	201	-
Total current assets		8,459	3,181	6,036	865
<b>Total assets</b>		23,110	13,604	26,395	21,224

**Statements of financial position** - continued

		<b>As at 31 December</b>			
		<b>Group</b>		<b>Company</b>	
		<b>2019</b>	2018	<b>2019</b>	2018
		<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>EQUITY AND LIABILITIES</b>	Notes				
<b>Equity</b>					
Share capital	14	<b>20,360</b>	20,360	<b>20,360</b>	20,360
Other reserves	15	<b>(4,097)</b>	(4,097)	-	-
Accumulated losses/retained earnings		<b>(4,941)</b>	(9,390)	<b>5,791</b>	4
<b>Total equity</b>		<b>11,322</b>	6,873	<b>26,151</b>	20,364
<b>Non-current liabilities</b>					
Lease liabilities	17	<b>4,029</b>	-	-	-
Trade and other payables	18	<b>236</b>	194	-	-
Deferred tax liabilities	16	<b>417</b>	508	-	-
<b>Total non-current liabilities</b>		<b>4,682</b>	702	-	-
<b>Current liabilities</b>					
Lease liabilities	17	<b>607</b>	-	-	-
Trade and other payables	18	<b>5,995</b>	5,846	<b>244</b>	860
Current tax liabilities		<b>504</b>	183	-	-
<b>Total current liabilities</b>		<b>7,106</b>	6,029	<b>244</b>	860
<b>Total liabilities</b>		<b>11,788</b>	6,731	<b>244</b>	860
<b>Total equity and liabilities</b>		<b>23,110</b>	13,604	<b>26,395</b>	21,224

The notes on pages 34 to 81 are an integral part of these consolidated financial statements.

The financial statements on pages 28 to 81 were authorised for issue by the Board on 12 March 2020 and were signed on its behalf by:



Nikhil Patil  
Chairman



Charmaine Farrugia  
Director



## Statements of comprehensive income

		As at 31 December			
		Group		Company	
	Notes	2019 €'000	2018 €'000	2019 €'000	2018 €'000
<b>Revenue</b>	19	<b>22,430</b>	21,398	-	-
Cost of sales	20	<b>(11,539)</b>	(11,341)	-	-
<b>Gross profit</b>		<b>10,891</b>	10,057	-	-
Administrative expenses	20	<b>(3,579)</b>	(3,084)	<b>(161)</b>	(3)
Investment income	22	-	-	<b>9,151</b>	6,162
<b>Operating profit</b>		<b>7,312</b>	6,973	<b>8,990</b>	6,159
Finance costs	23	<b>(137)</b>	-	-	-
<b>Profit before tax</b>		<b>7,175</b>	6,973	<b>8,990</b>	6,159
Tax expense	24	<b>(2,726)</b>	(2,477)	<b>(3,203)</b>	(2,156)
<b>Profit for the year</b>		<b>4,449</b>	4,496	<b>5,787</b>	4,003
<b>Attributable to:</b>					
Owners of the Company		<b>4,449</b>	4,487	<b>5,787</b>	4,003
Non-controlling interest		-	9	-	-
<b>Profit for the year</b>		<b>4,449</b>	4,496	<b>5,787</b>	4,003
<b>Earnings per share (€)</b>	25	<b>0.02</b>	0.04		

The notes on pages 34 to 81 are an integral part of these consolidated financial statements.

## Statements of changes in equity

### Group

	Notes	Attributable to the owners of the Company				Non-controlling interest €'000	Total equity €'000
		Share capital €'000	Other Reserves €'000	Accumulated losses €'000	Total €'000		
Balance at 1 January 2018		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>Contributions by owners:</i>							
Issue of ordinary shares	14	11,250	-	-	11,250	-	11,250
<i>Distributions to owners:</i>							
Dividends	26	-	-	(4,000)	(4,000)	-	(4,000)
<i>Changes in ownership interest that do not result in loss of control:</i>							
Acquisition of non-controlling interest in subsidiary	9	-	(1,133)	-	(1,133)	(739)	(1,872)
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>
Balance at 1 January 2019		20,360	(4,097)	(9,390)	6,873	-	6,873
<b>Comprehensive income</b>							
Profit for the year		-	-	4,449	4,449	-	4,449
<b>Balance at 31 December 2019</b>		<b>20,360</b>	<b>(4,097)</b>	<b>(4,941)</b>	<b>11,322</b>	<b>-</b>	<b>11,322</b>

**Statements of changes in equity** - continued

<b>Company</b>	Notes	Share capital €'000	Retained earnings €'000	Total €'000
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	14	11,250	-	11,250
Dividends	26	-	(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>
Balance at 1 January 2019		20,360	4	20,364
<b>Comprehensive income</b>				
Profit for the year		-	5,787	5,787
<b>Balance at 31 December 2019</b>		<b>20,360</b>	<b>5,791</b>	<b>26,151</b>

The notes on pages 34 to 81 are an integral part of these consolidated financial statements.

## Statements of cash flows

		As at 31 December			
		Group		Company	
	Notes	2019 €'000	2018 €'000	2019 €'000	2018 €'000
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	27	<b>10,348</b>	7,509	<b>(4,947)</b>	1,066
Investment income	22	-	-	<b>9,151</b>	6,162
Interest paid	23	<b>(137)</b>	-	-	-
Income tax paid		<b>(2,497)</b>	(2,486)	<b>(3,203)</b>	(2,156)
Net cash from operating activities		<b>7,714</b>	5,023	<b>1,001</b>	5,072
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	6	<b>(1,679)</b>	(1,528)	-	-
Proceeds from disposal of property, plant and equipment	6	<b>26</b>	-	-	-
Payment to acquire non-controlling interest in subsidiary	9	-	(1,872)	-	(1,872)
Net cash used in investing activities		<b>(1,653)</b>	(3,400)	-	(1,872)
<b>Cash flows from financing activities</b>					
Dividends paid	26	<b>(800)</b>	(3,200)	<b>(800)</b>	(3,200)
Principal elements of lease payments	17	<b>(582)</b>	-	-	-
Net cash used in financing activities		<b>(1,382)</b>	(3,200)	<b>(800)</b>	(3,200)
<b>Net movement in cash and cash equivalents</b>		<b>4,679</b>	(1,577)	<b>201</b>	-
<b>Cash and cash equivalents at beginning of year</b>		<b>667</b>	2,244	-	-
<b>Cash and cash equivalents at end of year</b>	13	<b>5,346</b>	667	<b>201</b>	-

The notes on pages 34 to 81 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 p.l.c. 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 4.

#### *Standards, interpretations and amendments to published standards effective in 2019*

In 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2019. 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 financial performance and position. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16, 'Leases', but recognised the cumulative effect of initially applying the new standard on 1 January 2019. There was no impact on adoption of this standard by the Company. The new accounting policies are disclosed in Note 1 below. The impact of the adoption of this standard at Group level is disclosed in Note 2. The other amendments 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 2019. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the directors are of the opinion that 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

### 1.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 applies the acquisition method of accounting to account for business combinations that fall within the scope of IFRS 3. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree 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 (identifiable net assets) 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 interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill is initially measured as the excess of the consideration transferred, the amount of any non-controlling interest 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 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.

Upon consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are 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 an impairment in value. Where there has been an 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.

## 1. Summary of significant accounting policies - continued

### 1.2 Consolidation - continued

#### (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.

#### (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.

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

### **1.2 Consolidation - continued**

#### (d) Associates - continued

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.

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

### **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'.

### **1.5 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.

## 1. Summary of significant accounting policies - continued

### 1.5 Property, plant and equipment - continued

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.

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

	%
Improvements to premises	6 - 10
Office furniture and equipment	10 - 25
Data centre equipment	5 - 20
Other equipment	25 - 33

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

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

#### 1.8.1 Classification - 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

#### 1.8.3 Measurement - 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 are 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

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 3.1(b) 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 and 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.

### 1.22 Leases

*The Group is the lessee*

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As explained in Note 1.1 above, the Group has changed its accounting policy for leases where the Group is the lessee. The impact of the change is described in Note 2.

Until 31 December 2018, leases of assets in which a significant portion of the risks and rewards of ownership were effectively retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

With effect from 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

## 1. Summary of significant accounting policies - continued

### 1.22 Leases - continued

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, where there is no third party financing; and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

## 1. Summary of significant accounting policies - continued

### 1.22 Leases - continued

For leases of properties, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate);
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate);
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

*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 recognised in profit or loss on a straight-line basis over the lease term. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of the adoption of the new leasing standard.

### 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.

## 2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in Note 1.1 above, the Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 1.22.

### (a) The Group's leasing activities

The Group leases various properties, motor vehicles and IT equipment. Rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

#### *Extension and termination options*

The Group leases various properties, motor vehicles and IT equipment. Rental contracts are typically made for periods of up to 20 years but may have extension options to renew the lease after the original period as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in the majority of property and motor vehicles leases. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In respect of the majority of lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

### (b) Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 January 2019

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.05% for properties and a range between 4.6% to 5.7% for motor vehicles and IT equipment.

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets	- increase by €5,124,320
- lease liabilities	- increase by €5,124,320

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

(b) Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 January 2019 - continued

The recognised right-of-use assets relate to the following types of assets:

	As at 1 January 2019 €'000
Properties	5,087
Motor vehicles	23
IT equipment	14
	5,124

*Measurement of lease liabilities*

	As at 1 January 2019 €'000
Operating lease commitments disclosed as at 31 December 2018	1,485
Add: adjustments as a result of different treatment of extensions	4,465
Discounted using the incremental borrowing rate at the date of initial application	(820)
Less: short-term leases not recognised as a liability	(6)
	5,124
Of which are:	
Current lease liabilities	4,556
Non-current lease liabilities	568
	5,124

*Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(c) Amounts recognised in profit and loss

The income statement reflects the following amounts relating to leases:

	2019 €'000
<i>Depreciation charge of right-of-use assets</i>	
Properties	686
Vehicles	20
IT equipment	8
	<hr/> <b>714</b> <hr/>
<i>Interest expense (included in finance costs)</i>	<hr/> <b>137</b> <hr/>

Operating lease charges to be reflected within profit and loss, utilising the accounting principles of IAS 17 Leases had IFRS 16 not been adopted, during the period from 1 January 2019 to 31 December 2019 would have amounted to €719,000. Hence, EBITDA for the year ended 31 December 2019 has been impacted favourably by an amount of €719,000 in view of the adoption of the requirements of IFRS 16.

### 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 cash and cash equivalents subject to variable interest rates. 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.

(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>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Carrying amounts</b>				
Trade and other receivables (Note 12)	<b>1,705</b>	1,732	<b>5,753</b>	805
Cash and cash equivalents (Note 13)	<b>5,346</b>	667	<b>201</b>	-
	<b>7,051</b>	2,399	<b>5,954</b>	805

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### (b) Credit risk - continued

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 affected 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.

##### *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. These rates are applied to the gross receivables less any deposits held.



### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### (b) Credit risk - continued

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 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	<b>Total</b>
<b>31 December 2019</b>							
Weighted average expected loss rate	1%	1%	3%	13%	38%	91%	
Gross carrying amount - trade receivables (€'000)	1,007	309	57	125	147	274	<b>1,919</b>
Loss allowance applied after netting off the deposits (€'000)	8	3	1	12	20	173	<b>217</b>
<b>31 December 2018</b>							
Weighted average expected loss rate	1%	2%	3%	15%	30%	100%	
Gross carrying amount – trade receivables (€'000)	1,263	198	113	31	113	180	<b>1,898</b>
Loss allowance applied after netting off the deposits (€'000)	12	2	2	3	12	140	<b>171</b>

The weighted average expected credit loss rate changed from prior year in view of the changes in the relative weighting of specific asset categories.

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 Group considers that there is evidence of impairment if any of the following indicators is 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).

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### (b) Credit risk - continued

The closing loss allowances for trade receivables as at 31 December 2019 and 2018 reconcile to the opening loss allowances as follows:

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
<i>Trade and other receivables</i>		
Balance at 1 January	171	228
Change in loss allowances recognised in profit or loss during the year	<b>46</b>	(57)
Balance at 31 December	<b>217</b>	171

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 administrative expenses. Subsequent recoveries of amounts previously written off are credited against the same line item.

#### Cash and cash equivalents

The Group principally banks with local and European financial institutions with high quality standing but which are unrated. 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 and related parties

The Group and Company's receivables include amounts owed by subsidiaries and related parties (Note 12). The Group and Company monitor 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. The Group and Company assess the credit quality of these parties taking into account financial position, performance and other factors. The Group and Company take cognisance of the related party relationship with these entities and management does not expect any losses from non-performance or default. 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.

### 3. Financial risk management - continued

#### 3.1 Financial risk factors - continued

##### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise lease liabilities and trade and other payables (refer to notes 17 and 18 for further information). 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 enough 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.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group	Carrying amount €,000	Contractual cash flows €,000	Within one year €,000	Between one and two years €,000	Between two to five years €,000	More than five years €,000
<b>31 December 2019</b>						
Lease liabilities	4,636	5,341	738	695	1,826	2,082
Trade and other payables	6,231	6,231	5,995	236	-	-
	<b>10,867</b>	<b>11,572</b>	<b>6,733</b>	<b>931</b>	<b>1,826</b>	<b>2,082</b>
<b>31 December 2018</b>						
Trade and other payables	6,040	6,040	5,846	194	-	-
	6,040	6,040	5,846	194	-	-

The Company is only exposed to current trade and other payables. In this respect, management does not consider liquidity risk to the Company 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 financial instruments not carried at fair value

At 31 December 2019 and 2018, the carrying amounts of certain financial instruments not carried at fair value comprising cash at bank, receivables, payables, accrued expenses and other short-term liabilities 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. Estimated fair values approximate carrying amounts.

#### **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.

##### **4.1 Impairment testing**

IFRSs require management to undertake an annual test for impairment of goodwill 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-subsidary 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.

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

##### **4.2 Business combinations - continued**

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.

##### **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

In 2019, the Group generated revenue amounting to €3,141,000 (2018: €2,237,000) from a particular customer representing 15% (2018: 12%) of the Group's revenue.

## 6. Property, plant and equipment

Group	Improvements to premises €'000	Data centre equipment €'000	Leased out equipment €'000	Office furniture & equipment €'000	Payments on account €'000	Total €'000
<b>At 1 January 2018</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	136	4,146	1,171	782	319	6,554
<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	136	4,146	1,171	782	319	6,554
<b>Year ended 31 December 2019</b>						
Opening net book amount	136	4,146	1,171	782	319	6,554
Additions	55	486	364	441	333	1,679
Disposals	-	(337)	(87)	(1)	-	(425)
Reclassifications	-	290	-	-	(290)	-
Depreciation charge	(38)	(674)	(553)	(461)	-	(1,726)
Depreciation released on disposals	-	335	59	1	-	395
Closing net book amount	<b>153</b>	<b>4,246</b>	<b>954</b>	<b>762</b>	<b>362</b>	<b>6,477</b>
<b>At 31 December 2019</b>						
Cost	795	10,362	3,357	4,672	362	19,548
Accumulated depreciation	(642)	(6,116)	(2,403)	(3,910)	-	(13,071)
Net book amount	<b>153</b>	<b>4,246</b>	<b>954</b>	<b>762</b>	<b>362</b>	<b>6,477</b>



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

*Depreciation charge*

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

	<b>2019</b>	<b>Group</b>
	<b>€'000</b>	<b>2018</b>
		<b>€'000</b>
Cost of sales	<b>1,587</b>	1,376
Administrative expenses	<b>139</b>	153
	<b>1,726</b>	1,529

*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 ended 31 December 2018 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 (2018: €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 2019, the Group's data centre infrastructure, together with other related tangible and intangible assets, was carried at an aggregate of €5,578,000 (2018: €5,870,000). No impairment indicators were identified by management in respect of this CGU as at the end of the reporting period (Note 1.7).

**7. Right-of-use assets**

The statement of financial position reflects the following assets relating to leases:

	<b>As at 31</b>	<b>As at</b>
	<b>December</b>	<b>1 January</b>
	<b>2019</b>	<b>2019</b>
	<b>€000</b>	<b>€000</b>
Properties	<b>4,401</b>	5,087
Motor vehicles	<b>96</b>	23
IT equipment	<b>7</b>	14
Total right-of-use assets	<b>4,504</b>	5,124

Additions to right-of-use assets during the course of the current financial year amounted to €94,000 relating to motor vehicles. The only other movement in the carrying amount of right-of-use assets during the year is attributable to depreciation charges.

## 8. Intangible assets

Group	Brand names, customer relationships and related assets €'000	Goodwill €'000	Total €'000
<b>At 1 January 2018</b>			
Cost	11,427	3,203	14,630
Accumulated amortisation and impairment charges	(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	487	3,203	3,690
<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	487	3,203	3,690
<b>Year ended 31 December 2019</b>			
Opening net book amount	487	3,203	3,690
Amortisation charge	(262)	-	(262)
Closing net book amount	<b>225</b>	<b>3,203</b>	<b>3,428</b>
<b>At 31 December 2019</b>			
Cost	11,427	3,203	14,630
Accumulated amortisation and impairment charges	(11,202)	-	(11,202)
Net book amount	<b>225</b>	<b>3,203</b>	<b>3,428</b>

### *Goodwill*

Goodwill reflected within the statement of financial position is attributable to business combinations as follows:

	Year-end carrying amount	
	2019 €'000	2018 €'000
Business combination		
Kinetix IT Solutions Limited	<b>335</b>	335
Others	<b>2,868</b>	2,868

## 8. Intangible assets - continued

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 a 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 three 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, an acquired subsidiary, have been allocated to this service line.

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 rate and post-tax discount rate for the CGU, applied as at 31 December 2019 are disclosed in the table below:

	Terminal value growth rate %	Post-tax discount rate %
Data Centre Services CGU	1.8	8.5

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.

## 8. Intangible assets - continued

### *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	2019 €'000	2018 €'000	€'000	2019 €'000	2018 €'000
Business combination						
Kinetix IT Solutions Limited	507	-	-	1,123	225	448
Others	1,141	-	39	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 (prior to impairment charge) was deemed to be impaired as at 31 December 2018, since use of this brand name was discontinued during 2019.

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.

**8. Intangible assets - continued**

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 for existing customer relationships;
- 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.

**9. Investment in subsidiaries**

<b>Company</b>	<b>2019</b>	2018
	<b>€'000</b>	€'000
<b>Cost and carrying amount</b>		
At beginning of year	<b>20,359</b>	18,487
Acquisition of further interest	-	1,872
<b>At end of year</b>	<b>20,359</b>	20,359

The carrying amount of the investments at 31 December 2019 and 2018 is equivalent to the cost of the investments.

**9. Investment in subsidiaries - continued**

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

Subsidiaries	Registered office	Class of shares	Percentage of shares held	
			2019	2018
BM IT Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	100%	100%
Bellnet Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.33 each	100%	100%
BM Support Services Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	100%	100%
Kinetix IT Solutions Limited	SCM02, Level 2, SmartCity Malta Ricasoli, Kalkara, Malta	Ordinary Shares of €2.329373 each	100%	100%

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.

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:

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

**9. Investment in subsidiaries - continued**

*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.

*Merger of subsidiaries after the end of the reporting period*

As highlighted in Note 31, by virtue of a resolution dated 24 January 2020, Kinetix IT Solutions Limited will be merged into BM IT Limited through a merger procedure carried out under Title II, Chapter III of Part VIII of the Companies Act (Cap. 386). Upon merger, BM IT Limited will take over the assets and liabilities of Kinetix IT Solutions Limited which as at 31 December 2019 amounted to €726,000 and €374,000 respectively, with the difference recognised directly in equity. There will be no impact on the consolidated financial statements of BMIT Technologies p.l.c. as a result of this merger.

**10. Investment in associate**

	<b>Group €'000</b>
<b>Years ended 31 December 2019 and 2018</b>	
Opening and closing cost and carrying amount	<b>18</b>

The associate at 31 December 2019 and 2018 is shown below:

<b>Associate</b>	<b>Registered office</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>	
			<b>2019</b>	<b>2018</b>
MIGS Limited	Level 3 - 701 Ewropa Business Centre Dun Karm Street, Birkirkara Malta	Ordinary shares	<b>40%</b>	40%

In view of the immateriality of this investment to BMIT Technologies p.l.c. as a reporting entity in terms of the requirements of IFRS 12 'Disclosure of interest in other entities', the disclosure of the summarised financial information and other matters in accordance with the requirements of IFRS 12 is not deemed necessary. The 40% stake in this entity was acquired for an amount of €18,000. The Company has capital and reserves as at 31 December 2019 amounting to €277 and registered a profit after tax for the year amounting to €10,206 (2018: negative capital and reserves of €9,928 and profit after tax of €16,989).

## 11. Inventories

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Operating spares and consumables	112	127
Goods held for resale	75	81
	<b>187</b>	208

## 12. Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Non-current</b>				
Costs incurred to fulfill contracts	205	161	-	-
Prepayments	19	-	-	-
Total non-current trade and other receivables	<b>224</b>	161	-	-
<b>Current</b>				
Trade receivables – gross	1,919	1,903	-	-
Expected credit loss allowances	(217)	(171)	-	-
Trade receivables – net	<b>1,702</b>	1,732	-	-
Amounts due from intermediate parent	3	-		
Amounts due from subsidiaries	-	-	<b>5,753</b>	805
Costs incurred to fulfill contracts	253	119	-	-
Indirect taxation	-	-	<b>29</b>	-
Prepayments and advance payments	968	455	<b>53</b>	60
Total current trade and other receivables	<b>2,926</b>	2,306	<b>5,835</b>	865
Total trade and other receivables	<b>3,150</b>	2,467	<b>5,835</b>	865

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

The following table reflects an analysis of the costs incurred to fulfil contracts:

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
At beginning of year	280	337
Originations	279	67
Recognition through profit or loss	(119)	(124)
<b>At end of year</b>	<b>440</b>	280



**12. Trade and other receivables - continued**

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.

**13. 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>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Cash at bank and in hand	<b>5,346</b>	667	<b>201</b>	-

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**14. Share capital**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Authorised:</b>				
300,000,000 Ordinary shares of €0.10 each	<b>30,000</b>	30,000	<b>30,000</b>	30,000
<b>Issued and fully paid:</b>				
203,595,310 Ordinary shares of €0.10 each	<b>20,360</b>	20,360	<b>20,360</b>	20,360

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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.

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.

**15. Other reserves**

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
<i>Adjustments relating to non-controlling interests</i>		
At beginning of year	<b>4,097</b>	2,964
Impact of further acquisitions of non-controlling interests (Note 9)	-	1,133
<b>At end of year</b>	<b>4,097</b>	4,097

The adjustments relating to non-controlling interests reflect the excess of the purchase consideration paid to acquire non-controlling interests in Group entities over the net carrying amount of such non-controlling interests in the consolidated financial statements.

**16. 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% (2018: 35%).

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

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Property, plant and equipment	<b>414</b>	398
Intangible assets	<b>79</b>	170
Credit loss allowances on trade receivables	<b>(76)</b>	(60)
<b>At end of year</b>	<b>417</b>	508

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>2019</b>	2018
	<b>€'000</b>	€'000
At beginning of year	<b>508</b>	646
Credit to profit or loss (Note 24)	<b>(91)</b>	(138)
<b>At end of year</b>	<b>417</b>	508

**17. Lease liabilities**

	<b>As at 31 December 2019 €'000</b>	As at 1 January 2019 €'000
<b>Non-current</b>		
Properties	3,951	4,532
Motor vehicles	75	17
IT equipment	3	7
	<b>4,029</b>	4,556
 <b>Current</b>		
Properties	581	555
Motor vehicles	22	6
IT equipment	4	7
	<b>607</b>	568
 <b>Total lease liabilities</b>	<b>4,636</b>	5,124

Included in the lease liabilities for properties are amounts of €1,368,000 (1 January 2019: €1,407,000) which are attributable arrangements with a related party, of which €1,320,000 (1 January 2019: €1,368,000) are non-current amounts.

Most extension options in property leases have been included in the lease liability.

The total cash outflows for leases in 2019 was €719,000. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December are analysed in Note 3(c).

**18. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Non-current</b>				
Contract liabilities	<b>236</b>	194	-	-
Total non-current trade and other payables	<b>236</b>	194	-	-
<b>Current</b>				
Trade payables	<b>1,435</b>	1,150	<b>2</b>	-
Amounts due to immediate parent	<b>252</b>	972	-	860
Amounts due to related parties	-	4	<b>226</b>	-
Indirect taxes and social security	<b>856</b>	771	-	-
Contract liabilities	<b>2,276</b>	2,044	-	-
Accruals	<b>1,176</b>	905	<b>16</b>	-
Total current trade and other payables	<b>5,995</b>	5,846	<b>244</b>	860
Total trade and other payables	<b>6,231</b>	6,040	<b>244</b>	860

Amounts due to immediate parent and related parties are unsecured, repayable on demand and interest free. Included in contract liabilities are amounts of €206,000 (2018: €191,000) which relate to contract liabilities due to immediate parent, of which €119,000 (2018: €127,000) are non-current amounts.

The following table reflects an analysis of contract liabilities:

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
<i>Prepaid and deferred income</i>		
At beginning of year	<b>439</b>	322
Originations	<b>459</b>	194
Recognition through profit or loss	<b>(245)</b>	(77)
At end of year	<b>653</b>	439
<i>Deposits received in advance from customers</i>		
At beginning of year	<b>1,799</b>	1,256
Originations	<b>626</b>	1,102
Refunds to customers	<b>(566)</b>	(559)
At end of year	<b>1,859</b>	1,799

## 19. Revenue

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

<b>Group</b>	<b>2019</b>	2018
	<b>€'000</b>	€'000
<b>By class of business</b>		
Data centre and related services – gross amount	<b>20,692</b>	18,073
One-off Service Credit	<b>(122)</b>	-
Sale of hardware and licenses	<b>1,860</b>	3,201
	<b>22,430</b>	21,274

The above exceptional one-time service credit relates to a discretionary compensation given to all customers, negatively impacted by connectivity-related incidents which occurred on 12 December 2019 and which affected BMIT Technologies' connectivity services.

Such incidents were caused by separate and unrelated faults on different carrier submarine and land based fibre-cable infrastructures which connect BMIT Technologies' data centres in Handaq and SmartCity Malta to its international Points of Presence in Italy and Germany.

These incidents were completely out of BMIT Technologies' control and occurred within the networks of the Group's suppliers. Notwithstanding, as a gesture of goodwill and in support of our commitment towards customer care, BMIT Technologies decided to provide a credit to all those customers negatively impacted by this incident.

<b>Group</b>	Data centre and related services		Sale of hardware and licenses	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
<b>Timing of revenue recognition</b>				
At a point in time	<b>1,168</b>	808	<b>1,860</b>	3,201
Over time	<b>19,402</b>	17,265	-	-
	<b>20,570</b>	18,073	<b>1,860</b>	3,201

**19. Revenue - continued**

*Unfulfilled performance obligations*

The following table presents the transaction price assigned to unfulfilled performance obligations as at 31 December 2019 and 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.

	<b>Group</b>	
	<b>2019</b>	2018
	€'000	€'000
Less than one year	<b>12,550</b>	12,577
After more than one year	<b>1,047</b>	3,693
	<b>13,597</b>	16,270

**20. Expenses by nature**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	€'000	€'000	€'000	€'000
Cost of hardware and licences sold	<b>1,595</b>	2,730	-	-
Cost of data centre and related services	<b>6,513</b>	5,620	-	-
Depreciation of property, plant and equipment (Note 6)	<b>1,726</b>	1,529	-	-
Depreciation of right-of-use assets (note 7)	<b>714</b>	-	-	-
Amortisation of intangible assets (Note 8)	<b>262</b>	845	-	-
Employee benefit expense (Note 21)	<b>2,866</b>	2,397	-	-
Property rentals	-	654	-	-
Other expenses	<b>1,442</b>	650	<b>161</b>	3
<b>Total cost of sales and administrative expenses</b>	<b>15,118</b>	14,425	<b>161</b>	3

**20. Expenses by nature - continued**

Auditor's fees

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2019 and 2018 relate to the following:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Annual statutory audit	<b>30</b>	14	<b>1</b>	1
Other non-assurance services	<b>47</b>	-	<b>-</b>	-
Tax advisory and compliance services	<b>3</b>	3	<b>1</b>	1
	<b>80</b>	17	<b>2</b>	2

Other non-assurance services include:

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Advice on financial reporting matters	<b>47</b>	-

**21. Employee benefit expense**

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Wages and salaries	<b>2,739</b>	2,285
Social security costs	<b>127</b>	112
	<b>2,866</b>	2,397

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

	<b>Group</b>	
	<b>2019</b>	2018
Direct	<b>38</b>	37
Administration	<b>22</b>	22
	<b>60</b>	59

Furthermore, the Group incurred directors' fees of €84,000 (2018: €Nil) paid by a subsidiary of the Company. Directors' fees are included within 'administrative and other related expenses'.

**22. Investment income**

	<b>Company</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Dividend income from Group companies	<b>9,151</b>	6,162

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**23. Finance costs**

	<b>Group</b>	
	<b>2019</b>	2018
	<b>€'000</b>	€'000
Interest charges on lease liabilities	<b>137</b>	-

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**24. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Current tax expense	<b>2,817</b>	2,615	<b>3,203</b>	2,156
Deferred tax credit (Note 16)	<b>(91)</b>	(138)	-	-
Tax expense	<b>2,726</b>	2,477	<b>3,203</b>	2,156

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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>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Profit before tax	<b>7,175</b>	6,973	<b>8,990</b>	6,159
Tax on profit at 35%	<b>2,511</b>	2,440	<b>3,147</b>	2,156
Tax effect of:				
Expenses not deductible for tax purposes	<b>114</b>	55	<b>56</b>	-
Others	<b>101</b>	(18)	-	-
Tax expense	<b>2,726</b>	2,477	<b>3,203</b>	2,156

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## 25. 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.

	<b>Group</b>	
	<b>2019</b>	2018
Profit attributable to equity holders of the Company (€'000)	<b>4,449</b>	4,487
Weighted average number of shares in issue (thousands) (Note 14)	<b>203,595</b>	109,849
Earnings per share (€)	<b>0.02</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.

## 26. Dividends

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	<b>€'000</b>	€'000	<b>€'000</b>	€'000
Net dividends on ordinary shares	-	4,000	-	4,000
Dividends per share (€)	-	0.02	-	0.02

The dividends per share presented in the table above have been computed on the basis of the number of shares in issue upon declaration of dividends.

A dividend in respect of the year ended 31 December 2019 of €0.02 per share, amounting to €4,390,703, is to be proposed by the Board of Directors at the forthcoming Annual General Meeting. The financial statements do not reflect this proposed dividend, which subject to the approval by the shareholders at the forthcoming Annual General Meeting, will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2020.

## 27. Cash generated from operations

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

	Group		Company	
	2019 €'000	2018 €'000	2019 €'000	2018 €'000
Profit before tax	7,175	6,973	8,990	6,159
Adjustments for:				
Depreciation of property, plant and equipment (Note 6)	1,726	1,529	-	-
Depreciation of right-of-use assets (Note 7)	714	-	-	-
Amortisation of intangible assets (Note 8)	262	845	-	-
Net movement in provisions and write-downs in relation to receivables and inventories	54	(57)	-	-
Investment income	-	-	(9,151)	(6,162)
Loss on disposal of property, plant and equipment	4	-	-	-
Interest charges on lease liabilities	137	-	-	-
Changes in working capital:				
Inventories	14	21	-	-
Trade and other receivables	(729)	(136)	(4,970)	2,725
Trade and other payables	991	(1,666)	184	(1,656)
Cash generated from/(used in) operations	<b>10,348</b>	7,509	<b>(5,947)</b>	1,066

## 28. Commitments

	Group		Company	
	2019 €'000	2018 €'000	2019 €'000	2018 €'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	-	-
Between one and five years	-	762	-	-
Over five years	-	118	-	-
	-	1,485	-	-
<b>Capital expenditure commitments</b>				
Authorised and contracted for	<b>4,000</b>	768	-	-

The Group leases various premises and other assets under operating leases.

With effect from 1 January 2019, the Group has recognised right-of-use assets for leases, except for short-term and low-value leases in accordance with the requirements of IFRS 16 (Note 7).

## 29. Contingencies

- (a) A guarantee for a maximum amount of €67,500,000 (2018: €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.

## 30. Related party transactions

The Company and its subsidiaries have a related party relationship with Société Nationale des Télécommunications, the Company's ultimate parent (Note 32), 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>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
<b>Transactions with immediate parent</b>				
Services provided by	<b>765</b>	830	-	-
Services provided to	<b>1,508</b>	1,806	-	-
Dividends paid to	<b>800</b>	3,200	-	4,000
<b>Transactions with related parties</b>				
Payments relating to leases treated in accordance with IFRS 16 requirements	<b>85</b>	-	-	-

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.

**30. Related party transactions - continued**

Year-end balances with related parties, arising principally from the above transactions, are disclosed in Notes 12 and 18 to these financial statements. Upon adoption of IFRS 16, the Group recognised lease liabilities in respect of lease arrangements with related parties (refer to Note 17).

**31. Events after the end of the reporting period**

Merger of Kinetix IT Solutions Limited into BM IT Limited

By virtue of a resolution dated 24 January 2020, Kinetix IT Solutions Limited, a subsidiary, will be merged into BM IT Limited, another subsidiary, through a merger procedure carried out under Title II, Chapter III of Part VIII of the Companies Act (Cap. 386).

Completion of Class 2 Transaction – acquisition of property

On 23 May 2019 BM IT Limited entered into a promise of sale agreement with BM Holdings & Investments Limited, a company registered in Malta with registration number C 39616 and with registered address at 124, Triq ic-Cawqli, Qormi, QRM 3906, Malta (the “Vendor”).

Pursuant to the promise of sale agreement, BM IT promised and bound itself to purchase and acquire from the Vendor a building, without official number constructed on two plots of land known as plot 55 and plot 56 respectively, situated in Triq Manuel Borg Gauci corner with Triq Luigi Maria Galea in Tal-Handaq, Qormi, Malta (the “Property”). The property houses the BMIT Group’s largest data centre with a capacity of approximately 300 racks.

The acquisition was approved at an Extraordinary General Meeting of the Company held on 6 August 2019, as announced by a Company Announcement bearing the same date.

The final deed of sale and purchase in respect of the property was executed on 17 January 2020. The consideration for the said property amounted to €4,000,000 and has been financed partly by own capital and partly by a bank loan of €3,600,000. The bank loan has a term of 10 years, bears interest at 3.25% (fixed) and has a 4-year moratorium.

The acquisition of the property enables the BMIT Group to carry on a significant part of its operations from its own property. This minimises, and in some cases, avoids risks associated with a migration to another facility, including financial expense, operational disruption and risk of loss of business, as customers allocated to the data centre operating from the property will not need to be relocated. As a result of the acquisition of the property, the BMIT Group will be incurring less expenditure on the rental of premises.

**32. Statutory information**

BMIT Technologies p.l.c. is a public limited liability company listed on the Malta Stock Exchange 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%.